

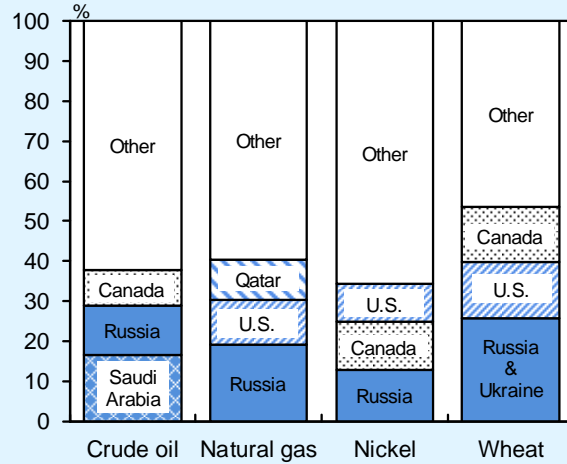
(Box 1) Impact of the Situation Surrounding Ukraine on Overseas Economies

Overseas economies have recovered on the whole, albeit with variation across countries and regions. However, due to the situation surrounding Ukraine, uncertainties over overseas economies have increased. This box summarizes the impact of the situation on overseas economies via three transmission channels: (1) a rise in international commodity prices; (2) a reduction in Russia-related trade and delays and disruptions in logistics; and (3) deterioration in consumer and business sentiment.

Russia's and Ukraine's global GDP shares are relatively small, at respectively 1.9 percent and 0.2 percent (in 2020, at market prices). However, they do account for large shares of world trade in energy, some metals, and grains (Chart B1-1). Moreover, Russia has strong trade relations with the European Union (EU), which accounts for about 40 percent of both Russia's exports and imports (Chart B1-2).

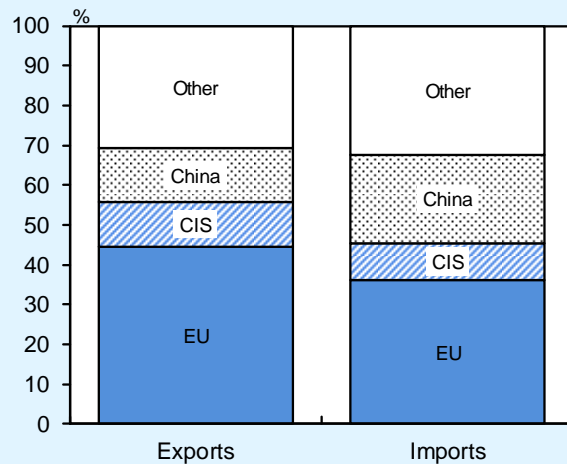
International commodity prices of energy, metals, and grains have risen (Chart B4-1). This is because, as a result of the situation surrounding Ukraine, there have been growing concerns about declining supplies of commodities, such as natural gas and crude oil, and grains from Russia and neighboring regions, which account for large shares of global exports of these commodities. In particular, the sharp rise in natural gas prices is due to growing concern about the risk of supply disruptions in the euro area, which is highly dependent on Russian gas (Chart B1-3). This

Chart B1-1: World Export Share by Commodity



Sources: BP; Trade Map, International Trade Centre: <https://marketanalysis.intracen.org>. Note: Figures are as of 2020. Figures for crude oil and natural gas are based on trade volumes, while those for nickel and wheat are based on trade values.

Chart B1-2: Russia's Trade Partners



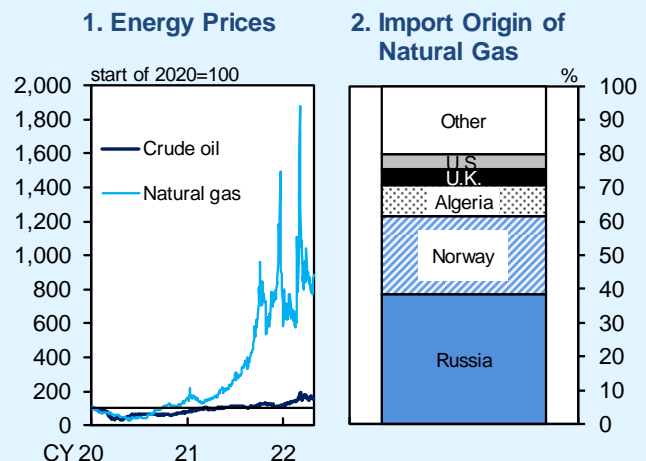
Source: Haver. Note: Figures are as of 2019. CIS refers to the "Commonwealth of Independent States" as defined by the Ministry of Foreign Affairs of Japan.

increase in commodity prices is expected to accelerate inflation globally and push down overseas economies by curbing households' consumption and production, particularly in the euro area, due to its high dependence on natural gas from Russia, and in emerging economies that depend on imports of commodities and grains.

In terms of trade and logistics, there have been prolonged supply-side constraints caused partly by supply-chain disruptions amid the resumption of economic activity from the pandemic. In this situation, some regions have been affected by the reduction in Russia-related trade as well as delays and disruptions in logistics in neighboring regions; however, there has been no rapid spread of this impact on a global basis so far (Chart B1-4). Nevertheless, the impact is likely to particularly hit the euro area, which has strong geographic and economic relations with Russia and neighboring regions, and there is a risk that global supply-side constraints will intensify through supply chains.

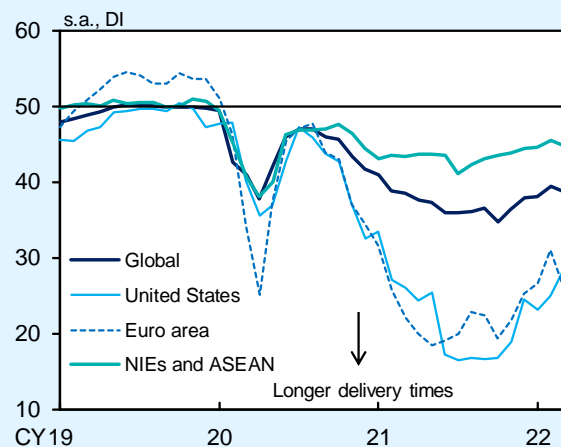
Consumer sentiment in the euro area has deteriorated substantially, mainly as a result of concerns that energy prices will remain high reflecting its strong economic relations with Russia, while no major changes have been seen in sentiment in the United States and emerging economies (Chart B1-5). Moreover, business sentiment in the manufacturing industry has generally continued to improve both in advanced and emerging economies; for example, sentiment for resource-exporting Latin American countries has risen (Chart B1-6). This suggests that the impact of the worsening situation surrounding Ukraine on business sentiment and production

Chart B1-3: Developments in Energy in the Euro Area



Sources: Bloomberg; Eurostat.
Notes: 1. Figures for crude oil and natural gas are those for Brent and Dutch TTF futures contracts, respectively.
2. Figures for natural gas imports by origin are as of 2020 and show each country's share in the total volume of euro area natural gas imports from outside the euro area.

Chart B1-4: Suppliers' Delivery Times PMI

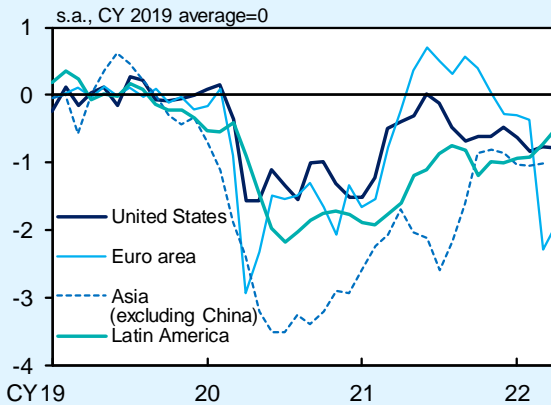


Sources: Copyright © 2022 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.; Haver; IMF.
Notes: 1. The suppliers' delivery times PMI is the suppliers' delivery times index in the Manufacturing PMI. Global figures are the J.P.Morgan Global Manufacturing PMI.
2. Figures for the NIEs and ASEAN are the weighted averages of the PMIs for seven major economies using their shares in global GDP obtained from the IMF as weights.

activity has remained limited so far. Nevertheless, it should be noted that a surge in inflation may have a negative impact on households' appetite for spending, and instability in global financial and capital markets, for example, may lead to deterioration in business sentiment and a decline in business fixed investment.

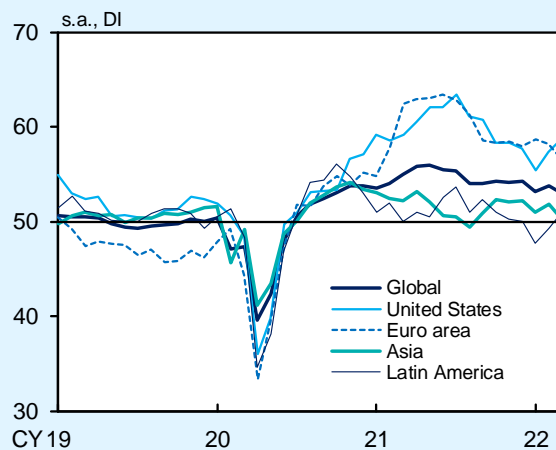
Regarding the outlook, despite downward pressure from the situation surrounding Ukraine, overseas economies are likely to continue recovering on the whole as the impact of COVID-19 wanes gradually. However, the pace of recovery is highly likely to be uneven across economies, mainly against the backdrop of a rise in commodity and grain prices and the impact on trade. In addition, there are extremely high uncertainties over the situation surrounding Ukraine, and for the time being, risks to economic activity are skewed to the downside and upside risks to prices warrant attention.

Chart B1-5: Consumer Confidence



Sources: Haver; CEIC; IMF.
 Notes: 1. Figures for the United States are from the Conference Board. Those for the euro area are from the European Commission. Figures for Asia (excluding China) are the weighted averages of figures released by the authorities of four major NIEs and ASEAN economies and the figures released by Ipsos for India, and figures for Latin America are the weighted averages of figures for three major Latin American economies released by Ipsos, using economies' shares in global GDP obtained from the IMF as weights.
 2. Based on staff calculations. Figures for the United States and the euro area are normalized by the standard deviation between 2000 and 2019. Figures for the other economies are normalized by the standard deviation going back as far as possible in the period from 2000 onward.

Chart B1-6: Manufacturing PMI



Sources: Copyright © 2022 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.; Haver; IMF.
 Notes: 1. Global figures are the J.P.Morgan Global Manufacturing PMI.
 2. Figures for Asia are the weighted averages of the PMIs for 11 major economies, and those for Latin America are the weighted averages of the PMIs for three major economies, using economies' shares in global GDP obtained from the IMF as weights.