Dear Friends,

As we moved to March, the global financial system has been struck by the failure of several US banks – the Silicon Valley Bank, Silvergate and Signature Banks – and the emergency acquisition of Credit Suisse in Europe weeks later, spurring fears of another financial crisis emanating from the banking sector and renewing fears of global recession. In response, regulators stepped in and global central banks – the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank – came together to enhance the provision of US Dollar liquidity swap lines. But these events did not prevent major central banks in Europe and across the Atlantic from continued monetary tightening. This issue's topical box breaks down what it all means for the financial system, the Visegrad region and for you.

On a different note, The Council of Slovak Exporters' has been busy the past month seizing opportunity and exploring partnerships with the Middle East and wider Arab speaking world. The emphasis and focus have been attributed to several factors, not least the opportunities in the GCC and beyond for Slovak trade to grow, and forging crucial links to create prospects has long been earmarked, more of which can be seen in both our Country in Focus and Events sections.

Enjoy another issue of March-April 2023 Export Insight, where we have distilled the most topical and relevant information worth noting for the future.

THE SILICON VALLEY & COM - ON THE BRINK OF ANOTHER CRISIS?

Silicon Valley Bank (SVB) failed after a bank run, making it the second-largest bank failure in US history and the largest since the great financial crisis.

Credit Suisse, a systemic 167-year-old Swiss bank, was particularly rattled by the collapse in confidence. The bank saw revenue from trading stocks and bonds slump by 88% annually in the final quarter of 2022, while clients withdrew $120 billion worth of deposits and took their business elsewhere. To lift itself out of trouble, it was acquired by UBS in a deal orchestrated by the central bank to prevent ructions from spreading throughout the continent. But on March 24th the stock prices of other European banks, especially Deutsche Bank, took a hit, and the episode raises some important questions, notably, whether we are on a brink of another financial crisis, or whether the crunch is nearing an end.

These events follow from a reversal of low rates to tame rampant inflation in 2022

but also lax regulation, especially in the United States where mid-sized banks are not required to account for long-term government securities held to maturity. The most aggressive monetary policy tightening cycle in the past 40 years led to asset repricing, especially with regards to long-term government securities held by these banks to maturity, which US under loosened capital rules. As a result, some US mid-sized banks incurred unrealized losses on their bond holdings and failed to raise capital to offset them, which became real as the word spread and customers rushed to withdraw their deposits. Credit Suisse has been additionally ridden by longstanding scandals and problems, making it easier to corrode its clients' confidence in a panic event. These failures show that banks with unrealized losses will be at greater risk of failure during a crisis than one without such losses, and underscores the importance of regulation, capital requirements, and stress-testing beyond systemic institutions, especially in the event of sizeable interest rate change.

The regional dynamics is another issue at stake.

The failures originate in the US and in large part, loosened Dodd-Frank regulation can be blamed but via contagion some of Europe's large institutions have grown increasingly nervous. We are assured – for example, by the European Systemic Risk Board and ECB President Lagarde – that Europe's banks' liquidity ratios, which look at the amount of free cash a bank holds to repay short-term debt, are hearty and the system is capitalised a pond.

We owe this to the meaningful progress that has been made post-2008 in terms of banking sector oversight and regulation.

Another important question the episode raises is whether central banks can continue raising interest rates.

As the ECB, the Federal Reserve and the Bank of England did after these events. On the one hand, central bankers' key job is to tame inflation and for that they have tightened monetary policy, but the risks from the financial sector volatility cannot go ignored either, with risks emanating from tightening of financing conditions not triggered by monetary policy.

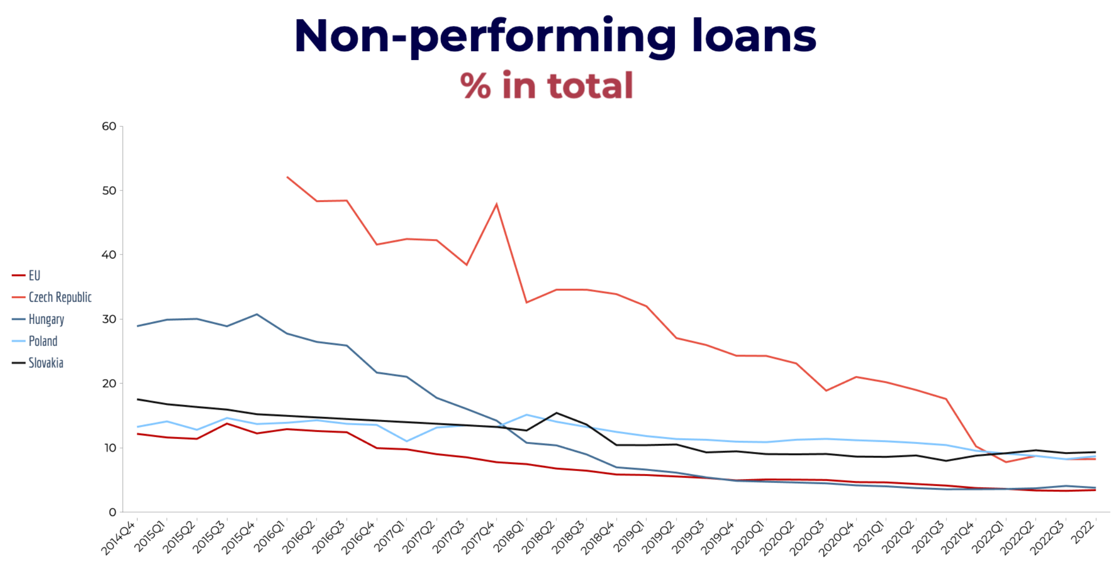
V4 banks are among the more stable and durable,

with increased profitability and bettered quality of loans, with the share of non-performing loans a declining trend since 2014 (Fig.1).

The outlook for the banking market is now constructively cautious.

Challenges could arise around liquidity, credit risk, and country specific issues – some of which resemble the climate experienced in the 2011-12 period in the region – but a systemic liquidity crisis remains unlikely.

Fig 1. V4 non-performing loans vis-à-vis EU average: in 2022 and over time



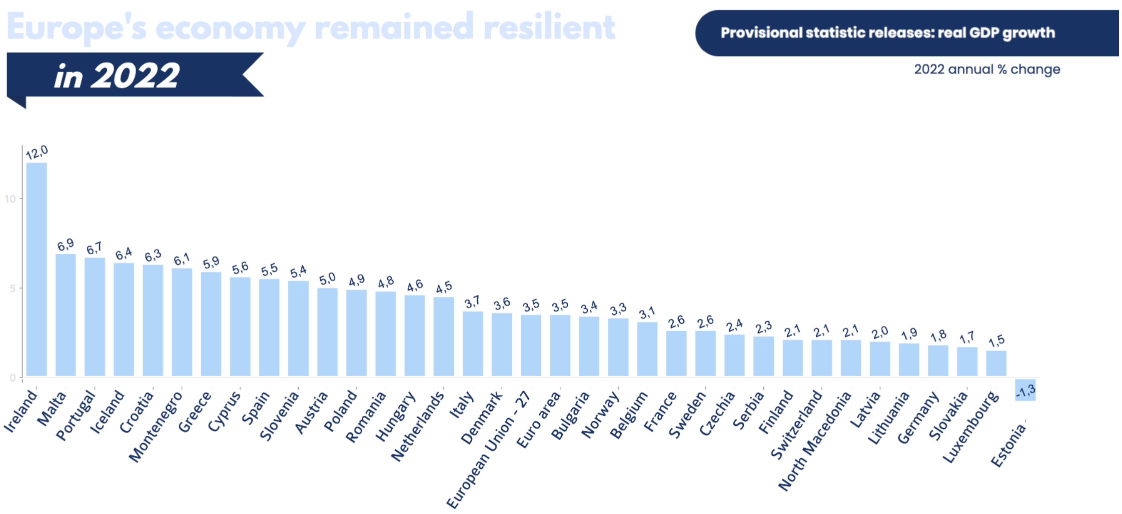
Source: The European Central Bank.

INTERNATIONAL SPOTLIGHT

EU 2022 annual real GDP growth figures are out.

Europe warded off recession, despite risks and challenges stacked on the downside, weathering the energy crunch, high inflation, cost of living squeeze, high costs for firms, and elevated uncertainty, better than expected.

Fig 2. Europe's economy remained resilient in 2022



Source: Eurostat.

Despite robust economic performance, expectations fell sharply in Germany,

V4's most important business partner. The ZEW Indicator of Economic Sentiment for Germany recorded a sharp decline in the current March 2023 survey falling to 15.1 points below the previous month's value. However, the expectations are still in positive territory. (ZEW)

Bulgaria has joined Germany, Italy and Poland in opposing the EU proposal for a ban on petrol and diesel cars from 2035,

citing poverty, setting the relatively high price of electric vehicles against the background of the extremely low incomes in some parts of eastern EU. Delegates also cited the low infrastructure capacity to accommodate electric cars and the current situation of economic and energy crisis, supply issues, as well as the impact of the war in Ukraine as aggravating factors. This backlash is on the background of urgent pleas on world leaders to come together and commit to start phasing out fossil fuels immediately. (Euractiv)

Chinese President Xi Jinping's visited Moscow at the end of March,

in his first trip abroad since his reelection, underscoring the personal, economic, military, and diplomatic relationship between China and Russia, albeit cautious and likely transactional about declaring the alliance amid western backlash against Moscow. Chinese trade with the EU amounts to USD1.5 trillion annually, while with Russia it is just one-fifteenth of that. (Foreign Policy)

The Middle East harbors some of the most increasingly vibrant innovative sectors globally,

for example, Abu Dhabi's Hub71 witnessed 102 per cent growth in 2022, with more than 200 startups joining the global tech ecosystem, including early-stage companies relocating to the UAE's capital to scale their businesses rapidly. These startups have collectively raised nearly $1.2bn in venture capital and created over 900 jobs (Gulf Business)

March is international women's history month and harbors International Women's Day (March 8), as a global day celebrating the social, economic, cultural, and political achievements of women.

Women's economic empowerment is not just central to realizing women's rights and gender equality but has rampant economic benefits. For example, increasing the female employment rates in OECD countries to match that of Sweden, could boost GDP by over USD 6 trillion; conversely, gender gaps cost the economy some 15 percent of GDP (United Nations)

V4 REGION

SLOVAKIA

WHAT'S UP

Real average wage (adjusted for inflation) in 2022 plunged by the most in the past 22 years, based on a March data release. While the sheer scale of an employee/consumer picking up the inflation toll may be shocking to some, the central bank would have a more sizeable inflation issue on its hands if the nominal wage kept pace with prices.

WHAT'S NEXT

On the upside, the labor market release also shows that the Slovak economy adding new jobs, despite longstanding high inflation and the energy crunch. Nevertheless, technical recession is likely in the next two quarters.

CZECHIA

WHAT'S UP

Czech inflation has been erratic lately but appears on a downward path from the record 18% figure in September. Inflation is beginning to decline considerably after accelerating temporarily in January, the Czech National Bank (CNB) said on March 10. Statistics released that day showed inflation decelerating in February to 16.7% year-on-year from 17.5% in January.

WHAT'S NEXT

The CNB keeps its policy interest rates unchanged, betting on a strong koruna instead. Economic developments at the close of 2022 surprised on the upside and indicated the Czech economy's increased resilience to adverse events. Swift inflation is expected to continue into 2023, continuing to restrict household demand in the first half of the year and fall thereafter, accompanied by a pickup in growth.

HUNGARY

WHAT'S UP

The rise in year-on-year inflation stopped in February, according to the Hungarian National Bank (MNB) March inflation analysis. Consumer prices rose by 25.4%, compared with 25.7% in January and the deceleration was largely due to lower fuel and processed food prices. The tight monetary policy clashed with the

WHAT'S NEXT

The Monetary Council noted that anchoring inflation expectations required holding the base rate at 13% for longer. Much will depend on risk perceptions, and core inflation is proving persistent. The annual underlying measure of inflationary pressures hovered at 25.2%.

government's expansionary fiscal policy and price caps had added 3-4 pp to inflation, according to MNB Governor Matolcsy.

POLAND

WHAT'S UP

Poland's National Bank (NBP) cut its 2023 inflation forecast by 1.2 percentage points to 11.9% in its March Inflation Report, on the back of lower global natural gas and coal prices.

WHAT'S NEXT

The NBP will endure inflation remaining high for some time, because it is reluctant to reduce brittle growth prospects. The trajectory of Russia's war in Ukraine remains the key wildcard, although core inflation is likely to remain elevated as firms pass on high input costs and workers press for higher pay.

COUNTRY IN FOCUS
THE KINGDOM OF SAUDI ARABIA

The Council *of* Slovak Exporters has been actively exploring cooperation and partnerships with the Kingdom of Saudi Arabia and participated in a first of its kind high-level business meeting in Vienna, this past month.

Saudi Arabia has an oil-based economy, possessing about 16% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 87% of budget revenues, 42% of GDP, and 90% of export earnings. In its Vision 2030, Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy – including towards power generation, telecommunications, natural gas exploration, and petrochemical sectors – and approximately 6 million foreign workers play an important role in the Saudi economy.

All things business, investment, trade, innovation, and Vision 2030 have been discussed during working breakfast on the 11th March in Vienna, the Council spearheaded by its Chairman Lukáš Parízek and Deputy Chairman, Zulf Hyatt-Khan, and the Saudi delegation led by H.E. Khalid A. Al-Falih, Minister of Investment of Saudi Arabia and former Saudi Aramco CEO and Chairman of the Board, who stopped in Vienna during his tour around Europe (Germany, France, Austria, Cyprus). By the way, Saudi Aramco declared record profit of 161 billion dollars in 2022.

The two-hour meeting was very positive and friendly, presenting the Saudi National

Investment Strategy as well as individual aspirations and ambitions of Slovak exporters in the Saudi market. Four promising areas of economic cooperation were specifically identified as areas for further exploration: automotive, defense, agriculture and IT. At the Council, our prime aim is to open doors for Slovak exporters, including in new regions and markets. Our priorities for future cooperation lie in increasing trade and investment, energy cooperation, supporting Vision 2030 transformation and economic diversification, joining forces in making the green transition happen and promote economic prosperity, peace, and security. The opening of the new Slovak Embassy in Riyadh, followed by government led business mission in May, should provide relevant follow-up and new impetus in the bilateral cooperation.

Events of Note
March-April 2023

11/03/23

Saudi Minister of Investments

The Council *of* Slovak Exporters formed part of an exclusive gathering with the Saudi Ministry of Investment and a few of its members - video

16/03/23

Sultanate of Oman Embassy

The Council *of* Slovak Exporters met also with Embassy of the Sultanate of Oman in Vienna

22-23/03/23

WOF Expo

The Council *of* Slovak Exporters were at WOF Expo in Vienna on the 22nd and 23rd of March with Deputy Chairman Zulf Hyatt-Khan speaking on a panel focused on “How to Prepare for the New Supply Chain Act” More details can be seen here

29-30/03/23

Clusters meet Regions

The Council *of* Slovak Exporters participated at The “Clusters meet Regions” workshop on EU-Ukraine Business Partnership on the 29 & 30 March 2023, in Kosice More details can be seen here

13-15/04/23

Workshop on the EU Strategic Priorities

The Council *of* Slovak Exporters has been invited to participate at the “Workshop on the EU Strategic Priorities” in Budapest 13-15th of April

For **more information** on these or any other events please email us at
info@exporteri.sk

Realizované s finančnou podporou

Nadácie Ministerstva hospodárstva SR na rok 2023