EXPORT INSIGHT

APRIL - MAY

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,

The onset of April marks the beginning of this year's second quarter. Already! Frankly, April wasn't much calmer than March. We continue registering further signs of fragmentation of world's economy – with the combination of OPEC+ countries oil cuts, BRIC de-dollarization efforts, and increased regional cooperation – as well as unceasing signs of tension between EU Member States' domestic and Ukraine policies, with the grain glut being a case in point. Europe continues to lack a common posture towards its eastern trading partners. The past weeks have also been consequential in terms of EU member states' landmark decision to ban internal combustion engine (ICE) car sales by 2035, a win for climate, and a challenge for the V4 pervasive car industry. That is, if it wants to stay at the pinnacle of the world's auto-making in the face of some tough EV competition from Asia, of course.

On a different note, the Council of Slovak Exporters has been busy exploring all the ways in which the region can help reconstruct Ukraine at an excellent conference in Slovakia's east, and we tell you all about it in this issue's 'Country in Focus' section. Enjoy another issue of April / May 2023 Export Insight, where we distilled the most actionable information worth noting for the future. Have a great month ahead.

Foreword by the Chairman

Lukáš Parízek

THE EU PETROL AND DIESEL CAR BAN AND IMPACTS ON V4 CAR INDUSTRY

The momentum building towards car electrification has been evident.

In Europe, it amounted to an EU member states' agreement to ban the sales of internal combustion engine (ICE) vehicles by 2035. But similar regulations are being adopted or discussed in third countries outside Europe.

The EU ban is a big win for climate, since cars currently account for around 15% of all carbon emissions in the EU.

The transition to electric vehicles (EVs) is also consequential on the production side, since it will demand a large-scale and profound industrial transformation, particularly in the auto-making regions in Central and Eastern Europe.

Legacy car-making in Europe is among most pervasive in V4, where each of the region's country harbors at least four OEMs.

These legacy auto-makers currently manufacture predominantly ICE-vehicles. For example, Slovakia, which reigns global auto-making with the world's highest share of cars produced per capita, produced only about 15% of EVs from all produced vehicles last year.

This is a lackluster starting line, considering that the ICE sales ban will demand close to a 100% conversion of existing legacy OEMs

towards EVs by 2035 if these countries want to retain their market shares. This means that upstream industries with SMEs producing hundreds of components needed for ICE-cars are set to see increasingly fewer orders since EVs require fewer parts.

Moreover, such conversion towards EVs is neither a bargain nor simple, as it requires rework of entire assembly processes

due to the inherent replacing of ICE engine, transmission exhaust etc. with an electric powertrain and battery pack, as well as an overhaul in supply chains, especially with regard to securing adequate supplies for batteries. Due to EV manufacturing containing less auto-parts, assembly jobs will be lost in the region, where OEMs are leading employers, all other things held equal.

To dodge the bullet, countries can also attract in new EVs greenfield investments.

The good news is that V4 has secured some sizeable new investments to expand EVs and electric battery production. For example, Slovakia has secured a new €1bn green investment of Porsche for production of EV battery modules, while Poland has secured a €3bn commitment by LG Chem (South Korea), and Czechia €2bn investment by CEZ, the state-owned energy firm in the Czech Republic. The Tesla (US) gigafactory in Germany and Northvolt in Sweden will be Europe's largest battery producers.

The net effect on jobs in V4 can be also offset,

with some counterweighted by job creation resulting from these new investments. Assembly workers will be asked to redress their contributions to the manufacturing process, especially in the light of longstanding labor market tightness in the region. Whether the EV transition leads to net job loss or creation will heavily depend on the effectiveness, availability and take-up of industrial reskilling programs.

In global milieu, competition will be tough, given some Asian auto-makers' head start in EV production and adoption.

Chinese automakers can currently build an EV for 10,000 euros less than European automakers, which constitutes an overwhelming cost advantage. All in all, the V4 region must double down on its industrial transformation efforts in the upcoming decade to retain its market share and a status quo of a world's leading auto-making region.

INTERNATIONAL SPOTLIGHT

Saudi Arabia has made a surprise cut to oil production by 500,000 barrels per day and other OPEC+ nations joined,

with Russia (500,000), Iraq (211,000), UAE (144,000), Kuwait (128,000), Kazakhstan (78,000), Algeria (48,000) and Oman (40,000) for a joint total production cut of 1.65 million barrels per day until the end of 2023. This came in after a massive week of geo-economic developments, where Saudi Arabia partnered with China to build an oil refinery for $12.2 billion and agreed to acquire 10% of a Chinese oil refinery for $3.6 billion, subsequently agreeing to join the Shanghai Cooperation Council as a "dialogue partner", and after China and Brazil have agreed to trade in their own currencies. These events fall under the umbrella of an over-arching theme of the increasingly fragmented global economy (Al Jazeera)

OIL

Brent, USD/barrel

"Note: Latest data 15 March 2023."
Source: Refinitiv.

EU officials have been exploring expanding arms and munitions production in Europe's eastern flunk,

much in line towards its 'strategic autonomy' quest. Last month, Thierry Breton, the European Commissioner for Industry and the Internal Market, toured Bulgaria, Romania, Slovakia, Czechia and Poland, and their local munitions factories to that end. Some of these former Soviet Republics harbor a historical competency in arms manufacturing that could be revived and upgraded. Admittedly, such undertaking would require sizeable financial resources. Some of these countries' hopes are that through moving to higher-end products and upgrading their defense sectors – including thanks to technology transfers from other NATO countries – their economies could benefit permanently, despite local arm manufacturers facing stiff competition from other NATO Allies in Western Europe, North America, and the OECD Asia region (Euractiv)

Fragmenting trade patterns could threaten growth.

There is growing alarm among policymakers and economists about the increasing fragmentation of the global economy. This concern is based on the increase in protectionist actions by major players, the implementation of industrial policies meant to boost domestic manufacturing in major markets, the restrictions imposed on technology exports to China and China's threats of retaliation, and the perception that these factors will lead to the creation of trading blocs rather than a fully integrated global economy. The risk is that this fragmentation could reduce trade, reduce cross-border investment, lead to more inefficient supply chains, and reduce the sharing of information and ideas that generate innovation and boost productivity. Moreover, there is concern that, just as in the 1930s, such fragmentation could increase the risk of military conflict. (Deloitte Insights)

After EU abandoned customs duties and quotas on Ukrainian grain imports, redirecting some shipments Russia was blocking via Black Sea ports through neighboring states' rivers, roads and railways in the eastern flank,

the cheap Ukrainian grain suddenly available in those markets has undercut local producers. In late January, Europe's eastern members called for an urgent response of the EU to curb these adverse impacts, met by response deemed largely as unsatisfactory. Several CEE regional economies – including Poland (but also Hungary and Slovakia) ahead of its Fall general election – banned Ukrainian imports of grains on the grounds of protecting its local farmers. EU may be compelled to counteract the adverse fallouts on EU eastern flank farmers financially, while also consider investing in road and railway infrastructure to increase the throughput capacities and ease logistics and transport bottlenecks to support re-export. (Reuters)

V4 REGION

SLOVAKIA

WHAT'S UP

The Slovak savings rate has dropped to historically low levels, as Slovak households opted to save only 3.6% of their disposable incomes last year and were not willing to reign in their usual consumption habits. In the years before the pandemic, their savings rate was usually roughly double.

WHAT'S NEXT

The usual consumption patterns of Slovak households have been buttressing the economy. However, income growth has not kept pace with the double-digit inflation. Moreover, households' financial wealth – already among the lowest in the EU – declined further. Together, these trends will inevitably lead to declining standards of living.

CZECHIA

WHAT'S UP

The Czech Republic's fiscal deficit fell from 5.1% to 3.6% of GDP between 2021 and 2022, while government debt increased from 42.0% to 44.1% of GDP over the same period, according to the Czech Statistics Agency release last month. The Czech Republic has been in recession since mid-2022.

WHAT'S NEXT

The OECD expects Czech GDP to grow by 0.1% in 2023 and 2.4% in 2024, contrasting with assessments of the Finance Ministry and the Czech National Bank (CNB), which projected a contraction this year of 0.5% and 0.3% respectively.

HUNGARY

WHAT'S UP

Industrial production in Hungary dropped 4.6% year-on-year in February 2023, after a 0.2 percent fall in the previous month, as output fell for rubber, plastic and non-metallic mineral products, metal base material and metal processing products, food, drink and tobacco products, and computer, electronic and optical products. On the other hand, increases were seen in electrical equipment and vehicle

WHAT'S NEXT

The National Bank of Hungary held its base rate at the expected 13% in April 2023 and noted the requirement to maintain the current rate level over a prolonged period to ensure anchored inflation expectations, while it also projected price growth to slow rapidly in the coming months on tightening conditions and an intensification of base production. Construction output in Hungary plunged 11.8% year-on-year in February 2023, following a 3.6 percent drop in the prior month. The annual inflation rate in Hungary ticked lower to 25.2% in March 2023 from 25.4%, only slightly below the 26-year high of 25.7% hit in January.

effects from mid-year. Inflation is set to return to its range by 2024.

POLAND

WHAT'S UP

Poland's trade surplus hit a record high in February 2023, as exports rose sharply, and imports fell. It was the second consecutive surplus after 1-1/2 years of trade gaps. Exports rose by 10% year-on-year due to a further increase in shipments of automotive products, while imports decreased by 5.4% as food products shipments especially from Ukraine declined.

WHAT'S NEXT

The current-account deficit should narrow to 2.5% of GDP this year, after widening sharply in 2022 due to higher imported energy prices. But weak domestic demand will reduce imports, especially services. Slow western European markets will drag on export growth this year.

COUNTRY IN FOCUS UKRAINE

War in Ukraine has undone fifteen years of economic progress in Ukraine,

with at least 8 million of Ukrainians living in poverty, spending tough winter months amid frequent electricity and heating disruptions amid Russian shelling of critical infrastructure, power plants, roads, hospitals, and schools. The size of the reconstruction challenge is daunting and has been estimated by the Ukrainian President Volodymyr Zelenskyy at $1 trillion, and growing every day the fighting continues. Despite Ukrainian citizens' and leaders' remarkable resilience, all-hands-on-deck approach will be required to facilitate the post-war rebuilding of Ukraine, with involvement of donors, multilateral organizations, third governments, and private capital. The Ukrainian Ministry of Economy signed a memorandum of understanding with US investment bank JPMorgan Chase under which the bank will advise the government on how to finance the enormously expensive task of reconstruction, as well as stablish connections between Ukraine and private investors.

Ukraine needs to start preparing for resilient, inclusive reconstruction, without waiting for an end to the war.

Vigorous support has been channeled through the World Bank's Public Expenditures for Administrative Capacity Endurance (PEACE) to mitigate macroeconomic risks. Supporting the social and economic fabric of the country, including though continued function of essential citizen services – schools, hospitals, civil service etc. – is a priority for Ukraine and the international community. Strengthening the government of Ukraine's planning and implementation capacity is also critical to the success of relief and repair efforts. To improve living conditions and sustain economic activity, critical infrastructure will require immediate and continuous repairs. To this end, the World Bank has set up a Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) to channel grants from donors, such as the United States, UK, EU countries, and Japan. It will be also crucial to take up policy reforms that will prepare Ukraine for EU accession. This can be facilitated through interaction with multilateral organizations, such as the World Bank and the OECD.

The rebuilding of Ukraine will take years and require our steady, collective efforts.

It also presents a humanitarian, logistical and business opportunity, to the region to become a part of the collective efforts underway, with some more proactive than others. This is why the Council of Slovak Exporters' has been busy exploring all the ways in which the region can help at the Clusters meet Regions Conference in Košice. The rebuilding efforts surpass the Ukraine horizon: they are a key investment in the region's and the global economy's stability and prosperity.

Events of Note
April-May 2023

18/04/23

SPOLU PRE SLOVENSKO - INOVÁCIE DO SVETA

The Council of Slovak Exporters hosted SPOLU PRE SLOVENSKO - INOVÁCIE DO SVETA in NITRA highlighting innovation in the regions

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 13-14-15 April

16/05/23

General Assembly of Members

The Council of Slovak Exporters will attend the 32nd General Assembly of Members – Extraordinary Session, together with the 33rd Meeting of Board of Directors – Extraordinary Session, of the Austro-Arab Chamber of Commerce, 16th of May 2023 in Vienna

29-31/05/23

Globsec conference

The Council of Slovak Exporters looks forward to participating at the 18th edition of the Globsec conference to be held in Bratislava from the 29th-31st of May

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

Realizované s finančnou podporou

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