



COUNCIL of
SLOVAK
EXPORTERS

THE MONTHLY OUTLOOK

JANUARY-FEBRUARY

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

Dear Friends,

Welcome to 2023. Last year was transformational in many respects. The post-world-war 2 security order is being threatened by Russia's ongoing war in Ukraine, with fallouts especially palpable in Central and Eastern Europe. The regional energy security has been endangered, and the region's economic stability tested. The world's major markets embarked on a path of global monetary policy tightening, willing to risk recession, while massive investments are needed into energy transition and climate change mitigation, amid tightening financial conditions. On top of that, trade links and supply chains are in flux. Politically, 2023 may be a decisive year for the Visegrad 4 political leadership, with the Polish and Slovak elections on the horizon.

The Council of Slovak Exporters' commitment is to provide you cutting edge information and keep you abreast of current developments, trends and snippets that may be relevant, impact your businesses or be worth noting for the future.

Given the rocky macroeconomic environment, changing geopolitics, and shifts in the political landscape, we decided to introduce a new exclusive monthly product to help you navigate these sweeping changes and bring you up-to-speed with the most pertinent local, regional, and global events. Our ultimate aim is to consolidate information relevant to appropriate events and generate forward-looking analytical insights for you, and what they mean for your business.

We look forward to serving you this year and on behalf of the Council's Team, we wish you lots of success and resilience in 2023.

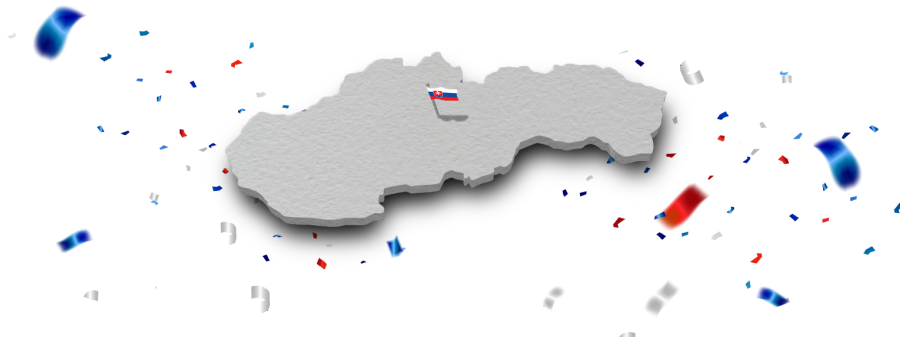
Council of Slovak Exporters

THE SLOVAK 2023 MACROECONOMIC OUTLOOK

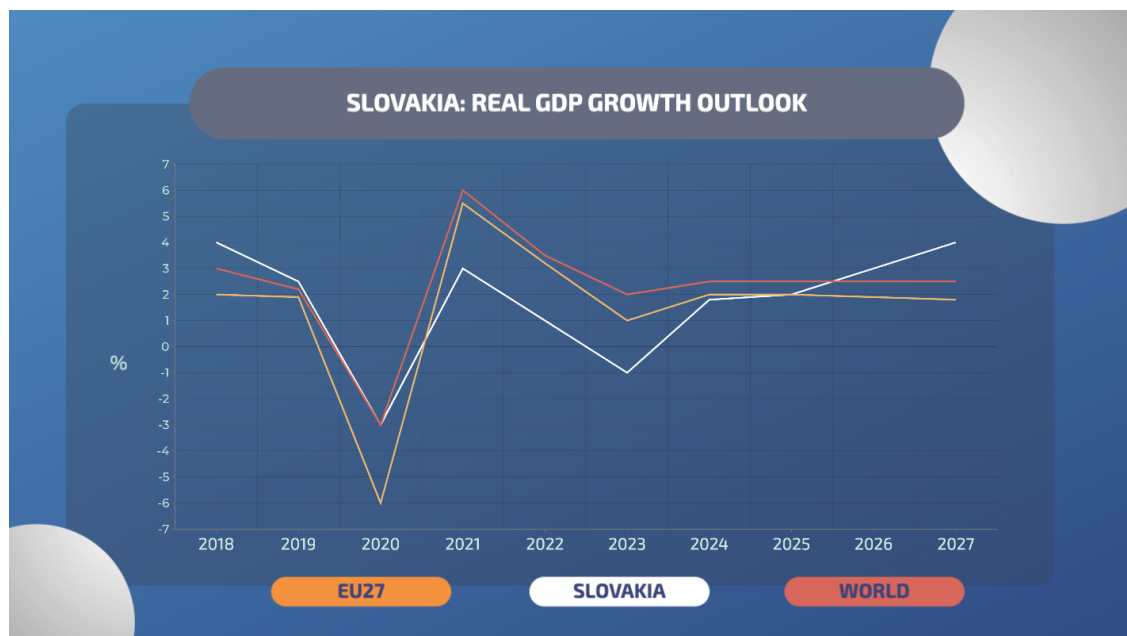
Happy Birthday, Slovakia!

The Slovak Republic has celebrated thirty years of its independence from Czechoslovakia at the outset of the new year. Much has been achieved and is to be celebrated during this time, most notably, the country's integration to leading international clubs, such as the EU, Euro adoption, NATO membership, and multilateral organizations integration, with practical implications for its economic performance. The country has been widely regarded as an economic success story when it comes to not just post-transition European integration, but also global value chains incorporation, and real economic convergence gains. But in recent years, real economic convergence – defined as narrowing the gap between cross-country gross domestic product per head – has stalled.

Russia's war in Ukraine is set to pose further drag on catching up, as Visegrad authorities are busy fire-fighting crises stemming from the conflict, including taming inflation, mitigating the energy crunch, tackling soaring cost-of-living, providing help to the exposed private sector, absorbing millions of Ukrainian refugees, while gearing up militarily.



In terms of recent economic performance, according to estimates, the Slovak economy narrowly escaped a recession in the third quarter, with 0.3% growth on quarter. However, annual growth slowed to 1.2%, and negative quarterly growth in the fourth quarter of 2022 is expected, with a recession likely in 2023. A weakening of external demand owing to the recession in Europe will weaken Slovakia's already subdued automotive and industrial sectors. Real wages are expected to contract this year, reflecting high inflation, and weak labor unions, slowing private consumption.



Sources: Eurostat, IMF, EIU.

Besides these key trends, driving the Outlook, escalation of the war in Ukraine, EU sanctions on Russian oil, and China-Taiwan escalation with U.S. involvement continue posing downside risks to the real economy. On the political side, it is the current political status quo in Bratislava, that impedes decision-makers ability to take bold decisions quickly, on the one hand, and the uncertainty surrounding the outcomes of September elections, on the other hand that could worsen economic prospects. Both could derail the structural reform agenda under the roof of EU Recovery Facility markedly.

On the upside, as we have pointed out in [our latest Report](#). There are – mostly medium- to long- term – opportunities to be reaped from this environment. The energy transition towards renewables (including capability building and research) offers a promising blooming area for business, and so does green mobility and related infrastructure, with abundance of EU funds available to help. Moreover, capturing the supply chain opportunity, amid EU's push for strategic production security, constitutes another area where Slovakia in particular should use its close link with Germany to crowd in quickly.

INTERNATIONAL SPOTLIGHT

The World Economic Forum (WEF) 2023 Davos Meetings united the world elite in record attendance, to discuss ‘Cooperation in a Fragmented World’. More than 600 CEOs were in town, including Wall Street executives, heads of states (Germany's Chancellor Olaf Scholz, the presidents of Spain, South Korea, Poland and the Philippines), and chief of leading multilateral organizations (IMF, NATO, WHO, European institutions) discussed the tectonic shift in global markets and political relationships, deepening ideological divides between the fans and opponents of globalization. With the West's energy security and climate change at the forefront, chiefs of major energy companies also came. Other themes included the cost of living, labor markets, how to prevent a global recession in 2023, and prevent new spread of Covid-19, as well as the security situation. The WEF's roots stretch back to 1971 when its founder Klaus Schwab invited executives from European companies to the then tiny ski resort of Davos, high in the Swiss Alps. *(Source: Reuters)*

Ukraine's allies have pledged longer-range weapons and rushed to deliver tanks and armored vehicles as Moscow intensified its attacks in the East, and the Ukrainian President Volodymyr Zelenskyy renewed his call for longer-range weapons. Polish Prime Minister Mateusz Morawiecki on January 27 said Poland would give Ukraine 60 modern tanks, including a company of Leopard 2 tanks, which brought to 119 the number of Western battle tanks now pledged, including 14 Leopard 2s from Germany, 14 Challenger 2 tanks from the United Kingdom, and 31 Abrams M1 tanks from the US. *(Source: Aljazeera)*

The resignation of Jacinda Ardern from her position of a prime minister of New Zealand last month, citing burnout, after six years as a country leader, sparked a politically charged debate on political leadership styles, competencies, and whether, women really ‘can have it all’. The former PM was widely praised by the internationally community for her exit, since knowing when to exit is a part of being a good leader. *(Source: Reuters)*

The ZEW Indicator of Economic Sentiment for Germany has risen in January 2023, and so has the Eurozone Economic Sentiment Indicator, signaling more upbeat expectations of economic developments. *(Sources: ZEW, EU)*

Early February, the ECB raised key rate by half a percentage point to 2.5%, while US Federal Reserve raised rates by quarter point. Bank of England increased rate by half a percentage point to 4%, and signals end of automatic rate raises. Monetary tightening is set to continue in Europe and the US throughout 2023 – even if they encourage recession – to rein in inflation. *(Source: FT)*

Antony Blinken is expected to meet Xi Jinping in Beijing, making him the first US secretary of state to meet the Chinese president in five years. The move is to open up and strengthen communication channels amid rising tension, engage in market competition without veering close to conflict, and find ways to work on urgent global issues. Promising areas for cooperation may include macroeconomic stability and selected trade issues. Some recent incremental wins - the August agreement on auditing US-listed Chinese companies, of the Nov tariff exemptions by China on 95 US goods - show that focused discussions may yield results and strengthening communication channels at all levels is important (*Source: FT*)

V4 REGION

SLOVAKIA

EVENT

The Heger administration lost a confidence vote last month and has failed to assemble a new majority. Also, a constitutional amendment allowing parliament to call elections before the end of its four-year term was approved last month with ninety-two deputies in the 150-seat assembly voting in favor.

WHAT NEXT

The Heger administration will continue as a caretaker administration until the elections, which are not expected until the end of September. The political instability has been adversely weighing on solving the acute energy crisis and mitigating its impact for households and firms, as well as on the implementation of the EU Recovery Plan, which is delayed.

CZECHIA

EVENT

Last month, the retired army general and former NATO military committee Chief, Petr Pavel seized the Czech presidential seat, beating the populist candidate and former prime minister Andrej Babiš (ANO, Renew).

WHAT NEXT

The new Czech president promises to return the country back to the international stage after years of isolation, is in favor of Euro adoption, and hopes to bring back the kind of value-based policymaking, pioneered by the first Czech post-communist president, Václav Havel.

HUNGARY

EVENT

Using 'state of danger' regulations, Prime Minister Viktor Orbán unexpectedly issued a new tax on pharmaceutical manufacturers, which along with financial and energy corporations will face higher tax bills to patch up a widening fiscal deficit, amid concern that the country will not receive substantial EU funding. On the back of these concern, the S&P sovereign rating agency has downgraded Hungary's rating just above the speculative level.

WHAT NEXT

Volatile taxation on multinationals and anti-EU rhetoric may make western companies cautious of investing in Hungary. The rating downgrade will make it more difficult for the Hungarian state to finance its needs. Monetary policy has, additionally, not been successful in reigning in inflation, and the Forint exchange rate has been volatile throughout the past year, eroding trust in sound economic management.

POLAND

EVENT

Poland has ramped up pressure on Berlin to supply offensive weapons. MBTs have been identified as one of Ukraine's key needs. Poland has been at the forefront of efforts to supply the West's most advanced offensive weapons to assist Ukraine. As German Chancellor Olaf Scholz's pushed back on sending Leopards for fear of 'escalation', the UK announced that it would set a precedent and send its own MBTs, Challenger IIs.

WHAT NEXT

The provision of offensive heavy-duty weapons by the West marks another milestone in the war. In terms of foreign policy, Poland is emerging as Eastern Europe's and Europe's leader championing the responses that shape the war's trajectory. It also highlights the gap between the concerns of Russia's immediate neighbors and those of countries further West.

SAVE THE DATE
February 2023

10/02/23

ExportAir International will return to the airwaves to record an exciting new podcast with H.E. US Ambassador to Slovakia Gautham Rana – more details to follow

13/02/23

The Council of Slovak Exporters welcomes a Turkish business delegation in

partnership with the Turkish Embassy in Bratislava and the Ministry of Economy of the
Slovak Republic

28/02/23

The Council of Slovak Exporters will host a business forum with Tajik
representatives in partnership with the Tajik Embassy in Austria and the Ministry of
Economy of the Slovak Republic

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