EXPORT INSIGHT

SEPTEMBER-OCTOBER

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 we approach the end of Summer, we bring you the latest Export Insight with a focus on skills and labor shortages in V4, a timely issue as workers resume their activities and students return to classrooms. In the International Spotlight, we examine the signs of a further slowdown in the global economy, driven by the weak performance of major industrial players, such as China and Germany. We also cover the latest developments in the diplomatic arena, which have been quite eventful this month. In "In Case You Missed It," section we provide you with the most recent macro-data and data snippets from V4 (spoiler alert: not very encouraging). Heads Up, with Slovakia and Poland holding elections within 15 days of each other this September-October, the results may have a significant impact on the region's economic and export performance for the next decade.

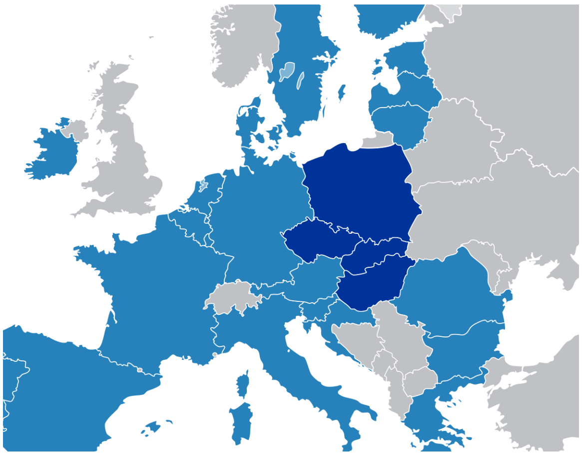
On behalf of The Council of Slovak Exporters, we wish you a good month ahead!

Foreword by the Chairman

Lukáš Parízek

THE NEED TO EMPLOY FOREIGNER WORKERS IS GROWING IN THE VISEGRAD REGION

As the V4 countries – Slovakia, Czechia, Poland, and Hungary – shift from their heavy industrial bases to greener, smarter, and more electric futures, they face a pressing challenge: skills shortages. These shortages are driven by various factors, ranging from homeownership rates and labor mobility, brain drain, and immigration legislation.



Slovakia faces a critical shortage of skilled labor, particularly in the burgeoning electric vehicle (EV) manufacturing sector. UniCredit Bank's recent analysis attributes this shortage partly to Slovaks' reluctance to relocate for job opportunities, driven by cultural factors like high home ownership rates exceeding 70% in Slovakia and neighboring Hungary and Poland. As a result, Slovak industries, particularly in EV manufacturing, increasingly rely on foreign workers. In July, the Slovak Statistical Office reported 98,000 foreign workers legally employed in Slovakia, with Ukrainians, Indians, and Georgians comprising a significant portion. However, Slovakia's immigration legislation is outdated and ill-suited to address current labor market needs, hindering private enterprises from hiring foreign talent. This leads companies like Jaguar Land Rover to bring skilled workers from third countries or their headquarters. Addressing these immigration challenges is crucial for Slovakia's economic growth and industrial development.

Czechia's population reached a record high of 10.85 million in March, driven in part by an influx of immigrants from Ukraine. This new workforce, comprising skilled individuals, has the potential to boost the Czech economy, counteracting adverse demographic trends accelerated by the pandemic. Czech Labor Office data reveals a nearly doubled number of employed Ukrainians between February 2022 and April 2023, filling critical skill gaps in manufacturing and technology.

Czechia's success in integrating Ukrainian migrants is attributed to progressive immigration policies and a welcoming approach to foreign workers. The Czech Migrant Integration Policy Index (MIPEX) highlights the country's superior labor market opportunities and support for migrants, including flexible work permits, language courses, vocational training, and qualification recognition.

Poland has attracted migrants from other EU countries to address its skill shortages. This influx has alleviated labor shortages caused by emigration and an aging native workforce. However, challenges like unequal pay and labor rights violations have emerged, prompting calls for better protection and integration of foreign workers. Additionally, Poland has become a primary destination for Ukrainian refugees. The government has provided legal residence, labor market access, healthcare, education, and social benefits for 18 months. Poland is now focusing on long-term integration for these refugees. Despite these efforts, Poland's migration policy remains conflicted between attracting EU workers and curbing non-EU migration.

Hungary's immigration policy, influenced by Prime Minister Viktor Orbán's approach, has been relatively closed, limiting opportunities for foreign workers to address labor market gaps. The government has prioritized domestic workers, even as it faces similar shortages to neighboring V4 countries. While Hungary has attracted substantial Chinese EV battery investments, the question of who will fill these jobs remains. The government's reluctance to embrace foreign workers and a lack of specialized skills among domestic workers pose challenges. Some investors plan training programs for local workers, but with an unemployment rate below 4%, Hungary must address this labor shortage to meet the demands of the growing battery manufacturing sector.

Czechia and Poland have adopted progressive migration policies, while Slovakia and Hungary still have outdated laws and restrictive measures in place. In light of dynamic economic changes spurred by the Industry 4.0 transition, electric mobility, green economy initiatives, and the pursuit of innovation-driven models, the V4 countries need to enhance their pool of skills and intellectual resources. This necessitates a careful but essential balance between national interests and economic priorities, which is crucial for maintaining international competitiveness and promoting prosperity.

INTERNATIONAL SPOTLIGHT

Indonesia hosted the latest ASEAN summit and India held its first-ever G20 summit in September.

At the G20 summit in India, leaders surprisingly reached a consensus on a joint communiqué, marking a departure from the previous year's trend of high-level G20 meetings failing to do so. Notably, the statement refrained from condemning Russia's invasion of Ukraine, recognizing that the G20 is not a platform for addressing geopolitical conflicts. Earlier, Indian Prime Minister Narendra Modi extended an invitation to the African Union to join the group as a permanent member. (Reuters)

The world is not on track to meet its climate goals, the UN

warned in its first stock-take since the Paris agreement of 2015. Countries had agreed to limit warming to 1.5°C, but the UN said that reaching that target would require an additional 20 gigatonnes' worth of carbon reductions this decade. World leaders will meet at COP28 in November to assess their progress. (The Guardian)

China’s renminbi hits 16-year low after exports shrunk for a fourth consecutive month in August.

Beijing finds itself under pressure for more economic support as the manufacturing sector struggles to pick up. Chinese authorities have so far done little to stimulate a slowing economy weighed down by a property crisis, while Chinese exporters have struggled this year as foreign customers cut back purchases on high global inflation. On the upside, China’s consumer prices treaded out of deflationary territory in August, rising by 0.1% on an annual basis after a 0.3% fall in July, while producer-price deflation eased from 4.4% to 3%. (Financial Times)

Germany's industrial outlook worsens with a significant decrease in manufacturing, driven by a sharp decline in car production.

This marks the third consecutive decline in industrial output. The prolonged contraction in industrial production has impacted all manufacturing sectors, and experts anticipate it may contribute to an economic contraction in the latter half of the year. Germany's economic performance has lagged behind the US and the broader eurozone, facing challenges like higher energy costs, rising interest rates, and reduced trade with China. Meanwhile, the second-quarter growth in the eurozone has been revised down to a mere 0.1%, reflecting a broader trend of lowered growth expectations in various European countries. This leaves the eurozone trailing further behind the US, which recorded a 0.6% increase in GDP for the same period. (Reuters)

China’s Belt and Road Initiative – and its signature foreign policy flagship –celebrates its 10th anniversary.

The scheme has attracted over 150 countries, covering almost 75% of the world’s population, more than half of its GDP, with BRI’s infrastructure projects spanning the globe. China has become the main creditor and a vital investor for developing countries in the past decade but many of the infrastructure projects the Chinese banks financed have failed, while several countries have reeled on the brink of default. The initiative also has been said to have been used as a vehicle to remake the rules-based order. (The Economist)

V4 REGION

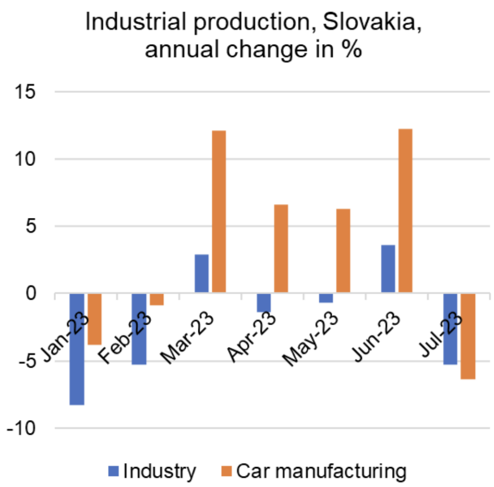
SLOVAKIA

WHAT'S UP

What's up: Industrial production returned to a negative territory in July, dragged down by production plant-wide seasonal holidays on the one hand, and weaker demand on the other. Car production dropped for the first time in four months.

WHAT'S NEXT

External demand is set to remain subdued with the prospect of large industrial trading partners' economic weakness.



Source: Slovak statistical office.

CZECHIA

WHAT'S UP

In July, industrial production fell by 2.6% month-on-month and 2.8% year-on-year.

WHAT'S NEXT

The recent figures can be attributed to the global economy's cooling, impacting the Czech economy through euro area exports. Leading indicators for the Czech and German business cycles point to further weakening, echoed by deteriorating new industrial contracts.

HUNGARY

WHAT'S UP

Inflation and core inflation slowed to 16.4% y/y and 15.2% y/y, respectively, in August.

WHAT'S NEXT

The disinflation process is set to continue in until the year-end, including due to the base effects. In 2024, excise tax increases from January will be inflationary. Inflation may get back to the tolerance range of the MNB only in 2025.

POLAND

WHAT'S UP

The NBP surprises by a large 75 basis point (bp) interest rate cut in a sudden move that brings the reference to 6%, even though inflation is still above 10%.

WHAT'S NEXT

The central bank decided to stimulate the economy ahead of the October general election, and as latest, Q2 GDP growth figure turned up at -0.6%, amid substantial reduction in consumption demand. The NBP expects the lower economic activity to support a further decline in consumer price inflation in the coming quarters.

COUNTRY IN FOCUS
UNITED KINGDOM

UNITED KINGDOM SET TO IMPROVE RELATIONS WITH THE EU

According to the Office for National Statistics (ONS), the UK exported £670 billion of goods and services in 2021, making it the fifth-largest exporter in the world.

The main categories of goods exports were machinery and transport equipment (£210 billion), chemicals (£60 billion), and mineral fuels (£50 billion). The main categories of services exports were financial services (£80 billion), travel (£60 billion), and other business services (£60 billion). The UK's main export destinations in 2021 were the United States (£120 billion), Germany (£70 billion), Netherlands (£50 billion), Ireland (£40 billion), and France (£40 billion). The UK also exported to other regions, such as Asia, Africa, and the Middle East, but at lower levels.

The UK's export profile has changed significantly since it left the European Union (EU)

at the end of 2020. Brexit has resulted in new trade barriers, increased trade costs, and reduced market access for UK exporters, especially in the EU market. According to the ONS, UK exports to the EU fell by 18% in 2021 compared with 2019, while exports to non-EU countries rose by 5%. The UK has also signed new trade agreements with countries such as Australia, Canada, Japan, and Ukraine, aiming to diversify its export markets and reduce its dependence on the EU.

Russia’s invasion of Ukraine has also had an impact on UK trade.

Ukraine is a relatively small trading partner for the UK, accounting for just about 0.2% of UK goods exports and 0.1% of UK services exports in 2021. However, the war and the sanctions imposed on Russia have disrupted trade flows and supply chains in the region, affecting UK exporters and importers indirectly. For example, the UK has faced higher prices and lower availability of some commodities, such as iron and steel, cereals, and natural gas, that are sourced from or transit through Ukraine and Russia. The UK faces increased geopolitical risk and uncertainty, which may deter foreign investment and trade opportunities.

However, the UK-EU relationship has seen marked improvement since the beginning of this year.

On September 7th, the UK government announced its agreement with Brussels to rejoin the EU's Horizon science research program and participate in the European earth observation program known as Copernicus. These announcements symbolize the improved relations between London and Brussels under Prime Minister Rishi Sunak, particularly since the signing of the Windsor Framework in February. However, the appetite for deeper engagement in many areas appears to be lacking.

Despite this rough terrain, V4 countries harbor some opportunities for exports to the UK,

especially in the sectors of machinery, chemicals, and food products. According to the World’s Top Exports, Poland was the eighth-largest exporter to the UK in 2022, representing 1.3% of total UK imports. The main categories of Polish exports to the UK were machinery and transport equipment, chemicals, and food and live animals. Other region's countries that exported to the UK in 2022 were Romania, Czechia, Hungary, and Slovakia. The recent changes in the geo-economic landscape may create new opportunities for Eastern European countries to export to the UK, as they may be able to offer competitive prices, quality, and variety of goods and services. All in all, the UK boasts a diverse and dynamic trade profile, but its trade policy is still evolving post-Brexit, with potentially different standards and regulations from those of the EU, which may create technical barriers to trade. The UK's immigration policy may also affect the availability and mobility of workers from Eastern European countries.

Events of Note
September-November 2023

CSE Participations

20/09/23

The Council of Slovak Exporters were present again for a 3rd year running with Zulf Hyatt-Khan hosting an Eximbanka led discussion on export - read more

22/09/23

The Council of Slovak Exporters were invited to a Select USA meeting at H.E. Gautam Rana's residence with Zulf Hyatt-Khan in attendance - read more

17/09/23

The Council of Slovak Exporters were in Istanbul for DTIK with their Chairman Lukas Parízek enhancing bilateral ties - read more

13/09/23

The Council of Slovak Exporters hosted a high-level Political debate as a prelude to the upcoming Slovak elections, with high ranking officials from several key parties on the future of export post-elections... - read more

08/09/23

Council of Slovak Exporters welcomed the Yemen Ambassador to Austria and Slovakia H.E. Haytham Shoja'aadin at their offices - read more

25/08/23

Council of Slovak Exporters, Chairman Lukas Parízek was quoted in the Slovak Spectator on the overreliance of Slovak Trade to Germany full article available within the link - read more

23/08/23

Council of Slovak Exporters, Relationship Manager, Daniel Pleško was on the road at the Agrokomplex Conference building bridges in the Agri-food space - read more

19/08/23

Council of Slovak Exporters, were happy to welcome yet another visit from the Kingdom of Saudi Arabia as they look to establish in Bratislava further enhancing our cooperation with the Kingdom - read more

Upcoming Events

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 - read more

Argentex meet our members

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

CSE & UCCI

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 alongside the marathon on 1st & 2nd of October

BIG NEWS + SAVE THE DATE

Visegrad 4 Business's sophomore edition will be held in Prague on November 28th

https://www.visegrad4business.eu/

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