Russian-Ukrainian conflict
Impact on the construction industry worldwide
29/09/2023

General and construction

EUROPE NEWS

According to the latest data, economic output in the eurozone barely rose in the second quarter of the year, with worse-than-expected results due to the weak performance of exports and stagnant domestic consumption.
The latest figures from Eurostat show that economic activity in the eurozone rose by 0.1% in the April-June period compared with the previous three months - a lower rate than initially estimated - and grew by 0.5% year-on-year, following a growth rate of over 1% last year (Euronews).

The European Union should see modest growth of 0.8% this year, slightly less than the 1% forecast in the spring, and 1.4% in 2024. Growth rates in the eurozone have also been revised downwards: 0.8% in 2023 (compared with 1.1% in the previous estimate) and 1.3% in 2024.
Germany, the Union's industrial powerhouse, will see a decline of 0.4% this year. Poland, a neighboring economy, will see growth of just 0.5% in 2023, after posting a rate of 5.1% in 2022.
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Inflation in the EU is expected to reach 5.6% in 2023 and 2.9% in 2024, which is still a long way from the target of 2% a year that the European Central Bank (ECB) is trying to achieve by raising interest rates.
In addition to interest rates, the report cites weaker consumption, a slowdown in lending and sluggish industrial production as causes of the loss of momentum, along with the uncertainty triggered by Russia's war against Ukraine and the damage inflicted by natural disasters, such as the unprecedented floods and forest fires seen this summer (Euronews).

Ukraine / Russia

Infrastructure: State of play

Before the war broke out, Ukraine had over 20,000 km of public railways (almost half of which were electrified) and almost 170,000 km of national roads.
As of June 2023, the total amount of direct damage caused by the war was estimated at USD 151 billion (at replacement cost). One of the hardest-hit sectors is road, rail, aviation, and port infrastructure, with direct losses of almost USD 37 billion.
Since the start of hostilities in Ukraine, 19 civilian airports and airfields, 126 railway stations, more than 25,000 km of roads and 340 bridges have been damaged. Following the explosion at the Kakhovka hydroelectric power station, port terminals on both banks of the Dnipro were damaged and roads flooded in the Kherson region. In addition, according to the results of the government's recent inspection of the condition of bridges, 9% of bridges in the country are in an unusable condition, and 16% of bridges are in a limited state of service. Ukraine's Recovery Plan provides for the reconstruction/construction of 51,200 km of motorways; the construction of more than 1,400 bridges (to NATO standards); the purchase and modernisation of more than 7,000 units of railway rolling stock; the reconstruction of existing airports and the construction of 5 new ones; and the modernisation of 3 ports on the Danube.
The current priority for the Reconstruction Agency is roads, through which most of the civilian and military goods transit. In 2022, 85 temporary bridges were built, 41 bridges were rebuilt, including 8 destroyed by war - the remainder were in a limited state of service.
A bill on the priority allocation of funds for the reconstruction or emergency repair of critical bridges is currently being drafted.

EUROPE CONSTRUCTION STATISTICS NEWS

In June 2023 compared with May 2023, seasonally adjusted production in the construction sector fell by 1.0% in the eurozone and by 0.6% in the EU, according to initial estimates from Eurostat, the statistical office of the European Union. In May 2023, construction output rose by 0.2% in the eurozone and by 0.3% in the EU. In June 2023, compared with June 2022, construction output fell by 0.3% in the eurozone and remained unchanged in the EU.
In the Eurozone, in June 2023 compared to June 2022, the building sector decreased by 1.0%, while civil engineering increased by 3.8%. In the EU, the building sector decreased by 1.0%, while civil engineering increased by 4.6%. Among the Member States for which data are available, the largest annual falls in construction output were recorded in Finland (-5.2%), Hungary (-3.9%) and Austria (-3.3%). The largest increases were recorded in Slovenia (+24.9%), Romania (+15.3%) and Spain (+9.5%)(Eurostat).

Since 2015, construction costs have risen by 36% (2015 - 2023Q1), while since Q1 2022, construction costs in Europe have risen by 11% (Eurostat).

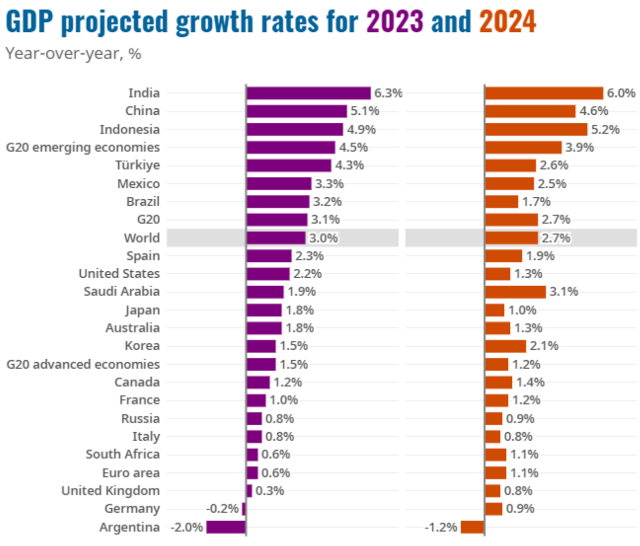
INTERNATIONAL NEWS

World
The world economy is expected to grow by 3.0% in 2023, before slowing down to 2.7% in 2024. A disproportionate share of global growth in 2023-24 is expected to continue to come from Asia, despite the weaker-than-expected recovery in China.
Growth was comparatively robust in the United States and Japan, but weak in most of Europe, particularly Germany. Amongst the G20 emerging-market economies, growth surprises have mostly been positive so far this year, especially in Brazil, India, and South Africa.

Another major priority project is the construction of a water pipeline to supply regions deprived of running water following the destruction of the Kakhovka dam. Construction of the 144 km water pipeline requires 350 pipes, 25% of which are available in Ukraine, with the remainder to be imported (Business France).

Buildings: State of play
The Ukrainian government has paid out almost EUR 25 million under the eVidnovlennya programme - the compensation programme for destroyed property, launched in May 2023. More than 12,000 Ukrainians whose homes were damaged and/or destroyed because of the Russian bombardments were able to receive compensation, capped at EUR 5,000. In total, more than 41,000 people have applied for this compensation, most of whom come from territories that are unoccupied or located close to the Russian border. The leaders in terms of applications and payments are the towns of Kharkiv, Irpin, Izium and Mykolaïv. eVidnovlennya is a joint programme of the Ukrainian Ministry for the Development of Communities, Territories and Infrastructure, the Ukrainian Ministry for Digital Transformation, the USAID TAPAS project, and the World Bank.
In October 2022, the Ukrainian government launched the eOselia affordable loan programme - a preferential housing loan at 3% per annum for up to 20 years. In 2023, it is planned to allocate up to 15,000 subsidised mortgages.
These two factors, together with the growing interest of the international community in the reconstruction of Ukraine, have helped to boost the construction sector in Ukraine. Funding came from the State budget, international partners, and private companies, and was earmarked for the reconstruction of housing stock, schools, hospitals, etc. Subsequently, work has resumed on 75% of the residential projects launched before the start of the war,

Structural policy efforts need to be reinvigorated to strengthen growth prospects. Reducing barriers in labour and product markets and enhancing skills development would help to boost investment, productivity, and labour force participation, and make growth more inclusive (OECD).



Source: OECD Economic Outlook, Interim Report September 2023.

and 189 new projects have recently been launched (Business France).

The European Bank for Reconstruction and Development

The EBRD has stated that it intends to continue investing in Ukraine and estimates annual investments at EUR 1.5 billion for the next two years. However, this amount could increase if major reconstruction projects get underway.

In 2022-2023, the EBRD planned to provide EUR 3 billion in support of infrastructure in Ukraine and to set up lines of credit, including EUR 1.7 billion in 2022. Support for the energy and infrastructure sectors appears to be a priority for the EBRD (Business France).

Rebuild Ukraine Conference

The second conference on the reconstruction of Ukraine will be held in Warsaw on 14 and 15 November. The FNTP will be present in the Choose France pavilion. NGE, SPIE Batignolles, Colas, Bouygues Construction, Razel Bec and Eiffage will be represented at the show.

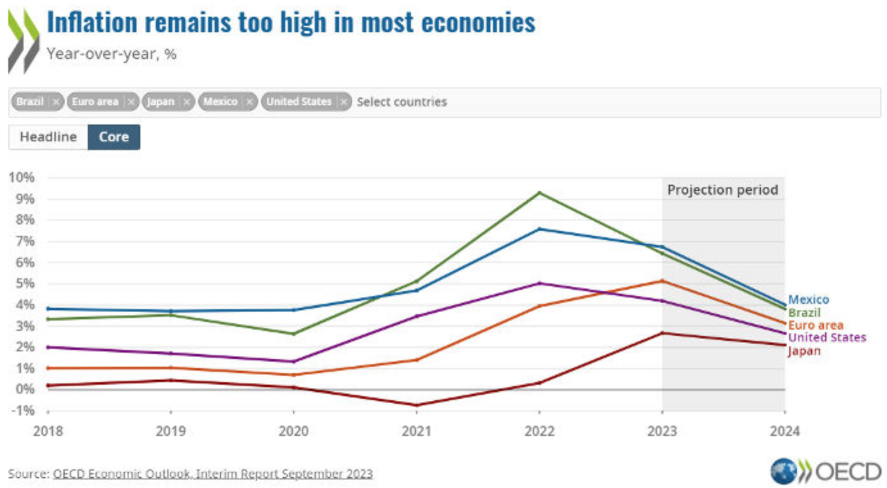
This year's event will be dedicated to energy. Alongside the conferences and round tables, participants will be able to visit an exhibition of construction and energy solutions.

The first edition brought together more than 50 nationalities, 3000 participants and 304 exhibitors (RebuildUkraine).

FIEC TF Ukraine

On 20 June 2023, the European Commission adopted its proposal for a regulation establishing the "Ukraine Facility", presented by Gabriel Blanc (DG NEAR) at the last meeting of the FIEC's Ukraine Task Force.

On 05 September 2023, the FIEC Ukraine Task Force welcomed Martine Diss from DG GROW. She presented the main EU initiatives for Ukraine to the group. In particular, the Ukraine Facility, the



OECD - Ukraine

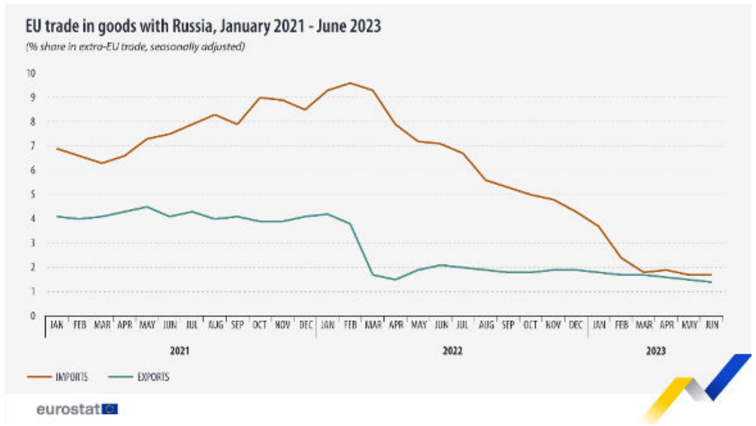
The OECD and the Government of Ukraine have launched a four-year Country Programme that will support Ukraine's agenda for reform, recovery and reconstruction and will help it advance its ambitions to join the OECD and European Union. This will provide vital support for Ukraine during war, while ensuring the best use of reconstruction aid to promote economic development and the welfare of citizens. Signed on 7 June 2023 at the annual OECD Ministerial Council Meeting in Paris by OECD Secretary-General Mathias Cormann and in Kyiv by Prime Minister Denys Shmyhal, the Programme consists of 31 policy reviews and capacity-building projects. It envisages Ukraine's participation in 24 OECD bodies, as well as adherence to more than 70 OECD legal instruments over the four years. The Country Programme is an established OECD tool that enables selected Partner economies to draw on OECD expertise and best practices, strengthen institutions, and build capacity for successful policy reforms (OECD).

ERASMUS programme for young entrepreneurs, matchmaking platforms, the European business network, etc. For more information, contact the FNTP.

Russia - European Union

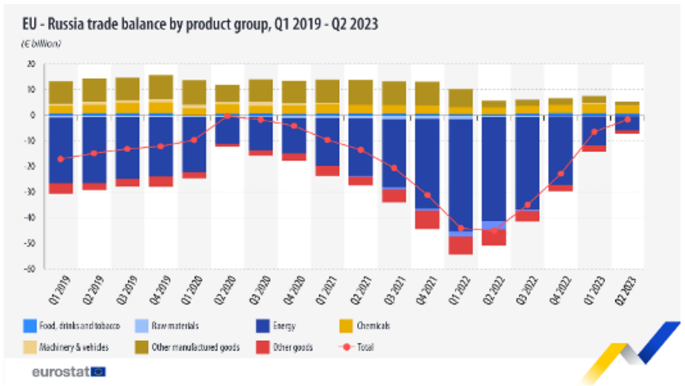
EU trade with Russia has been severely affected by the import and export restrictions imposed by the EU following Russia's invasion of Ukraine.

Exports and imports have fallen considerably below pre-invasion levels. Seasonally adjusted values show that Russia's share of extra-EU imports fell from 9.6% in February 2022 to 1.7% in June 2023, while the share of extra-EU exports fell from 3.8% to 1.4% over the same period.



In March 2022, the month after the invasion, the EU had a record trade deficit with Russia due to high energy prices. The deficit amounted to €18.5 billion. This deficit was reduced to €0.4 billion in June 2023, remaining below the billion mark for four months in a row in 2023 (€0.1 in March, €0.8 in April and €0.4 in May). This trend was strongly influenced by the €18.6 billion drop in the monthly value of imports from Russia between March 2022 (€21.9 billion) and June 2023 (€3.3 billion). At the same time, the value of exports fell from €3.4 billion in March 2022 to €2.9 billion in June 2023.

Looking at the quarterly data, in the second quarter of 2023, the EU-Russia trade balance in goods recorded a deficit of €1.6 billion, indicating a major improvement on the deficit of €45.0 billion observed in the second quarter of 2022. This substantial reduction in the deficit can largely be attributed to lower energy imports from Russia. The trade deficit in energy was reduced from €40.4 billion in the second quarter of 2022 to €5.7 billion in the second quarter of 2023.

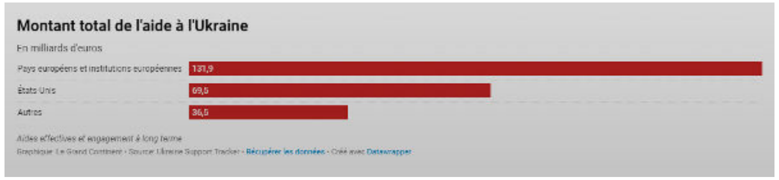


Over the last two years, the EU's dependence on energy imports from Russia has decreased significantly. More specifically, the shares of fossil fuels such as coal, natural gas and oil imported from Russia have fallen considerably. Comparing the second quarter of 2021 with the second quarter of 2023, oil has lost 27 percentage points (pp) (from 29.2% in 2021 to 2.3% in 2023), natural gas 26 pp (from 38.5% to 12.9%), and coal 45 pp (from 45.0% to 0%)(Eurostat).

Ukraine - European Union

After a first year dominated by American aid, European aid is now in the lead, with a total contribution more than double that of the United States. Aid already granted and the Union's long-term commitments total 131.9 billion euros, compared with 69.5 billion euros for the United States.

The main reason for this leap to the top of the ranking is the inclusion of the European Commission's proposal for the creation of a new "specific facility to support the recovery, reconstruction and modernisation of Ukraine" worth a total of up to €50 billion over the period 2024-2027 (€33 billion in loans and €17 billion in grants). It should be discussed and adopted before the end of the year as part of the mid-term review of the Multiannual Financial Framework (Le Grand Continent).



In addition, major new multiannual commitments have been made by several European countries, in particular Germany's 4-year military support programme worth €10.5 billion (2024-2027) and Norway's "Nansen Support Programme" worth €6.6 billion over 5 years. Other multi-annual programmes have been committed by Denmark, the United Kingdom, Switzerland, Sweden, Portugal and Lithuania.

The Ukraine aid tracking tool shows further increases in short-term commitments from Europe, particularly Germany (€619 million)

		and the UK (€286 million). Total EU commitments are now almost double those of the United States. The new multiannual envelopes have led to significant changes in the ranking of countries. As a percentage of GDP and taking these multi-year programmes into account, Norway is now Ukraine's biggest supporter, with aid to Ukraine amounting to 1.7% of its GDP (IFW Kiev). On Friday 22 September, the European Commission paid Ukraine a further tranche of €1.5 billion as part of the €18 billion macro-financial assistance package for 2023. This assistance will be used to fund the immediate needs of a country beset by Russian military aggression: payment of civil servants' salaries and pensions, maintaining public services, rehousing displaced persons, and repairing critical infrastructure. According to a Commission assessment carried out at the end of July, Ukraine is continuing to be transparent about the use of the financial support it has received and is implementing the conditional measures agreed, such as strengthening the rule of law and improving the gas distribution system. To date, the EU has paid out €13.5 billion of the €18 billion agreed (Agence Europe). **Find out more about the European countries that take in the most refugees:** Euronews.

If you have any questions, please contact

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