



Business impact of Geopolitics: Macro Trends

Board Leadership Center webinar

KPMG Geopolitics

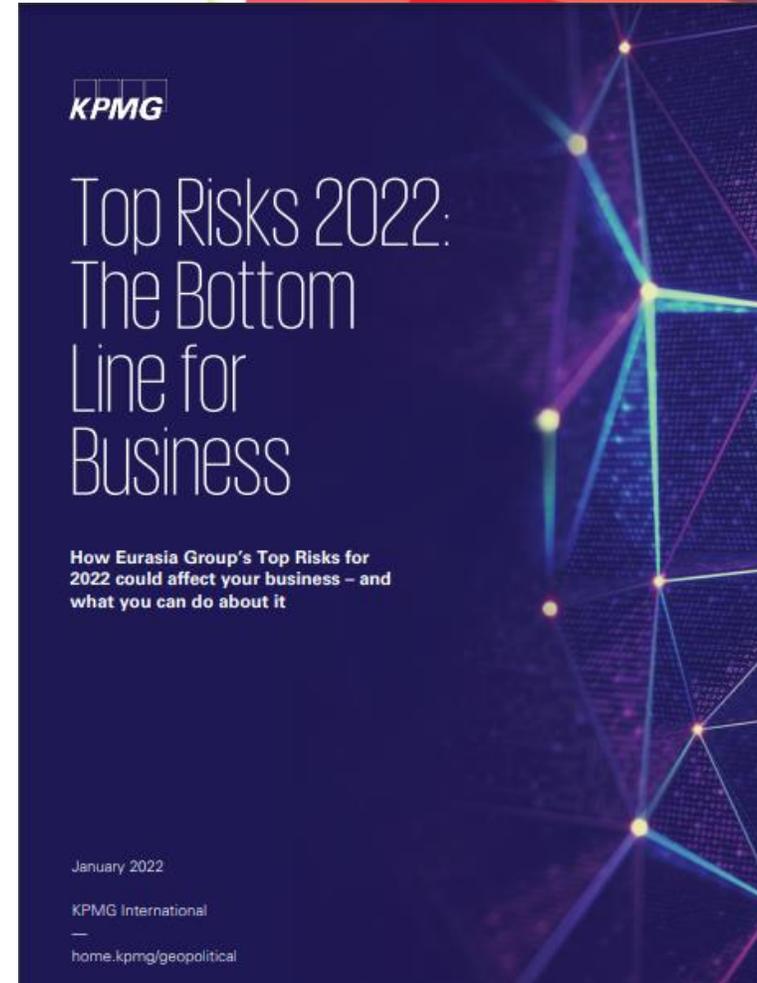
25 April 2022

Introducing 2022 Top Risks

1. No-zero Covid
2. Technopolar World
3. US midterms
4. China at home
5. Russia 
6. Iran
7. Two steps greener, one step back
8. Empty lands
9. Corporates losing the culture wars
10. Turkey

[Eurasia Group Top Risks 2022](#)

[KPMG Bottom Line For Business 2022](#)





Ukraine crisis update

- The security crisis is the most significant in Europe since the 1960s
- The fallout could reshape European security architecture and last for years
- Russia's relations with the US and Europe will be reset and might not return to normality for a long time
- Sanctions will remain in place and be tightened unless Russia withdraws
- The economic, commodity and energy consequences will be felt globally, with risks to economic growth and inflation
- Most severe refugee crisis since WWII – more than 4 million fled and more than 6 million are internally displaced (UNHCR)

Ukraine crisis update

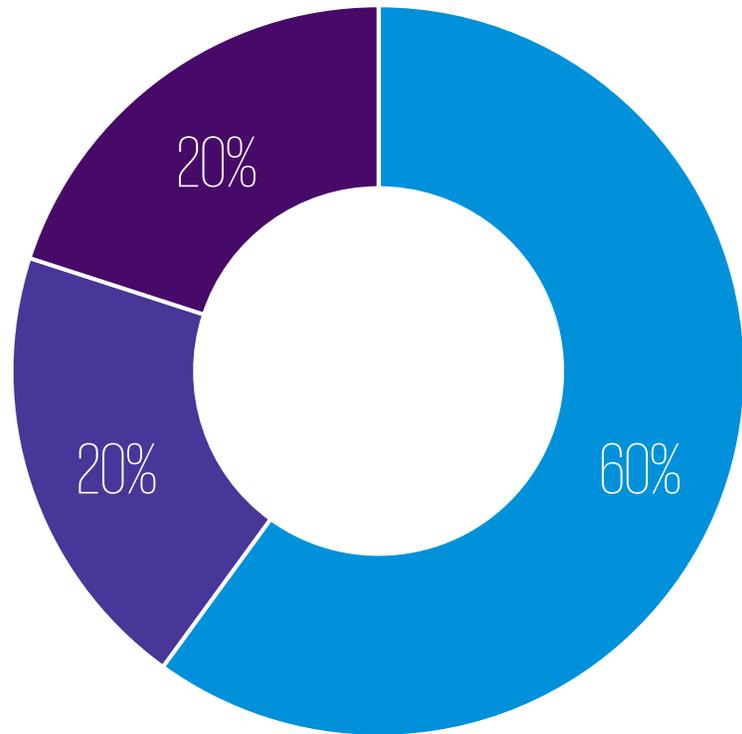
Political Developments

- Russian strategic shift to the Donbas region. Taking over of Donbas is likely, but leading to a stalemate.
- NATO allies have stepped up weapons and equipment deliveries to Ukraine. Russia responded with threats but not ultimatums.
- Expansion of NATO likely with Finland and Sweden joining by the end of June.
- Peace negotiations have stalled after war crimes allegations and mounting evidence. Implementing a deal would be a long and difficult process.
- No final settlement without the removal of sanctions on Russia, and no removal of sanctions without a final settlement.

Sanctions Watch

- On April 8th the EU adopted its fifth sanctions package against Russia, targeting more import and export bans; EU ports access; more Russian financial institutions.
- On 21 April, EC VP Dombrovskis announced work on new sanctions. Germany reluctant to sanction Russian gas (Bundesbank warned gas embargo could mean 5% hit to GDP growth).
- Watchpoint: Potential secondary sanctions if situation deteriorates (i.e. nuclear threats, chemical weapons, etc.).
- Russian countersanctions include some limited export bans (machinery, wood) and a nationalization law - yet to be enacted and recently watered down.
- The Central Bank of Russia announced that it would pursue legal challenges in the US and Europe seeking to unfreeze its reserves.

Base case scenarios (*Eurasia Group*)



Stalemate

- Unstable violent stalemate
- No real progress in peace talks
- Intensified sanctions
- Major impact to Russian economy



Ceasefire

- Russian withdrawal
- Negotiated détente
- Sanctions unwound if political settlement is reached

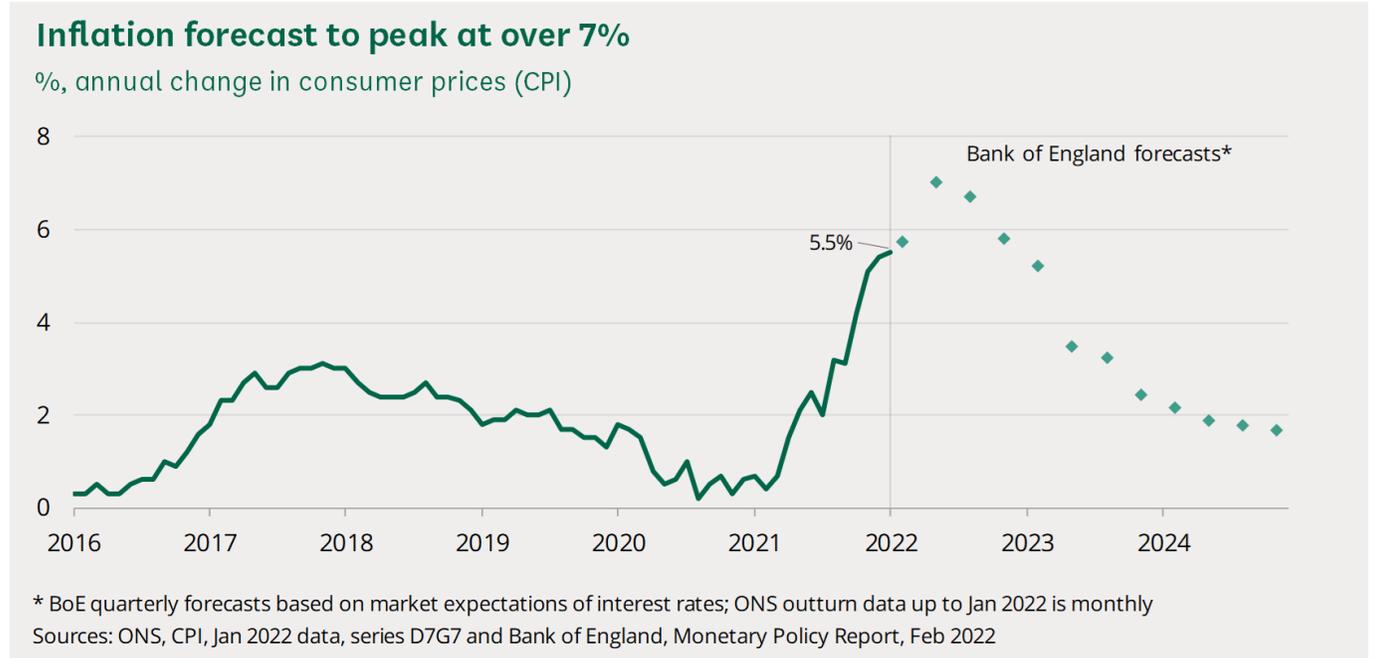


Escalation

- Conflict intensifies
- Sanctions and Western support for the Ukrainian military escalates
- Broader macroeconomic consequences

Economic Impacts Continue to Unfold

- Sharp rise and continued volatility in global commodities and energy prices
- Oil prices will continue to fluctuate and respond to marginal changes in the conflict
- Food insecurity: Disruption to wheat and grain supplies. Loss up to 65% of global supply of sunflower oil. Fertiliser exports fall, negative impact on food crops in other markets
- Price volatility and supply crunch in critical commodities: Titanium, Copper, Nickel, Cobalt, Lithium, Rare earths
- Upward pressure on global inflation, with forecasts of up to 7% peak this year
- Global growth will likely take a 1-percentage-point hit, and the Russian economy might contract by 10% according to Eurasia Group analysis (base case scenario)



Contagion channels in Europe

Spillover risks may exacerbate public discontent

- Estimates of 0.7 percentage point cut in eurozone growth due to conflict, coupled with rising inflation already at 5.8% pre-war, and looming refugee crisis
- Measures to reduce energy dependence, assist refugee mobilization, and increase defence spending will require EU-level financial support, straining member state budgets even further
- Travel restrictions banning Russian tourists will impact tourism dependent southern Europe and luxury retail sectors
- Potential for 2022-23 national elections to be run on key issues of rising inflation and deteriorating security as well as living standards (France, Latvia, Swede, Slovenia, etc.)

UKRAINE REFUGEE CRISIS

Numbers who have fled country

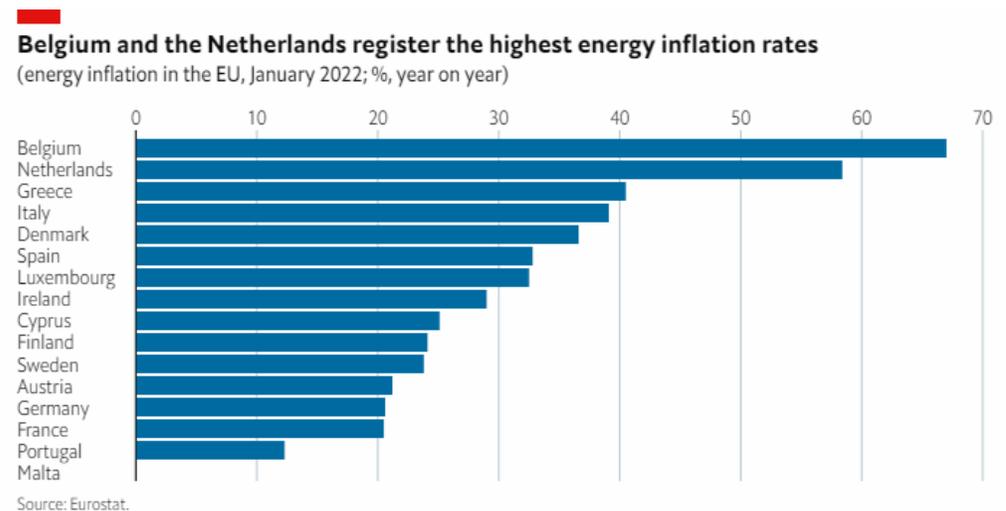
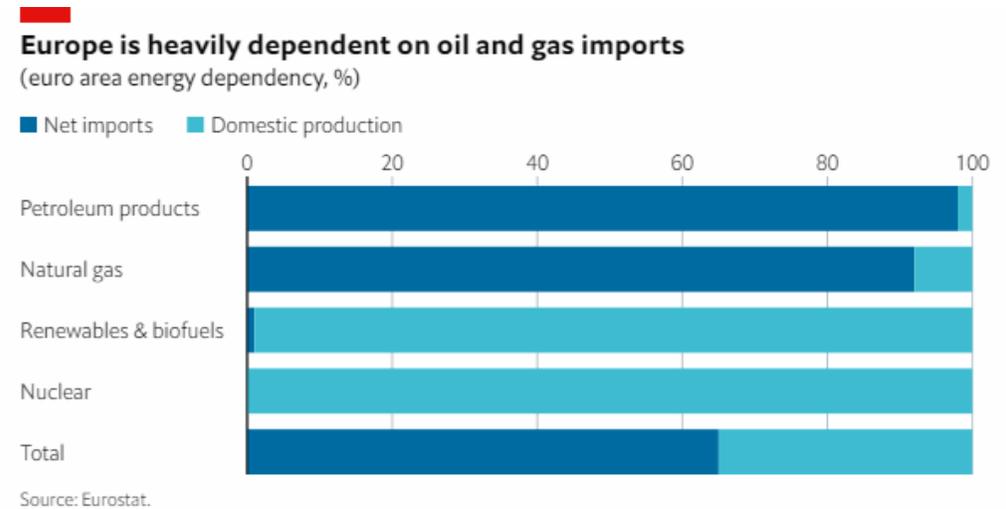


Sources: UNHCR

Commodity exposure in Europe

Soaring commodity prices will fuel inflation but accelerate energy independence

- EU is heavily dependent on oil and gas imports, which remain largely untouched by sanctions or trade bans
- Supply disruption will nevertheless maintain elevated prices and volatility
- Food price inflation will disproportionately affect lower-income households that tend to spend more of their income on food (typically in the south)
- EU's REPowerEU plan, announced in March after initial invasion, targets completely abandoning Russian gas by 2030, instead relying on LNG and renewables
- Outside energy sector, impact will be visibly felt in: industrial manufacturing, automotive sector, agri-food production, forest industry and many more



Increased Scrutiny on Business

Heavily polarized political and cultural pressures, weaponized through social media, means no business is sheltered.

*In 2022,
Multinationals will
have to spend more
time and money
navigating
environmental,
cultural, social, and
political minefields.*



Damned if they do, damned if they don't

TOP RISKS 2022



65% of millennials say they have **boycotted** a brand whose position on a social issue they **opposed**



60% of employees approve of **business leaders** taking a **stand on political or social issues**



83% of millennials **want brands to align** with them on **values**



75% of millennial **employees expect** their **employer** to take a stand on **important issues** affecting the country



68% of employees would consider **leaving their job** for an organization with a **stronger stance on social and cultural issues**



66% of consumers say it's important for brands to take **public stands** on **social and political issues**



Source: SproutSocial, SWPR, CNBC/SurveyMonkey, Gartner, Glassdoor/Harris

Playing with F-I-R-E

Geopolitical competition and widening mistrust between countries is driving the trend toward a Fragmented Interventionist Regulatory Environment (FIRE)

Trade and supply chain disruptions



- **Multilateral trade system continues to be under threat** with countries pursuing mercantilist and protectionist policies in light of growing security tensions in various global hotspots.
- **Covid economic hangovers**, restrictions ebb/flow and new variants tail risk.

A rocky energy transition



- Navigating **short-term rising fossil fuel demand and longer-term net zero pathway** is paramount.
- Without coordinated global leadership, **differing standards**, subsidies, regulations, and carbon pricing mechanisms - including border adjustment tariffs - will prevail.

Technology and cyberspace governance



- Governments are playing catchup as the **speed of technology outpaces existing governance** structures.
- **Cybersecurity** remains a widely anarchic space with state and non-state actors alike waging increasingly brazen attacks on business, governments, and critical infrastructure.