EXPORT INSIGHT

JUNE - JULY

Your Guide to Last Month's Key Events, Shaping and Shaking the Local and Global Economy and Business, with a Forward-Looking Punch

Dear Members and Friends,

The summer's here! Welcome in the June-July issue of the Export Insight, in which we zoom onto the mid-year economic prospects for the region of Central and Eastern Europe. Long story short, the region should return to positive growth in the remainder of the year, but it will be sluggish, held back by still high inflation and weak external environment. News of eurozone and Germany falling into a technical recession dominate the International Spotlight. The good news on the trade front – in the grand scheme of things – constitute the U.S.-China rapprochement underway. The bilateral relation is crucial for the health of the global economy, and the conversation can be had now that the U.S. averted default on the federal government's debt by a narrow margin. Finally, this month we bring you an economic digest of a dynamic and pro-reform Central Asian powerhouse, Uzbekistan, which anticipates election in the coming days. Stay tuned and on behalf of The Council of Slovak Exporters' we wish you a wonderful summer!

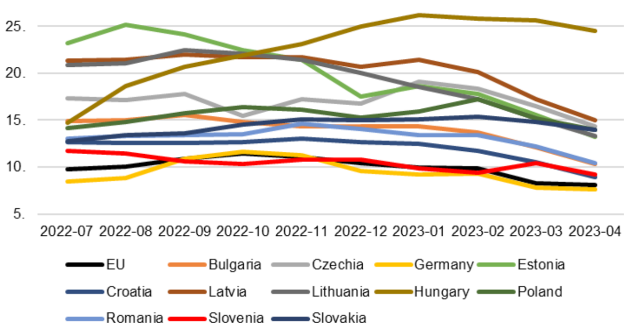
Foreword by the Chairman

Lukáš Parízek

The region of Central and Eastern Europe (CEE) may return to soft growth in the second half the year as headwinds ease and disinflation continues. Despite the slightly upbeat outlook, growth will be stagnant. Inflation still wavers in double-digits, with weakness emanating from the external environment. The onset of recession in Germany may pose a particular drag on growth via the external channel on a region tightly knit in automotive supply chains. Local CEE central banks will be among the first in the western hemisphere to embark on monetary policy easing path later this year. Both, Poland and Slovakia will hold general election in the autumn, while Hungary and Poland will continue bargaining with the EU over the rule-of-law issue and the release of EU funds. Politics more broadly may continue to be tainted by the tension between foreign security interests and domestic policies. The latter has been well illustrated by the late bans by many CEE countries on Ukrainian tariff-free grain imports.

Economic weakness has carried over from last year's end to the first three months of 2023 but may pick up in the second half of the year, as headwinds ease. The harmonized index of consumer prices (HICP) inflation rate in CEE has hovered in the double digits this year, and well above the EU average, eating into household incomes (Fig.1).

Fig.1 Real GDP growth, annual % change



Real GDP growth, annual % change	2022	2023	2024
EU	3.5	1	1.7
EA	3.5	1.1	1.6
Bulgaria	3.4	1.5	2.4
Croatia	6.2	1.6	2.3
Czechia	2.5	0.2	2.6
Estonia	-1.3	-0.4	3.1
Hungary	4.6	0.5	2.8
Latvia	2.8	1.4	2.8
Lithuania	1.9	0.5	2.7
Poland	5.1	0.7	2.7
Romania	4.7	3.2	3.5
Slovakia	1.7	1.7	2.1
Slovenia	5.4	1.2	2.2

Sources: Eurostat, European Commission.

Nevertheless, it has peaked in most CEE countries and the disinflation process is taking place. The regional central banks were among the first to halt their interest rate hiking cycles. Hungary has pivoted into easing, even as its inflation remains the highest in the region, and easing is expected in Czechia (mid-year), followed by Poland (in Q3-2023) and some of the other regional central banks at the year end's. Meanwhile, Euro members – Slovakia, the Baltic states, and Croatia – are subjected to the European Central Bank (ECB) monetary policy cycle. The ECB Governing Council decided to raise the three key ECB interest rates by 25 basis points in June. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility have been increased to 4.00%, 4.25% and 3.50%, respectively. Even so, the inflation rates will remain above the central bank target in the next two years and will act as a drag on growth.

The Czech economy fell into recession in the second half of 2022, but growth turned slightly positive in Q1, while a period of stagnation – or barely positive growth at best – is expected in 2023, due to falling household consumption and weak external demand undermining the country's large industrial base. After a strong post-pandemic economic recovery in 2021-2022, Hungary remains in a recession in the last three quarters, as still-high interest rates and persistently high inflation take their toll on domestic demand. Budapest remains embroiled in a rule-of-law conflict with the EU, with some progress achieved but large sums of much-needed funds still locked. The Polish economy slowed down markedly in Q4-2022 but corrected course in the first three months of this year. Nevertheless, lingering high inflation and sharp slowdowns in Poland's main EU export markets will drag on growth in 2023, which will be lackluster. The economy can be aided by high pre-election spending, but recovery fund disbursement is unlikely before elections in the Fall. Slovakia has escaped recession despite its heavy dependence on Russian fossil fuels, substantial energy-intensive industrial base, and political instability, with real GDP growth in marginally positive territory. But the recession in Germany, with which Slovakia harbors intensive supply chain links in the automotive sector, may drag growth down through the trade channel.

The region is bracing for parliamentary elections in Poland and Slovakia in the autumn. In Poland, it will be a will be a tightly fought contest between the current Law and Justice (PiS) party and the opposition Civic Platform (PO), but the result is not expected to derail Poland's leadership against Russia. Slovakia is now ruled by a technocratic government until the early September election.

INTERNATIONAL SPOTLIGHT

In an effort to increase declining oil prices, Saudi Arabia will significantly reduce its production in July, in addition to the broader OPEC+ agreement to restrict supply until 2024.

The energy ministry of Saudi Arabia announced that the country's output will decrease to 9 million barrels per day (bpd) in July, compared to approximately 10 million bpd in May, marking the most substantial reduction in years. OPEC+, composed of the Organization of the Petroleum Exporting Countries and its allied nations led by Russia, accounts for roughly 40% of the world's crude oil production. Consequently, the group's policy decisions can greatly influence oil prices. (Reuters)

The Eurozone has been confirmed as entering a 'technical recession' after the region shrank by 0.1% in Q1 2023, marking two consecutive quarters of contracting GDP.

The slowdown comes after higher energy prices contributed to curbing demand in Europe's largest economy and surging inflation. Previous estimates suggested the single-currency bloc had narrowly avoided recession with zero growth in both quarters. (Eurostat)

Europe’s economic powerhouse Germany slid into a recession when it posted -0.5% and -0.3% on-quarter in the last three months of 2022 and the first quarter of 2023,

respectively. It largely surrendered to inflation, which has been eating into consumer purchasing power, but domestic demand is dampened more broadly, as the ECB continues monetary policy tightening. Further weakness may come from Germany’s trading partners, as U.S. may slow down and exports of German cars to China already fell 24% in the first quarter. Looking forward, several high-frequency indicators (e.g., IFO business climate) point to the decline in manufacturing, on the other hand, but investment in equipment and machinery was healthy in in the first quarter and resolving the bottlenecks in supply chains may help with fulfilling the backlog of manufacturing orders in the future. (Bloomberg)

On the other side of the Atlantic, and with just a mere two days remaining, President Joe Biden has signed legislation that eliminates the nation's debt ceiling,

preventing a catastrophic default on the federal government's debt. The Department of the Treasury had cautioned that the country would soon face a shortage of funds to cover all its obligations, a situation that would have sent shockwaves through the economies of both the United States and the world. Republicans had insisted on raising the country's borrowing threshold only if Democrats consented to reduce expenditures. By raising the nation's debt limit, currently set at $31.4 trillion, the government ensures its ability to borrow and settle existing debts. (Al Jazeera)

US Secretary of State Antony Blinken's first visit to China comes after a significant rupture in relations caused by a Chinese spy balloon, nearly five months ago.

Originally, his trip was abruptly canceled when the balloon, claimed by China to be monitoring weather, drifted across the continental US and was destroyed by American military aircraft. During his visit, Mr. Blinken will have meetings with China's top foreign policy officials, re-opening diplomatic channels and moving forward on the global priorities, easing trade tensions, and potential conflict over the Taiwan strait. (BBC)

V4 REGION

SLOVAKIA

WHAT'S UP

The end of last year witnessed a significant decline in the balance of foreign trade for non-energy goods. Slovak exporters appear to be disproportionately affected by high inflation compared to their counterparts in the euro area. As per the European Commission, the current account deficit, which represents the disparity between income and expenditures from international trade, including labor or capital income from abroad, has more than doubled since pre-pandemic times, reaching approximately eight percent of the gross domestic product.

WHAT'S NEXT

While the increase in the price of imported energy commodities may initially seem to be the primary cause for the deterioration of the foreign trade balance, a closer examination of the data reveals a substantial slowdown in Slovakia's key economic driver—exports. Moreover, the combination of mounting inflation and rising labor costs could further impede export growth in the future.

CZECHIA

WHAT'S UP

WHAT'S NEXT

Czechia has received an unusual impulse from Ukrainian migrants, when the number of its inhabitants rose by 23.000 in the past three months to a new record 10.85 million inhabitants, according to the Czech Statistical Office.

The arrival of a new workforce is good news for the Czech economy, as new worker influx will fill in jobs and relieve longstanding tightness in the labor markets. Slovakia, on the other hand, lags behind its western neighbor in attracting foreigners not only from Ukraine.

HUNGARY

WHAT'S UP

The annual inflation rate in Hungary slowed to 21.5% in May 2023 from 24% in the previous month, marking the lowest reading since October 2022, due to the further slowdown in most sub-indexes primarily, food & non-alcoholic beverages (34% vs 39% in April), transport (14.4% vs 19.4%) and housing & utilities (24.1% vs 26.4%).

WHAT'S NEXT

The Hungarian Central Bank kept the base rate on hold. The policy rate remained at 13%, the deposit rate at 12.5%, while the lending rate has been decreased by 100 bps and thus it stands at 18.5%. Negative Outlook, the latter on the back of concerns related to EU funds.

POLAND

WHAT'S UP

Intel Corp. has followed up plans for a $4.6 billion semiconductor assembly and test facility in Poland, with the go-ahead for a chip facility in eastern Germany, for which it will get €10 billion ($10.9 billion) in subsidies from that government.

WHAT'S NEXT

Investment of up to $4.6 billion will create approximately 2,000 Intel jobs and thousands of indirect supplier and temporary construction jobs. The step constitutes a tangible example of a multinational trying to smooth its access to global supply chains by cutting its dependence on Asian chip manufacturing.

COUNTRY IN FOCUS UZBEKISTAN

Uzbekistan's economy has experienced significant transformations in recent years, positioning itself among the fastest-growing economies in Central Asia.

The country's economic growth is driven by strategic reforms, diversification efforts, and a favorable investment climate, buttressed by an abundance of natural resources, including natural gas, oil, gold, copper, and uranium, playing a crucial role in driving industrial development and attracting foreign investment. The government has taken steps to enhance the extraction and production of these resources, contributing to the growth of the mining and energy sectors.

The government has, additionally, implemented reforms to promote private sector development, reduce state control, and encourage entrepreneurship.

This has resulted in the emergence of new industries and increased competition, fostering innovation. The agriculture sector also plays a vital role in Uzbekistan's economy, with the country being one of the largest cotton producers globally. Uzbekistan has additionally made significant progress in expanding its international presence, with its main exports featuring energy products, textiles, agricultural products, machinery, and chemicals. Uzbekistan has actively sought to diversify its export destinations, reducing its dependence on traditional markets and targeting emerging economies. Key trading partners include China, Russia, Kazakhstan, Turkey, and the EU. To facilitate trade, the country has invested in the development of road and rail networks, which has enhanced connectivity within the region and increased trade opportunities. Furthermore, the government has focused on creating special economic zones and industrial clusters to attract FDI and promote export-oriented industries, while actively pursuing an open trade policy. The country is a member of the Commonwealth of Independent States Free Trade Area, Eurasian Economic Union, and has signed a preferential trade agreement with the World Trade Organization, granting the country access to larger markets.

The economies of the Central Asian countries have also shown their resilience to the geopolitical event related to Russia's war against Ukraine.

Most of the region's economies have fortified trade relations with Russia by supplying their products, acting as liaisons in the gap created by the withdrawal of international firms from the Russian market. The volume of remittances from abroad to Central Asia increased substantially, which served to increase bank deposits and profits. The migration of Russian firms and individuals also improved demand in retail, real estate and hotel systems, according to a late EBRD report.

In 2022, the economy of Uzbekistan recorded an annual real GDP growth of 5.7%.

This was greatly influenced by the significant improvement of external and internal demand, including the doubling of remittances. Looking forward, the Uzbek economy is expected to grow by over 6.0% in 2023 and 2024. This is due to the influx of foreign investments, companies and individuals, privatization and reforms aimed at improving the business environment. Despite relative diversification, economic growth may be hampered by further escalation of Russia's war against Ukraine and wearing off of the remittance surge. Uncertainty also remains regarding global trends in interest rates, inflation, and commodity prices. Locally, Uzbekistan President Shavkat Mirziyoyev has called a snap presidential election on July 9 to give himself a new mandate to help deal with the 'sharp and complex processes' going on in the world.

Events of Note
June-July 2023

29/05/23

Globsec

Council *of* Slovak Exporters were actively involved at Globsec - Day 1 & Day 2

09/06/23

Export club

Council *of* Slovak Exporters participated in the Export Club with a focus on Georgia, put together by Eximbanka SR - Read more

11/06/23

Vienna Ball

Council *of* Slovak Exporters attended several Ambassadorial Engagements, with Deputy Chairman, Zulf Hyatt-Khan enjoying his time at the Vienna Ball - Read more

14/06/23

Development of Slovakia through foreign trade

The Council *of* Slovak Exporters hosted an exclusive political debate on the future of Slovak trade with key parliamentary and political figures - Read more

22/06/23

TA3 conference

Council *of* Slovak were an integral participant at the TA3 Conference entitled 'Podnikanie a priemysel" -Read more

26/06/23

Spanish Ambassador

Council *of* Slovak Exporters welcomed the Spanish Ambassador to Slovakia for a brandnew edition of ExportAIR International - Listen here

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