EXPORT INSIGHT

AUGUST-SEPTEMBER

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

Greetings to our Esteemed Members and Partners,

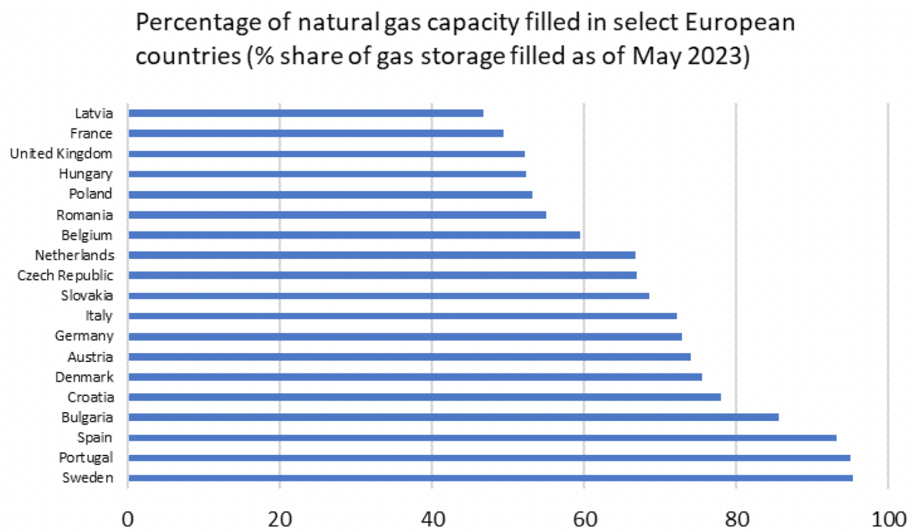
As the summer season unfolds, with autumn quickly creeping up on us, we are pleased to present the August-September edition of Export Insight, where we turn towards an update on the Visegrad's region energy transition. In short, a year ago, Europe faced the frenzy of natural gas stockpiling, yet today, we stand witness to a remarkable transformation. On the other side of the Atlantic, the Fed is treading cautiously amidst a tightening job market, seeking to balance the need for sustained employment growth with concerns over wage dynamics and inflation control. These narratives intertwine closely with the broader trade and debt dynamics, and the pulse of global affairs. France continues to warming to China, envisaging it as playing an important role in the 'reindustrialization' of France. Investment, trade, and exports have also been all the rage in Czechia, which has published its new Export Strategy for the next decade, strengthen the export ambitions of Czech companies, improving their position in supply chains and diversifying their exports. As the world evolves, we remain committed to providing insightful analysis and updates: on behalf of The Council of Slovak Exporters' we wish you a pleasant read!

Foreword by the Chairman

Lukáš Parízek

CENTRAL EUROPE IS MORE ENERGY-SECURE THAN PRE-WAR BUT CHALLENGES PERSIST

Europe has come a long way from panicked natural gas stockpiling a year ago. As of May 9, Europe's gas storage was full to 62%, and at the current pace of refilling, storage is expected to hit its capacity of about 1,138 terawatt-hours (TWh) by late August, according to estimates by Morgan Stanley, meeting the EU recommended threshold of 80% to prepare for the winter season.



Sources: Eurostat, Statista.

All four V4 countries have made some progress towards securing alternatives for energy commodities and identifying alternative energy routes and infrastructures necessary to unleash a new, more resilient energy mix. Poland has derived advantage from its access to sea and enjoyed the earliest jumpstart, with building own gas infrastructure pre-invasion, starting as early as in 2015 with its first LNG terminal in Swinoujscie, which receives shipments from Qatar and the US, under long-term contracts, as well as a series of auxiliary deliveries secured via the spot market. According to PKN Orlen, LNG's share in total gas imports increased from 24% in 2021 to 43% in 2022, while Russian gas share decreased from 61% to 20%. The country is also in the process of building Baltic Pipeline which will to carry gas from Norway to Poland, and the Polish government is planning to build a Floating Storage Regasification Unit by 2026.

Czechia managed to reduce its dependence on Russian gas drastically, from 97% to just 4% since last summer, and the country did not import any natural gas from Russia in the first quarter of 2023, pivoting towards Norway, and LNG by sea via Belgium and the Netherlands through Germany. Despite having started diversification talks with Lithuania as well as Italian and German companies, and signing a memorandum of understanding with Poland for more gas supplies via its new interconnector, the neighboring Slovakia still imported about 60% of its gas supplies from Russia. The landlocked Hungary's diversification progress remains limited, with the country importing over 80% of its gas supplies from Russia, owing in part to its leaders continuing to foster close ties with the Kremlin.

Hungary, Czechia, and Slovakia, which got a temporary exemption from last year's EU embargo on Russian oil imports, are still heavily reliant on Moscow for crude oil. In Hungary and Slovakia, the southern Adria pipeline can be used via Croatia as an alternative delivery route but Hungarian and Slovak crude processing facilities – owned by Hungarian MOL – remain suited to process predominantly Moscow's Urals grade crude, with no meaningful updates from the refiner on investments required to process non-Russian oil varieties. This spells out supply security risks in the region, especially, if prolonged technical problems were to occur again in Ukraine, affecting the southern Družba pipeline infrastructure and/or electricity, necessary for a smooth delivery of oil supplies, on the one hand, and limited processing capacities for non-Russian oil varieties, on the other.

Moreover, the V4 remains exposed to dependency on Russian nuclear fuel. The running VVER legacy reactors, many of which were first online in the eighties, still rely on Rosatom for nuclear fuel, with the matter being complicated by strict standards and safety demands, and capital-intensive investments into technology to be able to use alternative nuclear fuel supplies. Czechia harbors 6 such Soviet-era reactors, Slovakia 4, followed by 1 in Hungary.

Despite pervasive energy sanctions against the Kremlin, both, Slovakia, and Hungary have resorted to an exceptional permission to fly in fresh nuclear fuel from Russia. But some diversification progress has been achieved, nevertheless. The Czech ČEZ has resorted to US supplier Westinghouse for its Dukovany plant, while the Slovak Slovenské Elektrárne signed a memorandum of understanding with France's Framatome. Further down the line, the V4 region may be put under pressure from the EU to participate in Union-wide sanctions in the nuclear sector, against the backdrop of Ukrainian President Zelenskyy's calls to sanction Rosatom leaders and Russian dangerous occupation of the Zaporizhzhia nuclear plant.

INTERNATIONAL SPOTLIGHT

Recent data releases from the US and China indicate a notable deceleration in global trade.

The latest Chinese trade statistics for July fell below expectations, and revised figures for the first quarter also hint at a less robust first quarter GDP. The trade slowdown, with the exception of automobiles and mobile phones, can be attributed to three prominent factors. Firstly, the softer economic landing is at play, causing a moderation in demand volumes and contributing to the potential for disinflationary pressures. Secondly, a discernible shift is occurring from expenditure on tangible goods towards a greater emphasis on services. Notably, the demand surge witnessed during 2021–22 has, to a certain extent, encroached upon the future years' demand trajectory. Lastly, a prevailing trend towards deglobalization, coupled with political trade barriers and the localization of production, has induced shifts in established trade patterns. A noteworthy development is Mexico's ascent over China as the US principal trading partner in the current year. (World Bank)

France has intensified diplomatic and corporate engagement with China in recent months.

President Emmanuel Macron wants to maintain dialogue with President Xi Jinping as well as boost trade relations between the two countries. Paris sees potential for French manufacturers to enhance their market share in China, while it also envisages China playing an important role in the ‘reindustrialization’ of France. However, France’s green subsidies will weaken demand for Chinese-made cars in France. (Politico)

After the US debt ceiling drama in previous months, risking the nation’s first default but also January 6 insurrection, **the rating agency Fitch downgraded the US debt from the highest AAA rating to AA+, citing “a steady deterioration in standards of governance.”**

This has happened before in 2011, except for back then S&P. US debt has long been considered the safest of safe havens, but the rating cut suggests it has lost some of its luster. The downgrade has potential reverberations on everything from the mortgage rates Americans pay on their homes to contracts carried out all across the world. (CNN)

The US job market's tight conditions will lead to a continued cautious stance on monetary policy.

Although the US labor market is experiencing a gradual slowdown, the Federal Reserve remains concerned about wage growth. Despite initial concerns about a potential recession, the US economy is consistently generating new jobs, and employers are facing challenges in both attracting and retaining workers. The pace of wage growth is experiencing intermittent deceleration, adding complexity to the Federal Reserve's efforts to guide the economy to a smooth and controlled slowdown of inflation. Businesses that had previously downsized in anticipation of an imminent recession are now scaling back on those cuts, considering the possibility of a managed economic slowdown. Notably, manufacturing and construction roles have seen a 7.1% increase during President Biden's tenure, benefiting from his strategic industrial policies and investments in infrastructure. (Reuters)

V4 REGION

SLOVAKIA

WHAT'S UP

Western Slovakia needs workers from abroad the most. This is connected to Slovaks' unwillingness to relocate for work, according to a recently published UniCredit Bank analysis. In the Bratislava, Nitra and Trnava regions, the number of vacancies exceed the number of unemployed, while in the Kosice region, this ratio is closer to one-to-one.

WHAT'S NEXT

The need for foreign workers to fill labor shortages will need to be addressed through a combination of government policies, corporate initiatives, and societal engagement. Governments should review existing Immigration Policies to attract skilled workers, issue flexible work permits, and training and integration programs. Companies can foster a welcoming environment for foreign workers by promoting diversity and inclusion, attractive employment packages, and collaboration with governments.

CZECHIA

WHAT'S UP

The Czech government is taking decisive steps to address the fiscal deficit by

WHAT'S NEXT

The government's commitment to fiscal consolidation remains steadfast as it advancing a comprehensive legislative package. The Czech parliament has passed a bill that entails a fundamental overhaul of the public pension indexation system. This legislative effort forms an integral part of the government's proposed package, which is anticipated to generate budget savings totaling CZK 151 billion (USD 6.94 billion) within the timeframe of 2024-25. Spearheaded by the center-right Petr Fiala cabinet, the package encompasses a series of measures, including heightened corporate, real estate, and income taxes, accompanied by reductions in state subsidies, wages, and overall government operational expenditures.

proceeds to introduce additional legislation aligned with the overarching fiscal plan. Beyond the implemented cuts, the focus will shift towards optimizing budgetary inflows. Anticipated improvements in Czechia's fiscal balance during the latter part of 2023 are contingent upon projected revenues from a windfall tax targeting energy companies, encompassing the state-owned entity CEZ, as well as banks. These measures collectively reflect the government's strategy for enhancing fiscal stability and economic resilience.

HUNGARY

WHAT'S UP

Hungary's economic outlook remains uncertain as it faces the possibility of remaining in a recession by the end of the year. The challenge of achieving growth is compounded by double-digit inflation, which has persisted. The statistics office reported seasonally and calendar adjusted GDP falling in the second quarter by 0.3% quarter-on-quarter, the fourth such contraction in a row and the longest since quarterly data began to be published in 1995. The central bank has maintained its policy interest rate at 13% since last September. Notably, inflation has shown a downward trajectory, decreasing to 17.6% year-on-year in July from its peak of 25.7% in January.

WHAT'S NEXT

The reduction in domestic consumption has contributed to a moderation in inflation; however, inflation levels remain notably elevated. Compounded by reduced tax revenues, Hungary's reliance on external demand, supported by a weakened forint, has become increasingly prominent. As the economy navigates these challenges, there may be difficulties in achieving positive growth in the year 2023.

POLAND

WHAT'S UP

A recent ruling by the EU court regarding mortgages denominated in Swiss francs will carry significant financial implications, although Polish banks currently remain stable. On June 15, the Court of Justice of the EU (CJEU) rendered a decision that bars Polish lenders from mandating borrowers to cover the capital cost associated with their mortgage loans denominated in Swiss francs. Local courts had pg. 5 deemed these loans "unfair." Banks had originally intended to distribute the cost of provisioning for Swiss franc mortgages, estimated to be at least USD 5 billion, between themselves and borrowers. These mortgages were prevalent prior to 2008 due to favorable interest rates, but subsequent adverse shifts in exchange rates placed borrowers at a disadvantage.

WHAT'S NEXT

The forthcoming period will see banks elevating their loss provisions, thereby exerting pressure on their financial positions. Nevertheless, the banking sector as a whole maintains robust. The years 2023 and 2024 are anticipated to witness sufficiently elevated interest rates, complemented by the favorable capital position, asset quality, and increased net profit and interest income of Polish banks. This collective strength will enable these institutions to absorb additional provisions and write-offs without violating their capital requirements.

COUNTRY IN FOCUS CZECH REPUBLIC

APPROVES FORWARD-LOOKING EXPORT STRATEGY FOR THE NEXT DECADE

In a significant move towards bolstering its economic resilience and global competitiveness, the Czech Republic's Ministry of Industry and Trade (MIT) has secured government approval for its comprehensive export strategy set to guide the nation's economic growth over the next ten years. The strategy outlines a multifaceted approach aimed at enhancing the country's export prowess, reinforcing its position within global supply chains, and diversifying its export portfolio.

Strategically Aligned Support for Exporters

The strategic shift is much called for – given the Czech Republic's economic openness, with exports accounting for over 70% of the nation's GDP – and amid the shifting geo-economic landscape. Sustaining this ratio demands robust support for exporters, with the quest for a more innovation-centric industry lying at its heart. The focus on the production of final solutions and maximizing domestic value-added as a part of the strategy may help fostering new global champions, particularly among small and medium-sized enterprises and startups. A comprehensive approach will be adopted, encompassing various stages of business development, from idea inception to securing funding.

Forging a Pro-export Ecosystem

Moreover, buttressing such novel pro-export ecosystem will be coordinated cooperation among state institutions to expand the impact of support measures and position Czech exporters for global success. Such institutions include CzechTrade and CzechInvest. The former operated across 64 countries via 52 offices, and will play a pivotal role in implementing the strategy, providing direct support to Czech enterprises abroad. The latter will play a key role in supporting domestic exporters, particularly in regional contexts. The synergy among various state institutions, including economic diplomats, will be harnessed to maximize the efficacy of business missions, participation in trade fairs, and coordination with other pro-export entities.

Prioritizing Industry Transformation and Diversification

The strategy represents a well-calibrated response to evolving global dynamics. It not only aspires to boost export figures but also envisions fostering a knowledge-based economy, enhancing competitiveness, and fortifying resistance against external disruptions. As part of this effort, the strategy emphasizes fostering innovative sectors such as digitization, artificial intelligence, and advanced materials. An emphasis on cooperation among companies, joint offerings, and interdisciplinary solutions will further enhance the position of Czech enterprises within global supply chains.

Conclusion and Implementation Outlook

The Czech Republic's forward-looking export strategy marks a pivotal step towards realizing an economy anchored in innovation, strategic diversification, and global competitiveness. With its comprehensive approach and focus on collaboration among state entities, the strategy is poised to galvanize the transformation of the Czech economy over the next decade. As implementation takes shape in partnership with ministerial and business stakeholders, the ongoing evaluation of its impact will ensure an agile and responsive course towards realizing the goals set forth.

Events of Note
August-September 2023

CSE Participations

03/07/23

Council *of* Slovak Exporters continue to onboard institutional partners and Deputy Chairman Zulf Hyatt-Khan was delighted to enter into an agreement with the Slovak arm of the US law firm Squire Paton Boggs - read more

07/07/23

After Chairman Lukas Parízek's visit to Uzbekistan, the relationship continued in Bratislava with a Ministerial meeting between key stakeholders - read more

10/08/23

Council *of* Slovak Exporters entered into a MOU with the Slovak-Ukraine Business Agency - read more

16/08/23

The Council *of* Slovak Exporters was on the road in nearby Vienna in its frequent visits to Embassies with special attention focused on Pakistan & Panama - read more

19/08/23

The Council *of* Slovak Exporters continues to build bridges with the Kingdom of Saudi Arabia - read more

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Upcoming Events

Slovakia Tech

The Council *of* Slovak Exporters will be coming back to Kosice on September 19/20th for Slovakia Tech

Political Debate

The Council *of* Slovak Exporters will be hosting the second round of Politic Debates with leading lights of the political spectrum discussing their export strategies post-elections

Sailing week

The Council *of* Slovak Exporters will be patron of its very first Sailing week in close partnership with Sailing Forever for corporate and competitive sailing on the Adriatic from the 23-28th of September

Argentex

The Council *of* Slovak Exporters look forward to welcoming the team from Argentex at the end of September to meet our members

Ukraine-Slovak Business Gathering

Technically in October, however the team at CSE is delighted to preview an intimate gathering of businesses from Ukraine, with our partners at the UCCI, once again in Kosice along side the marathon on 1st & 2nd of October

Visegrad 4 Business

BIG NEWS + SAVE THE DATE – Visegrad 4 Business's sophomore edition will tentatively be held in Prague on the 9th of November

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