



BUSINESSatOECD

2022 Business Barometer

From Covid-19 to the war in Ukraine:
Doing business in challenging times

Key findings and policy messages

Business respondents voiced significant concern on both the war in Ukraine and its economic impacts, including sharp rises in price indices and estimated declines in investment rates. While some reserve the judgment on how negatively it can affect the country's GDP, respondents are overall expecting a moderate to high negative impact. Regarding the consequences resulting from the war, 53% of participants estimate that GDP will likely shrink by between 0.5% and 1%, whereas 18% take a more pessimistic view stating that the decrease may go beyond 1%. 20% consider that it is still too early to determine the precise impact.

The energy sector is the most affected by current geopolitical tensions, closely followed by commerce and shipping. Our findings also show that compared to other sectors, chemicals, metals, and agriculture are more exposed to the impacts of the war, implying that both inflation and supply chain disruptions could ensue.

Overall, the impact of the war is expected to be a serious hit to the recovery, as cost-push inflation will certainly drive up prices at a time when the demand has not yet fully recovered. Our findings support this prediction as 68% of respondents expect high inflation. In addition, the supply chain disruptions will not only add pressure on the prices but also distort the supply-demand balance.

On a positive note, two thirds of the participants responded that their countries' economy has already recovered from the Covid-19 crisis. Additionally, a majority of members also expect a moderate increase in business investment and sectors hit by the Covid-19 pandemic, such as tourism, will largely remain unscathed.

Top structural reform priorities remain digital transition and human capital, in line with last year's survey. A majority of respondents consider that slow policy reform is a major obstacle. Governments should focus on addressing three identified main challenges of the global economy: supply chain disruptions, inflation, and the overall impact of the war in Ukraine. As identified in our survey, we urge governments to step up policy reform demonstrating strong political will or leadership.



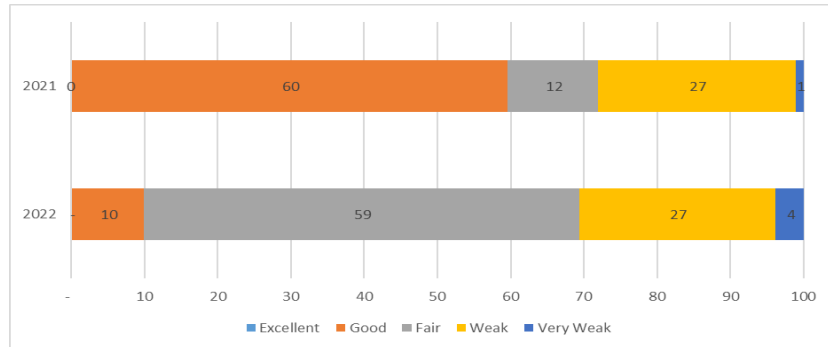


Section I: Overall economic situation and outlook

a) The Overall Business Climate

Compared to spring 2021, members expressed less confidence in the current business climate.

Figure 1: Snapshot view of current business climate, 2021 and 2022 surveys



Source: Business at OECD (BIAC) member federations (adapted to the GDP weighted average)

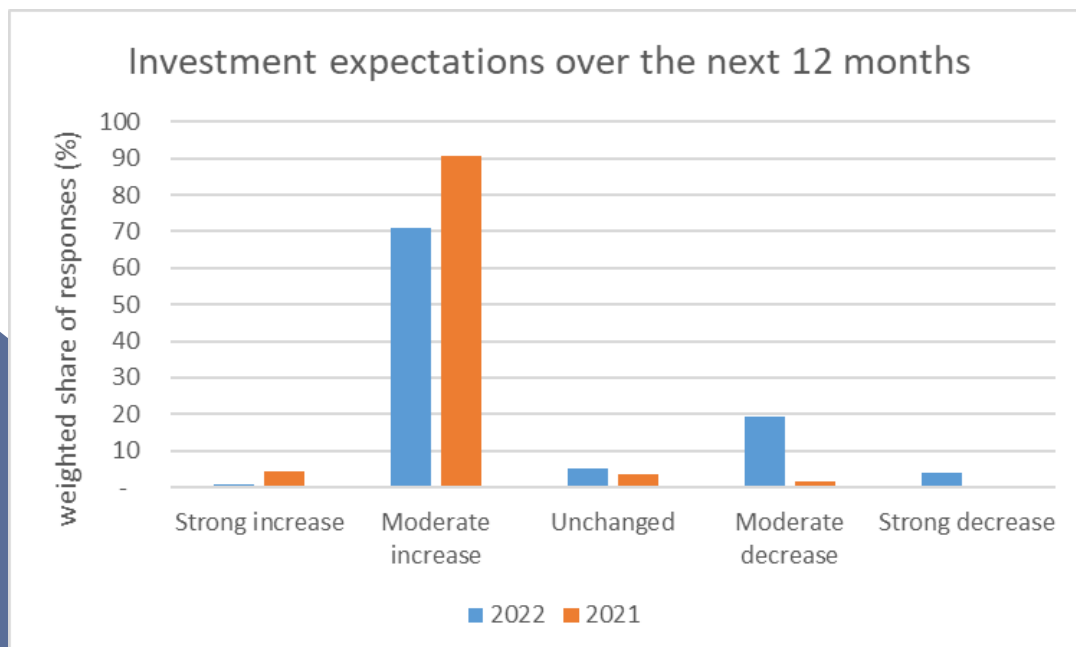
Highlights:

- Our survey results point to a deterioration of the overall business climate in spring 2022, compared to spring 2021.
- While in our 2021 survey, 60% of respondents regarded the business environment as “good,” the number dropped to 10% this year.

b) Expectations on Investment

Business is beginning to feel the changing tide in investment. While a share of 70% of respondents said that investment would moderately increase in 2022, this figure dropped by about 20% in a year-on-year comparison. It is also worth noting that some countries, albeit in a small percentage, responded that the investment may actually decrease over the next 12 months.

Figure 2: Expectations for business investment over the next 12 months, compared to the last 12 months, 2021 and 2022 surveys



Source: Business at OECD member federations (adapted to the GDP weighted average)



Highlights:

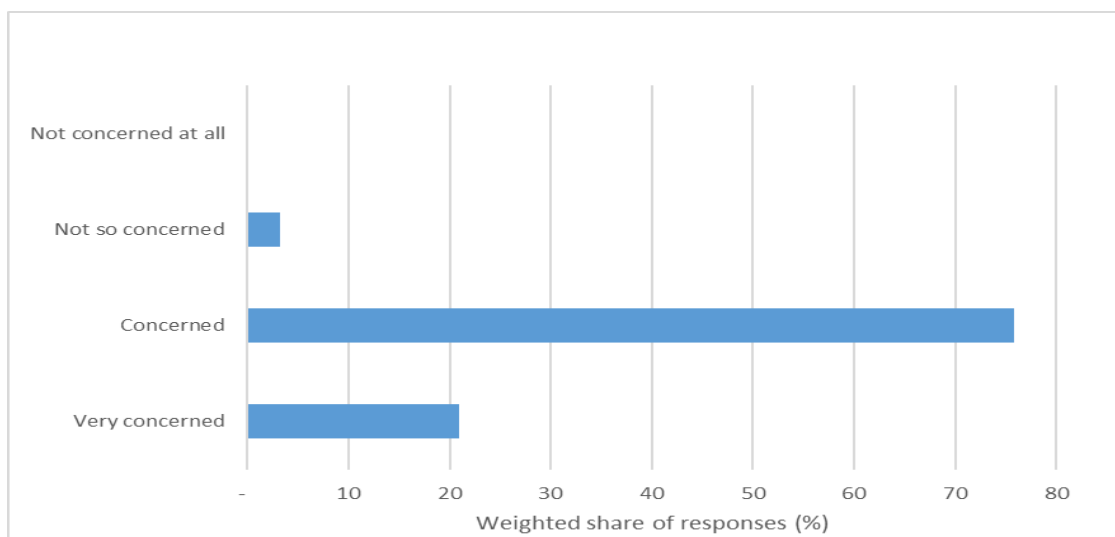
- Last year, a majority of respondents expected that business investment would moderately increase over the coming 12 months, compared to the same period of the previous year. However, in 2022 the number dropped to 70%, indicating that the investment climate may likely change.
- An average of 19% of respondents predict that they will see a moderate decrease, while 4% fear that investment will strongly decrease.

Section II: Economic impact of the war in Ukraine

a) Impact on the sentiment of member country's economy

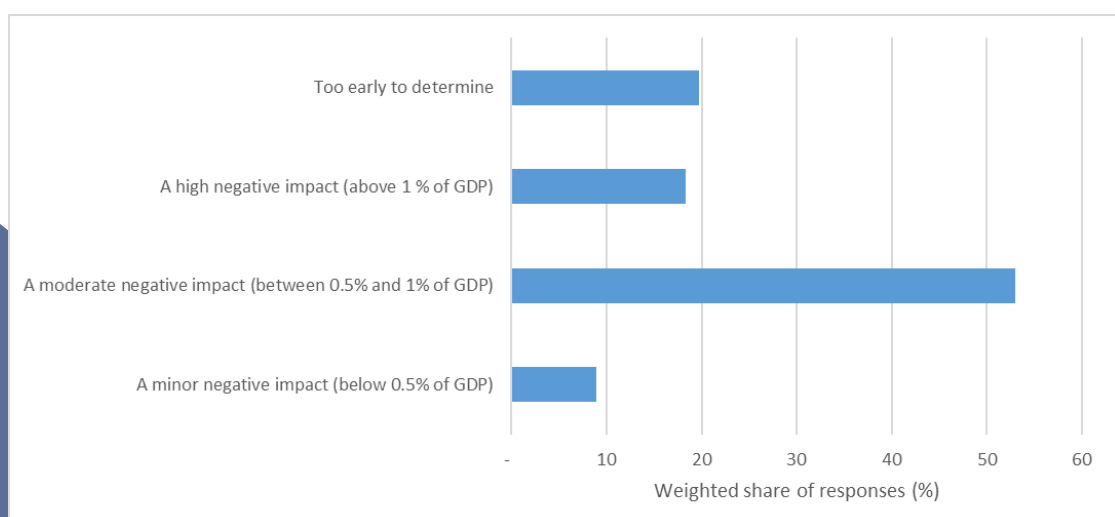
The war in Ukraine hit the global economy when it was just about to recover from the Covid-19 pandemic. Our survey results reveal that more than 97% feel they are either concerned or very concerned, showing the magnitude of how the war is impacting their economy. While some reserve the judgment on how negatively it can affect the country's GDP, respondents are overall expecting a moderate to high negative impact.

Figure 3: Members' sentiment about the impact of the war in Ukraine on your country's economy



Source: Business at OECD member federations (adapted to the GDP weighted average)

Figure 4: Expected impact of the war in Ukraine on GDP



Source: Business at OECD member federations (adapted to the GDP weighted average)



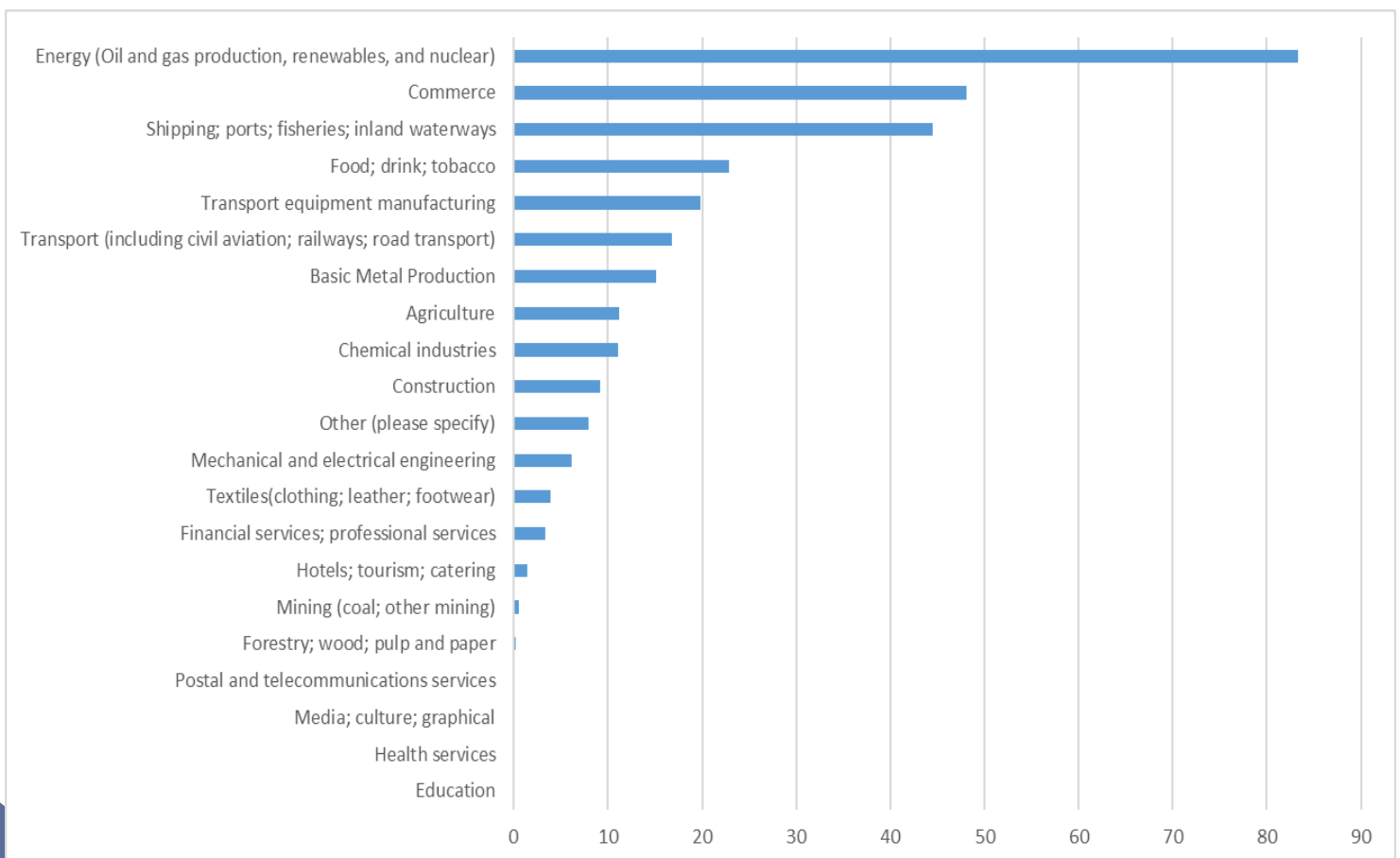
Highlights:

- An average of 97% of respondents are either “very concerned” or “concerned” about the impact of war in Ukraine on their country’s economy.
- In terms of the exact figure of the GDP decrease resulting from this war, 53% of participants predict that the GDP will likely shrink by between 0.5% and 1%, whereas 18% take a more pessimistic view that the decrease may go beyond 1%.
- Meanwhile, a share of 20% of respondents remain cautious and consider that it is still too early to determine the impact.

b) Sectoral impact

In terms of sectors, members assess that energy will be most severely hit followed by transportation, implying that there will be additional pressure on the input cost and the global supply chain. On the other hand, industries such as tourism and leisure, which were hit hard by the Covid-19 pandemic, may be spared from the impact of the war.

Figure 5: Members’ assessment on which sectors will most likely be affected by the war



Source: Business at OECD member federations (adapted to the GDP weighted average)



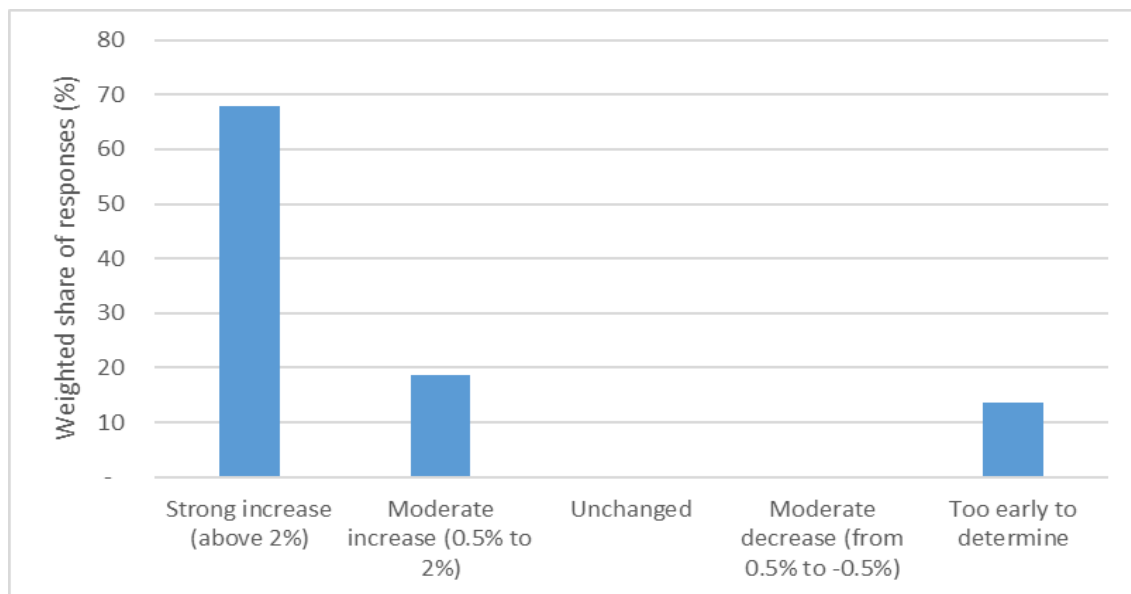
Highlights:

- An average of 83% indicate that the energy sector will be most affected by the war, followed by commerce (48%), shipping (44%), and foods and drinks (23%). This implies that there will be additional pressure on the cost of goods as well as further deterioration of global value chains.
- Both Ukraine and Russia are major suppliers of several commodities, such as natural gas, oil, and wheat. The soaring prices of commodities after the invasion of Ukraine and the surge in international logistics freight rates and their disruption have had a significant impact on the sectors mentioned above, among others.
- Meanwhile, members' responses to this question also imply that some of the sectors such as hotels and tourism (1.4%) or health services (0%) will not be affected. This is a stark contrast to the Covid-19 pandemic, which hit these industries very significantly.

c) Inflationary pressure

As mentioned in the previous section, members' responses point to the growing concern over inflation, or aggravation thereof. This could take a heavy toll on the recovery of the global economy, as the cost-push inflation will certainly drive up prices when the demand has not fully recovered yet. A majority of the respondents indicated that there will be a strong increase of 2% or more.

Figure 6: Expectations of the impact of the war on the inflation rate in member countries



Source: Business at OECD member federations (adapted to the GDP weighted average)

Highlights:

- A staggering number of 68% says that the war will further increase inflation. It is important to note that some countries had already seen the first signs of inflation before the war in Ukraine broke out. Depending on how the war continues, this trend may continue.
- Additionally, some respondents (14%) argue that it is too early to determine how far inflation may go.

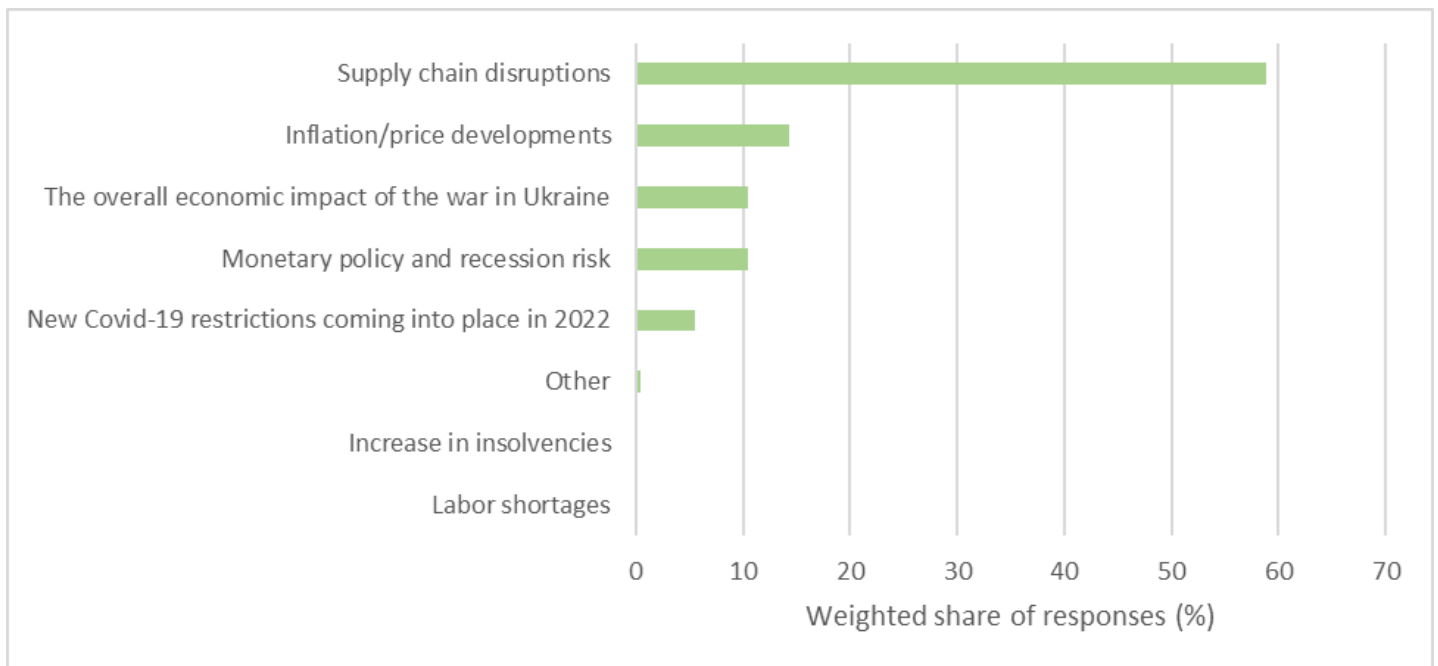


Section III: Potential obstacles to a strong and inclusive recovery of the global economy

a) Overall picture of potential obstacles

Supply chain disruptions, inflation, and the overall impact of the war in Ukraine are the top 3 obstacles to economic growth for members. It is important to note that the impact of the war will affect the other two.

Figure 7: The most relevant obstacle for recovery



Source: Business at OECD member federations (adapted to the GDP weighted average)

Highlights:

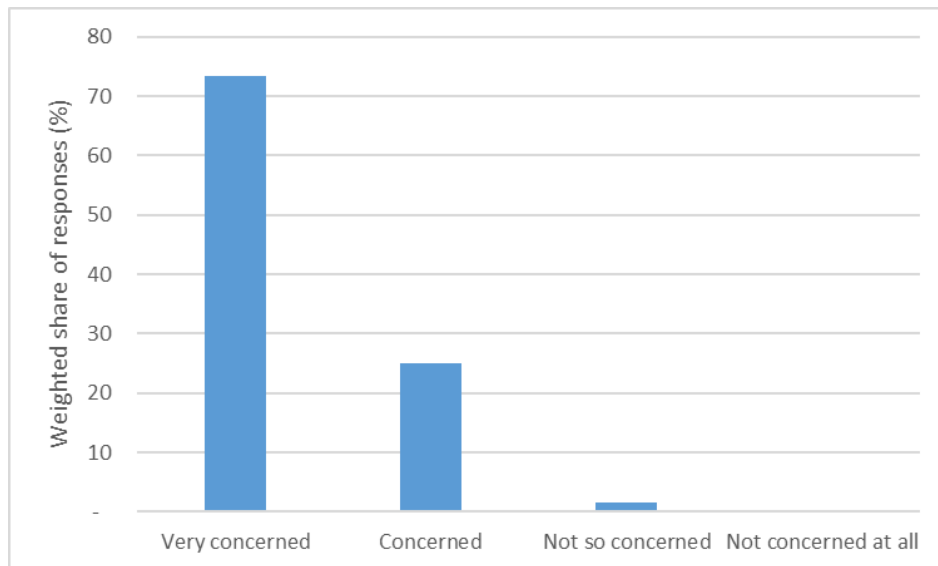
- A share of 59% of the participants identified supply chain disruptions as their main concern, followed by inflation/price developments (14%).
- The impact of the war in Ukraine mentioned by 10% of the respondents comes third. This issue is intertwined with the two obstacles mentioned above, which requires an in-depth observation if we are to discern its incremental effect.



b) Supply chain disruptions

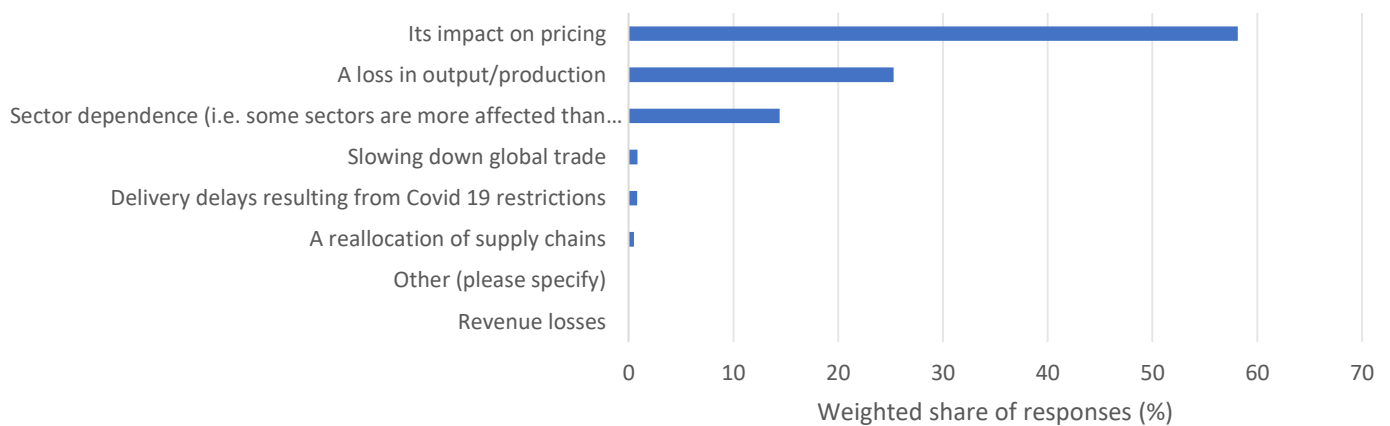
Supply chain disruptions were widely regarded as an obstacle to economic growth before the war in Ukraine started. However, the results show that the war has deepened these concerns, requiring an immediate response in order to support the economic recovery and ease the inflationary pressure.

Figure 8: Concerns over supply chain disruptions



Source: Business at OECD member federations (adapted to the GDP weighted average)

Figure 9: The biggest concerns on the negative impact of supply chain disruptions



Source: Business at OECD member federations (adapted to the GDP weighted average)

Highlights:

- Taken together, an overwhelming majority (98%) of the participants are either “very concerned” or “concerned” about supply chain disruptions. There is not a single country that is “not concerned at all.” This indicates the magnitude of this issue on the global economy.
- Additionally, regarding the impact of supply chain disruptions on the economy, a majority of respondents (58%) specified their impact on pricing, followed by a loss in output/production (25%) and its sector dependence (14%).

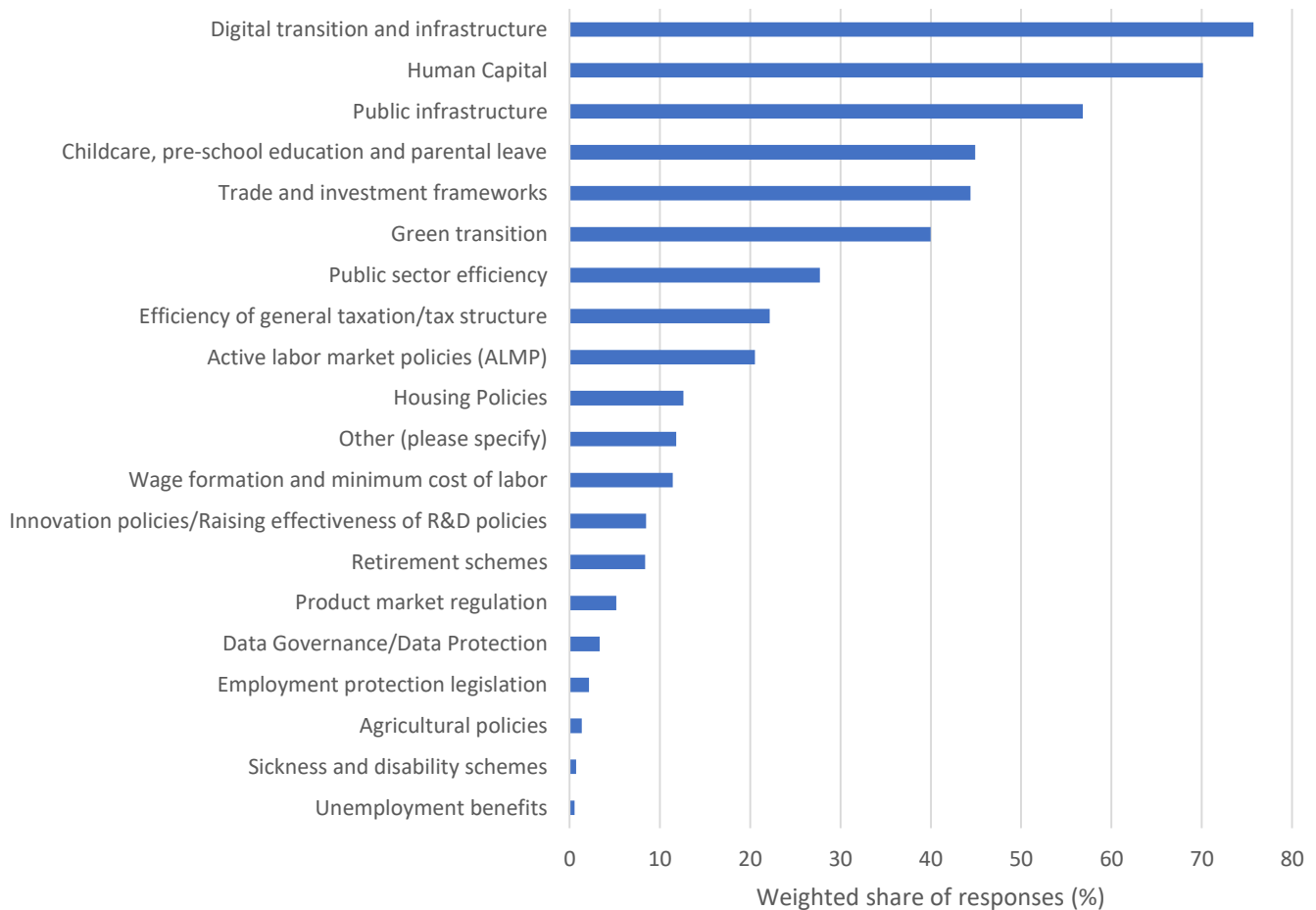


Section IV: Structural reform priorities

a) Top structural reform priorities

Independent of the Ukraine crisis, the digital transition and infrastructure, human capital, public infrastructure, childcare and pre-school education, and trade and investment frameworks remain the top five reform priorities. While the digital transition and human capital were already regarded as top priorities in 2021, the other three emerged as new key priority areas for reform.

Figure 12: The top structural reform priorities



Source: Business at OECD member federations (adapted to the GDP weighted average)

Highlights:

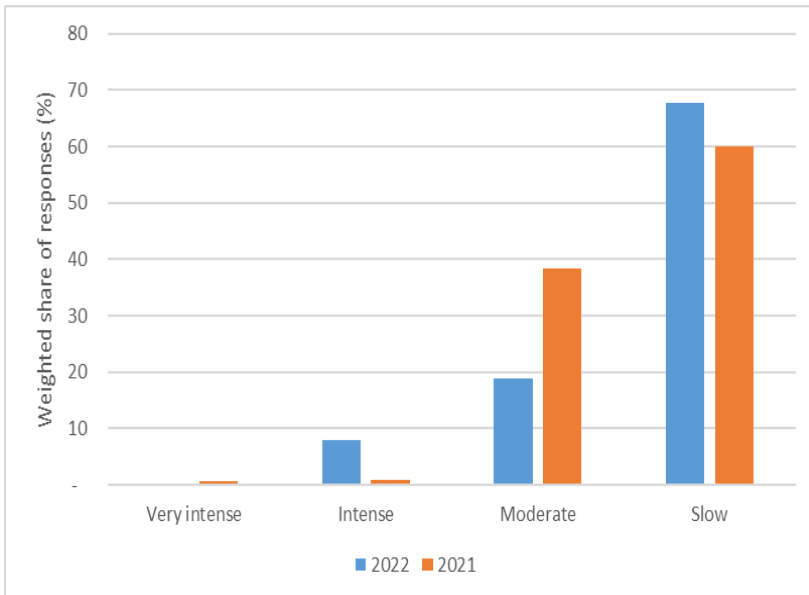
- According to more than 75% of respondents, the digital transition and infrastructure is the main area where structural reforms should be prioritized. The other two main areas are human capital (70%) and public infrastructure (56%).
- Other relevant areas where more structural reforms are needed are childcare (44%), trade and investment frameworks (44%), and the green transition (39%).



b) Reform intensity and obstacles to structural reforms

There is an overwhelming consensus that policy reform has generally been slow over the past 12 months. Additionally, it was underlined that pro-growth reforms require political will and political leadership.

Figure 13: The intensity of policy reform



Source: *Business at OECD member federations (adapted to the GDP weighted average)*

Highlights:

- A majority of respondents perceive a slow (68%) or moderate (19%) intensity of policy reform in their country. These figures continue the trend of our 2021, when 60% of respondents regarded reform intensity as being slow and 39% as moderate.
- The top three factors that influence the outlined slow intensity of policy reform are a lack of political will or leadership (67%), lack of political unity (64%), and lack of public support (53%). In contrast, in 2021, the lack of political unity (48%) was identified as the main factor that hinders structural reforms.

Methodological note

Timeline

Our survey was launched in February 2022 and concluded in May. This synthesis report was prepared in May 2022. Given the rapid evolution of the economic and significant cross-country variation, coupled with the impact of the war in Ukraine, it cannot be excluded that the different timings of member responses influence aggregate results.

Respondents

31 national business and employer organizations, representing 95% of all OECD countries' GDP, participated in the survey on a voluntary basis. Only one response per organization, and per country, was accepted. Each participating business and employer organization represents thousands of companies across several economic sectors in their respective countries.

In responding to the survey, it was expected that the individual respondents (typically chief economist or senior leadership) would aim for well-balanced and representative responses based on the economic situation in their country.

Confidentiality

In order to encourage respondents to freely put forth their respective views and priorities, it was decided to fully ensure the confidentiality of their responses by only communicating aggregate results (through weighted averages). For the purposes of this synthesis report, the names of participating organizations and their responses have been anonymized.

Survey Structure


The survey was structured into four main parts:

- a) Overall economic situation
- b) Economic impact of the war in Ukraine
- c) Potential obstacles to a strong and inclusive recovery of the global economy
- d) Structural reform priorities

Contact

If you would be interested in further information, please contact *Business at OECD* Policy Manager, Jacobo Ramos Folch (RAMOSFOLCH@biac.org).





Business at OECD
13/15, Chaussée de la Muette, 75016
Paris, France
Tel: +33 (0)1.42.30.09.60
Email: contact@biac.org



BUSINESSatOECD