



Weekly Briefing

Slovakia Economy briefing:

**Slovakia launched the production of the fourth carmaker: Is
Slovakia going to be dependent on one sector of economy?**

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Slovakia launched the production of the fourth carmaker: Is Slovakia going to be dependent on one sector of economy?

Until now, Slovakia supported the production of three automotive companies. The biggest one, which operates in the country is Volkswagen Slovakia located near the capital. The second one is PSA Groupe with the models for Peugeot and its plant situated in Trnava. The third one is Kia Motors in Žilina. All three companies manufacture more than one million cars annually. Recently, a new player has come to the scene. The British-Indian carmaker Jaguar Land Rover officially opened its new production plant in Nitra on 25 October. The first carmaker from the United Kingdom in Slovakia is starting its production employing altogether 1 500 people, with 98% of those being Slovak nationals, and launching only one shift. In November, additional 850 employees are to be recruited for the second shift. The two-shift operation should become a reality by the end of the next year. For now the carmaker plans to hire 2 800 staff in total, producing 150 000 cars annually. Experts estimate that another 22 000 indirect jobs will be created by subcontracting companies. The first model to be produced at the factory is the Land Rover Discovery, which will, after its production in Great Britain ceases in a few months' time, be made exclusively in Slovakia. A portion of the produced cars will be exported to more than 170 countries. Approximately, it takes six hours to assemble one car at the Nitra plant and a new car rolls off the production line every 112th second. In the beginning, the facility is only planning to produce about 30 cars per day. In the future the operations directors are planning to extend the production with another model.¹

¹ --, "Jaguar dva roky po začatí výstavby otvoril slovenský závod," *TA3 Ekonomika*, 25 October 2018, <<https://www.ta3.com/clanok/1139571/jaguar-dva-roky-po-zacati-vystavby-otvoril-slovensky-zavod.html>>.

Jaguar Land Rover chose Slovakia as the place of its next plant outside of Great Britain four years ago when construction of the facility itself began in September 2016. Their investment went up to €1.4 billion, while Slovakia has provided state aid to the tune of €129 million, in order to boost the economy in the region affected by high unemployment and low employment opportunity rate without unduly distorting competition in the single market. The decision to invest in Slovakia is part of a broader strategy that was adopted before the referendum on Brexit, and the current situation does not change the firm's plans in the country. Managers of the company admit that Brexit could cause problems, however, they are prepared for any scenario in order to ensure secure production flow.

The Jaguar Land Rover production brings also the biggest one-off wage hike in the Slovak automobile industry. The trade union organization at the carmaker agreed to pay hikes for employees of the new Nitra plant. The agreement was made through intensive negotiation with the company management and will be in force until the end of next week. The wages of blue-collar workers should increase between 5.43 % and up to 10 %. The pay of access control assistants and production operators, who's starting salary was €650 per month, has increased by 10% due to collective bargaining to €715. Other salary increases are for recruitment team staff, coordinators and product coaching staff - from €892 up 7.4% to €958, and for administrators and specialist workers - from €1,196 up 5.43% to €1,261. The average salaries of non-management production workers, previously set to start at €900, will now range from €997 to €1,744. The new wage tariff will be valid as of 1 November. In addition to salaries, a number of other benefits for employees beyond the legislative framework have been agreed within the Collective Agreement.²

² --, "Po mesiacoch sa v automobilke Jaguar dohodli na úprave plátov," *TA3 Ekonomika*, 18 October 2018, <<https://www.ta3.com/clanok/1138982/po-mesiacoeh-sa-v-automobilke-jaguar-dohodli-na-uprave-platov.html>>.

In this respect hopes are pinned on elements of the dual education scheme that are being implemented in Slovakia also in Nitra region to support the production with qualified labor.

Impact on the economy

The Slovak economy is set to rise by 4.1% this year on the back of revived export activity and investment, replacing household consumption as the main growth driver. Export activity is firming thanks to new automotive production capacities in Volkswagen. In the meantime, the upsurge in investment is driven by Jaguar Land Rover investments, as well as acceleration in public investment, mainly at the municipal level. Launching the production at the new facility of Jaguar Land Rover is expected to have a positive impact on the growth of economy. Analysts of the Financial Policy institute assume the acceleration of growth of Slovakia's economy to be increased in estimate by 4.5% for 2019. Jaguar Land Rover may also support the economy by deciding to produce an additional model but export growth will be hindered by the cyclical position of Slovakia's key trading partners.³

A positive development is also expected by the National Bank of Slovakia. In line with expectations, Slovakia's GDP growth increased to 1.1%, quarter on quarter, in the second quarter of 2018. Exports were the largest contributor to that growth, and their increase in the second quarter made up for their decline in the first quarter. The boost to exports came from rising foreign demand and also from the production launches of new car models in the automotive industry. Among domestic demand components, investment demand registered the strongest growth, reflecting the sizeable impact of the construction of a new car plant. Leading indicators imply that the upward trend in exports will continue. Export expectations remain elevated. Overall exports are expected to be boosted by rising foreign demand and by the production launch and subsequent export

³ --, "Po roku investícií príde rok exportu," *Ministerstvo Financii Slovenskej republiky*, 20 September 2018, <<http://www.mfsr.sk/Default.aspx?CatID=11840>>.

activity of Slovakia's newest car plant, whose impact on export growth should peak in 2019.

The car industry should also boost the GDP growth next year. The GDP is projected to increase by 4% this year making exports and investments accounting for most of the growth. Currently, the export performance is being boosted by production capacity expansion in the car industry and by rising foreign demand, trends that are expected to peak next year when Slovakia's new car producer Jaguar Land Rover become fully operational. In 2019, the growth of GDP is therefore projected to increase to 4.5%. Moreover, the economic growth may have an increasing impact on inflation as well.⁴ Annual headline inflation has been at just below 3% in recent months. This relatively strong rate has been supported by both petrol and diesel prices and by inflation. Food price inflation is still quite elevated, although its impact is gradually subsiding. Household consumption will continue supporting growth like in the previous years, buttressed by dynamic wage growth. The impact of the latter on real household consumption will be limited due to the cyclical position of the economy, and will feed particularly in price growth. In addition, the remaining components of disposable household income will increase more slowly than the wage base. All in all, next year's growth will be led by exports, which will accelerate thanks to the onset of new Jaguar and Volkswagen production capacities. Investment activity is projected to lose steam again, as new automotive capacities are completed.

The relatively robust economic growth is expected to affect the labor market as well. The employment rate should increase with the higher demand for labor. The job vacancies are expected to be filled not only by unemployed people, but also by Slovak citizens returning from work abroad, but also by foreign workers. Over the projection period, economic growth is expected to moderate as a result of negative demographic trends. This also should be

⁴ "Strednodobá predikcia," *Národná banka Slovenska*, 25 September 2018, <https://www.nbs.sk/_img/Documents/_Publikacie/PREDIK/2018/protected/P3Q-2018.pdf>.

reflected in strong wage growth. Wage growth is expected to increase throughout the next year period and to be higher in the public sector than in the private sector.⁵ Wage growth in the private sector is should be mainly caused by the mismatch between demand and supply on the labor market.

Moreover, many experts pointed out that the experience of the company with doing business in Slovakia will be more important than the plant itself. A potential good experience of the carmaker may be important for building a bridge to Slovakia for other investors from Great Britain or India, similarly as this happened in the case of South Korea when several subcontractors have followed Kia Motors to Slovakia.

Conclusion

The automotive industry is one of the pillars of Slovakia's economy, bringing investment, employment and innovations with the planned Jaguar Land Rover plant in Nitra as the latest example. Slovakia is already home to three carmakers, Volkswagen Slovakia, PSA Peugeot Citroën Slovakia and Kia Motors Slovakia. Over the past 20 years, the latest figures of car production has made Slovakia the biggest per capita producer in the world. The importance of the automotive industry for the economy of Slovakia is gradually increasing. Repeatedly there are raised voices pointing to an overly strong focus of Slovakia on the automotive industry, warning against the Detroit-like scenario. Analysts and experts see especially a bigger focus on education and innovations that would help Slovakia not to become a new Detroit. With its established premium automotive industry, Slovakia is an attractive potential development opportunity contributing to the gross fixed capital growth in the upcoming years.

⁵ Furthermore, an increase in the minimum wage in January 2019 is estimated to add around 0.2 percentage point to nominal wage growth.