EXPORT INSIGHT

NOVEMBER - DECEMBER

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,

In November, we are – first and foremost – pleased to bring to you our flagship annual event 'Visegrad 4 Business', this year taking place in Prague, among Europe's most charming metropoles. After Slovaks and Poles have elected their political leaders in the landmark elections this autumn, we will unite business and industry for all 4 Visegrad member nations under one roof to discuss relevant policy dossiers under the umbrella of a broader topic of the rebuilding of war-torn Ukraine. Turning to our brief, this month, we bring you latest geo-economic and regional news – tainted mainly by the intense conflict in the Middle East – as well as a cutting-edge analysis of where the region stands on adopting the euro. One thing is clear, the year-end will be anything but dull, so brace yourselves and stay updated with The Council of Slovak Exporters.

Foreword by the Chairman

Lukáš Parízek

THE STATE OF AFFAIRS OF EURO ADOPTION IN THE REGION OF CENTRAL AND EASTERN EUROPE

The international currency stability in the immediate post-war period was soon derailed by oil crises and other shocks until, in 1979, the European Monetary System was launched, built on a system of exchange rates used to keep participating currencies within a narrow band. This new approach represented a coordination of monetary policies between EU countries and operated successfully for over a decade. Under the presidency of Jacques Delors, EU central bank governors produced the 'Delors Report' on how EMU could be achieved. Currently, the euro is the official currency of 20 out of 27 EU member countries, while the remainder have yet to meet the conditions for adopting the single currency.

In the CEE region, eight countries – Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia – officially joined the EU in May 2004, marking an auspicious milestone in their post-transition development and political and economic integration with western Europe. All of them also agreed to deepen the integration by eventually adopting the euro. Within CEE, Slovakia, Slovenia, Latvia, Lithuania, Estonia, and most recently, Croatia have followed through on the commitment of euro adoption (Fig.1). Czechia, Poland, Hungary and Romania continue harboring their own currencies, koruna, zloty, forint and leu, respectively, while Bulgaria is currently in a pre-member phase, called the Exchange Rate Mechanism II ("ERM II"), where the exchange rate of a non-euro area Member State is allowed to fluctuate against the euro within set limits. The Bulgarian lev has been in a currency board system since 1997.

Fig. 1. Euro adoption timeline by CEE-country

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Euro adopter	Slovenia		Slovakia		Estonia			Latvia	Lithuania								Croatia		Bulgaria

Source: European Commission.

As EMU involves coordinating economic and fiscal policies, a common monetary policy, and a common currency, the euro, the accession to euro mandates several criteria nominal convergence criteria concerning inflation, public finances, exchange rates, and interest rates, countries need to meet to become eligible for accession (Fig. 2).

Fig. 2. Maastricht nominal convergence criteria

Price stability	The inflation rate cannot be higher than 1.5 percentage points above the rate of the three best-performing MS
Sound and sustainable public finances	The country should not be under the excessive deficit procedure
Exchange-rate stability	The country participates in ERM II for at least two years without strong deviations from central rate
Long-term interest rates	The long-term interest rate should not be higher than 2 percentage points above the rate of the three best-performing member states in terms of price stability

Source: European Commission.

A single currency is, in turn, poised to deliver a number of economic benefits, by making prices comparable across countries, making it easier for companies to conduct cross-border trade, affording consumers greater choice, improved economic stability and growth, or greater influence in the global economy of the euro bloc. A 2016 OECD study, which compares CEE early euro adopter economic performance with that of a weighted combination of comparable CEE countries that have remained outside the euro area, found that by adopting the euro, Slovakia gained 10% of real GDP per capita by 2011.

The biggest obstacle to euro adoption in CEE has been typically the failure to meet economic parameters of aspiring countries. This has been the case for Romania. However, a variety of political obstacles and the absence of social support have also barred the way. Weak political commitment, divisions over economic priorities, and turbulence in international markets have all played a role in frustrating progress towards euro take-up. Importantly, a series of crises, starting with 2008 Great Financial Crisis, 2011 Sovereign Debt Crisis, as well as the 2020 Covid-19 Pandemic and 2022 Russia's invasion of Ukraine and related spillovers all worked against swift progress on euro take-up. In the aftermath of 2008, fiscal problems of southern Europe were blamed on the common currency in public discourse, rather than decades of neglected reforms and irresponsible economic policymaking. They were followed by fears, that the euro project might actually fail in 2011, undermining the enthusiasm for adoption. The expansionary fiscal policies during the pandemic, followed by supply chain bottlenecks and the surge in inflation rates in its aftermath, as well as economic fallouts from Russia's invasion of Ukraine on macroeconomic variables, such as, prices, public finances, and rates, posed additional substantive hurdles for aspiring countries.

Despite these road-blocks, there has been a pattern of countries pursuing further integration even in the toughest of times, as exemplified by Croatian accession this year, and Bulgarian admission to ERM II. The pre-existing currency board in Bulgaria, along the growing weight of economic relations with EU make euro adoption the next logical step. But it is not without obstacles, including anti-euro rhetoric by pro-Russian politicians, low public support, as well as the difficulty to meet inflation and fiscal convergence criteria and passing domestic laws seen as a precondition for introducing the single currency. At the same time, in 2023, Poland, Hungary, and Czechia remain reluctant to join the euro, with no adoption milestones in sight.

INTERNATIONAL SPOTLIGHT

Prior to the EU leaders holding their traditional Fall summit in Brussels,

Hungarian Prime Minister Viktor Orbán met with Russian leader Vladimir Putin in a rare encounter with a leader of a European Union country, which has largely eschewed the relations over Russia's full-scale invasion of Ukraine that began in February. The meeting took place in Beijing before an international forum on one of Chinese President Xi Jinping's signature policies, the Belt and Road Initiative, focusing on Hungary's access to Russian energy. (AP News)

German gross domestic product (GDP) fell slightly by 0.1% in the third quarter of 2023 compared with the second quarter of 2023

after adjustment for price, seasonal and calendar variations. In the second quarter of 2023, economic performance had increased slightly (+0.1%, revised), after stagnating in the first quarter of 2023 (revised). The Federal Statistical Office (Destatis) also reports that household final consumption expenditure, in particular, was lower. Positive contributions, by contrast, came from gross fixed capital formation in machinery and equipment. (Destatis)

After several failed attempts, the U.N. Security Council has been trying to come up with a resolution on the Israel-Hamas war.

The draft under negotiation would demand "immediate extended humanitarian pauses" throughout the Gaza Strip to provide civilians with aid and also would demand compliance with international humanitarian law that requires protection for civilians, calls for special protections for children, and bans hostage-taking. The economic impacts of the conflict are for now contained, but should the conflict broaden into a regional conflict there will certainly be wider implications, especially on oil and food prices. (France 24)

USA's San Francisco, California has hosted this year's the Asia-Pacific Economic Cooperation forum (APEC),

which focuses on promoting promote trade, investment and economic development among nations around the Pacific Ocean. The group started with 12 members in 1989, but has since grown to 21 including China, Russia, Japan, the U.S. and Australia. Member nations accounts for nearly 40% of the global population and almost half the world's trade. (Bloomberg News)

Presidents Joe Biden and Xi Jinping headed into their big meeting at a country estate mid-November during APEC in San Francisco, hoping to stabilize U.S.-China relations after a period of commotion,

but the U.S. president also is prepared to discuss contentious issues such as trade, Beijing's burgeoning relationship with Iran and human rights concerns. The two leaders haven't spoken in person since they met last November during the Group of 20 summit in Bali, Indonesia. (AP News)

V4 REGION

SLOVAKIA

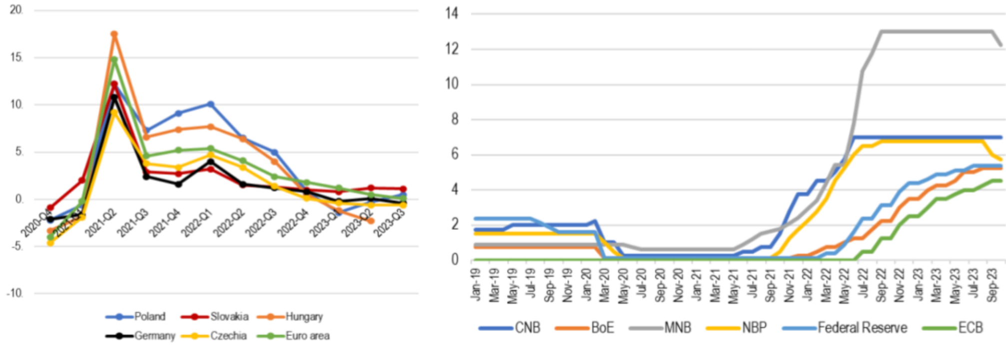
WHAT'S UP

The Slovak economy remained resilient in Q3-2023, expanding by 1.1% annually, aided by positive foreign trade balance. An interesting study by the country's Finance Ministry also found that although Slovaks work three hours less per week on average than 20 years ago, they still spend more time at work than employees in most EU countries.

WHAT'S NEXT

Greece tops the list of hours per week worked with 41 hours, while Poland, Romania and Bulgaria also surpass the 40-hour mark. Slovakia boasted an average working time of 39.6 hours per week. This trend underlies a weak share of part-time employment in the total.

Figure 1. Real GDP growth in V4 (LHS, %, year-on-year, seasonally and calendar-adjusted); Policy interest rates in V4 (RHS, % p.a.)



Source: Eurostat (LHS), Bank for International Settlements (RHS)

CZECHIA

WHAT'S UP

Czech flash GDP for contracted by -0.6% annually in Q3-2023, as the German economy struggled, affecting the baseline across Central Europe. German economy contracted by -0.3% annually. In the second quarter of 2023, economic performance had increased slightly (+0.1%, revised), after stagnating in the first quarter of 2023.

WHAT'S NEXT

This dynamic is likely to remain in place. According to a recent Erste Bank Group study, German growth correlates the most with GDP in Czechia, followed by Hungary, Slovenia and Slovakia.

HUNGARY

WHAT'S UP

Hungary's economy remained in recession in the first half of 2023, causing a significant slippage in the 2023 budget and a correction of the external balance. The main factors behind the economic slowdown are high inflation, high interest rates, and relatively low confidence.

WHAT'S NEXT

According to the European Commission, Hungary's real GDP is projected to stagnate in 2023, before rebounding by 2.5% in 2024.

POLAND

WHAT'S UP

One day after the elections, the Polish shares gained more than 5%, while the zloty gained 1.6% against the euro, following pro-democratic and pro-European forces taking the majority in the parliament.

WHAT'S NEXT

The new, Tusk-led coalition is set on ending the dispute with the EU over the rule of law but the list of demands from farmers' unions, known as the 'Agricultural Twelve', could sow some discord among the new, incoming parties.

COUNTRY IN FOCUS ARGENTINA

Argentina is one of the largest economies and most stable democracies in Latin America,

with rich natural resources, its leading role in trade and integration, a diversified industrial base, and a highly literate population. However, the country has faced recurrent economic and political crises, high inflation, and external debt problems in recent decades. Argentina is currently under a 30-months Extended Fund Facility (EFF) with the International Monetary Fund (IMF), which requires fiscal consolidation, monetary policy tightening, and structural reforms. Argentina's GDP is expected to contract by 1.6% in 2023 and recover by 1.1% in 2024, according to the OECD. 1

Argentina's politics and policies are dominated by Peronism, which has influenced the country's economic and social landscape, as well as its foreign relations, for decades.

When Javier Milei is inaugurated as Argentina's next president on December 10, he should remember that he is hardly the first of that country's leaders to come to power boldly promising an end to stagnation. For decades, new leaders—left and right—have entered office with radical reform programs meant to mark a sharp break with the past. None of them has had more than temporary success in breaking the country out of the malaise that has characterized most of its modern history.

The country's main exports are agricultural products, especially soybeans and derivatives, corn, wheat, and meat, as well as petroleum-derived chemicals, vehicles, and mineral fuels (2).

The country's main imports are machinery, motor vehicles, petroleum and gas, organic chemicals, and plastics. Argentina's top trading partners are Brazil, China, the United States, Chile, and India, which together account for more than two-thirds of its total trade. Argentina is also a member of Mercosur (3), a regional bloc that includes Brazil, Paraguay, Uruguay, and Venezuela, and has an associate agreement with the European Union (EU) (4). The EU is Argentina's third largest trading partner, accounting for 14.1% of its total trade in 2019 (5). Argentina and the EU are negotiating an Association Agreement that would include political dialogue, cooperation, and trade liberalization.

Argentina has significant opportunities for future development in sectors such as energy, mining, infrastructure, agriculture, and digital services.

The country has the second and fourth largest shale gas and oil reserves in the world, respectively, and is a major producer of lithium, gold, silver, and copper (6). Argentina also has potential for renewable energy, especially wind and solar power. The country's infrastructure needs improvement, especially in transport, communications, and energy networks. Its agricultural sector could benefit from increased productivity, innovation, and diversification, while its digital services sector is emerging as a source of competitiveness and growth, especially in areas such as e-commerce, fintech, and cybersecurity (7).

Events of Note
November - December 2023

CSE Participations

18/10/23

Chairman Lukas Parizek accompanied founding member Heneken Group on its acquisition spree to Switzerland as it acquired a South African Metals production facility - read more

24/10/23

The Council of Slovak Exporters were delighted to welcome a delegation from South Korea to discuss several facets for future cooperation - read more

27/10/23

The whole Team at the Council of Slovak Exporters were delighted to welcome good friend H.E. Catherine Flumiania and the Rome Expo 2030 bid committee - read more

03/11/23

Deputy Chairman; Zulf Hyatt-Khan travelled to his hometown London to attend a conference entirely focused on the ongoing issues of Sanctions - read more

04/11/23

Chairman Lukas Parizek; travelled to Turkey for the DTIK governmental conference - read more

06/11/23

Deputy Chairman; Zulf Hyatt-Khan bid farewell to good friend and former Japan Ambassador to Slovakia H.E. Makoto Nagakawa - read more

08/11/23

Deputy Chairman; Zulf Hyatt-Khan along with new partner Squire Patton Boggs hosted an online webinar with their UAE branch, on "How to do Business in the UAE" unsurprisingly - read here

12/11/23

Chairman Lukas Parizek was in attendance of the annual Trend.sk Top Exporters Event cheering on for several members including Heneken Group, Innovatrics and others - read more

14/11/23

Council of Slovak Exporters ongoing relationships with the Kingdom of Saudi Arabia enhance with high level visit of the Minister of Economy and Planning; H.E. Faisal AliIbrahim - read more

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28/11/23

Council of Slovak Exporters hosted it’s landmark annual Visegrad 4 Business Conference in Prague to much acclaim - read more

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Realizované s finančnou podporou

Nadácie Ministerstva hospodárstva SR na rok 2023