May 2022, OECD Economic Policy Committee

***Business at OECD* (BIAC) statement on the global macroeconomic situation**

Russia's war against Ukraine is a deeply distressing moment for the world. We strongly condemn the Russian invasion of Ukraine, which has led to thousands of people being killed and millions fleeing from the war. Beyond the ongoing humanitarian disaster, the economic damage is already being felt worldwide and risks becoming increasingly severe. The purpose of this note is to inform the OECD about the initial assessment of the global macroeconomic situation based on the latest discussion at the *Business at OECD* Economic Policy Committee. In particular, it will focus on the impact of the war on imported products, supply chains, as well as share the preliminary results of our annual *Business at OECD* Economic Policy Survey.

The impact of the war on imported products

- The sanctions on Russia and its companies have led to difficulties in securing supplies of products that cannot be easily substituted elsewhere. Examples include critical raw materials such as neon or 'rare earths,' a substantial amount of which is imported from Ukraine to the European market. Hence, an international response to address this problem is needed since it impacts the entire production chains.

- Diversifying the source of imported products is becoming an increasingly pressing issue for the global economy, and it poses difficulties to many businesses of different sizes. It is also important to note that the impact of import constraints vary depending on the products in question, since not all regions in the world are equally dependent on Ukrainian and Russian output. In this context, international organizations such as the OECD can play a crucial role in promoting policies that can help address this major challenge while taking into account the different situations companies are in.

The impact of the war on global value chains

- From the business point of view, the impact of sanctions on energy prices - and on prices in general - is a major concern. Shipping delivery timing is also severely impacted and this causes problems on both imports and exports, putting an additional pressure on the supply-demand balance.

- The increase in energy prices triggered by the war has a double impact on prices: it does not only mean higher oil and gas prices per se, but also leads to an overall increase of production costs as we go down the value chain. Meanwhile, the prolonged war prompted many companies to either divert or rearrange the transportation of goods dramatically. In this context, transportation has become one of the sectors that are particularly suffering for the impact of the war as the delivery of goods is becoming increasingly expensive and time consuming. While our members comment that transport is mainly affecting Europe, increased shipping costs and delays are also negatively affecting the United States, aggravating the inflationary pressure that is already being felt in some of the OECD member countries.

Preliminary results from 2022 *Business at OECD* Economic Survey:

As every year, *Business at OECD* (BIAC) will be publishing its annual Economic Policy Survey where it asks its national member federations to provide their view on the global economy and structural reform priorities. In this year's edition, we will include a special chapter on the impact of the war in Ukraine and policy reforms in the aftermath of the Covid 19 crisis. Please find below a preliminary assessment of the results from the survey. The official report and paper will be published in June.

- While there is no consensus on how severely the war will impact the GDP output of their economy, our survey reveals that due to the war, 65% of our members expect a strong increase in their country's inflation rate and 24% a moderate increase. Additionally, a decrease in the inflation rate to pre-pandemic levels is unclear in the near future. In our survey, 35% of federations expect it to return in 2023, 14% in 2024, and 42% later than in 2024.

- The main two concerns regarding the global macroeconomic situation are energy prices and supply (55%) and global value chains (24%). In the context of the current war, the three most affected sectors are energy (78%), followed by food, drink, tobacco (40%), and Construction (35%).

- Regarding how the war is affecting business investment in their respective countries, there is no consensus among our members. Whilst 41% of our federations expect a moderate increase, 31% envision a moderate decrease, and 17% expect it to be unchanged.

- When assessing how governments and Central banks responded to Covid 19, 46% of our members regard Central bank policies as effective, and 35% as very effective. The response from governments is also widely regarded as positive, and 6% regard it as very effective, 68% as effective, and 24% ineffective.

- Government actions are also regarded as positive when addressing insolvencies. Our survey revealed that only 20% are concerned about an increase in insolvency this year, thanks partly to the support packages given to companies.

- Business also acknowledges that governments responded well to labor market disruptions that emerged throughout the pandemic. About 70% of the respondents acknowledge that their governments reacted "efficiently" or "very efficiently" to the labor issues during the pandemic. Nonetheless, it is interesting to note that more than three-quarters of our members affirm that they are either "concerned" or "very concerned" about labor shortages in their country.

- In contrast to the positive view on how governments responded to Covid, our members also highlight lack of leadership, lack of political unity, and policy coherence are the top three obstacles that hinder the successful pro-growth reforms. We call on the public sector to ramp up its efforts in these fields.

- Moreover, the top five structural reform priorities that our members encourage are as follows: public sector efficiency (58%), the green transition (58%), efficiency of general taxation and tax structure (55%), human capital (51%), and the digital transition (44%). Over the past twelve last months, 34% of our federations have rated the intensity of policy reform in their country as 'moderate' and 44% as 'slow'.

- Finally, the area where more international cooperation should be prioritized is the green transition (72%), followed by international trade (48%), and the digitalization of the global economy (41%).