

Three Rising Car Manufacturing Stars in Eastern Europe: Czech Republic, Slovakia, and Poland



by Shervin Shahidi Hamedani

東歐三大汽車製造新星- 捷克、斯洛伐克和波蘭

The reputation of car manufacturing locations in Eastern European countries has progressively increased amongst the European Union (EU) in recent years. In Western European market, automotive facilities have been subject to closure and the total employment has been reduced since 2009. On the other hand, employment opportunities have been relatively re-established in Eastern Europe, based on the fact that the previously closed factories have been relocated in the recently joined EU member states.

Accordingly, nearly one in three vehicles are manufactured within the following EU member states: the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Based on manufactured vehicles per capita, Slovakia is the leading manufacturer of vehicles with 180 units per thousand populations, according to the statistics by the European Automobile Manufacturers' Association. The Czech Republic ranks second with 108 vehicles and Germany third with 70 vehicles.



Czech Republic

The automotive industry plays an essential role in the Czech economy, accounting for 7.4% of its GDP, 24% of manufacturing production and 23% of exports which are mainly to EU countries. In 2016, the Czech Republic was listed as one of the top 10 car exporters in the world, in terms of value, with \$18.8 billion which is 2.7% of total car exports. The top export destinations of the Czech Republic are mainly Germany, Slovakia, the United Kingdom, Poland and France. It is notable that the Czech Republic borders Austria, Germany, Poland and Slovakia.

Three major car production companies which are hosted by this country are Skoda, Korean Hyundai, and Toyota Peugeot Citroën Automobile (TPCA) which was established as a joint-venture of Toyota Motor Corporation and PSA Peugeot Citroën. There are many local suppliers, and the Czech steel, metals and plastics industry depends heavily on the automotive industry's performance. Since January till May 2017, based on the data from individual companies collected by Auto SAP, these three manufacturers have produced 583,586 units of light commercial vehicles (LCV), Skoda 58%, Hyundai 27%, and TPCA 15%. 536,626 units of them are equivalent to 92% of the total production have been exported to other countries. However, there are more than just manufacturing firms in the automotive sector. There are also vehicle parts, the sale and servicing of cars, their financing for corporate or retail customers or the sale of spare parts.

In 2015, car export sales, as the main driver of growth in the automotive market, increased 110% since 2010, while domestic sales rose 29%. The total car production was 1.3 million units in 2015, and producer prices decreased 2% due to higher input costs, currency volatility and stronger competition in the market. Thanks to strong and healthy sales, profit margins of car producers and suppliers are still anticipated to continue stable. Payment behaviour is generally good with a low number of non-payment notifications, and this is expected to remain unchanged in the coming months. The insolvency level in this industry is expected to remain low. However, there are some cautions with steel producers and steel service centres, as many businesses in this segment suffer from low sales prices, sharp competition, very low margins and raised bank debts.

While the market situations are projected to continue positive for the time being, some downside risks could appear in the future such as a slowdown of Eurozone growth, the negative consequences of Brexit for automotive exports to the UK, or even the recent news about the President Milos Zeman who has committed to fight against his government to give the nation a referendum on EU membership. Besides, the increased pressure on prices from original equipment manufacturers (OEM) like the VW Group (Škoda is part of the VW Group and many Czech suppliers deliver to other VW OEMs) could have an undesirable consequence on Czech automotive businesses.



Slovakia

As the automotive industry is recognised as a key player of Slovak production, this was rewarded with an investment-friendly environment through the creation of industrial parks, tax breaks and governmental subsidies to attract suppliers.

Although, Slovakia, with a population of 5.4 million, is one of the two smallest Central European new EU members, this country is one of the best performers. Following reforms, the economy and consumption have experienced successful growth in the past few years.

However, Slovak car ownership is relatively low compared to the rest of Europe and, as in the other new EU countries, used car imports are a significant factor. Imports account for one out of every two car purchases, and the average vehicle age, while decreasing, is 13 years. Imports of vehicles more than 10 years old are not permitted, and a certificate of compliance with EU norms is a requirement. The Czech brand Škoda, long familiar to Slovaks, is the leader in terms of new car sales.

Car production in Slovakia increased slightly to 1.040 million vehicles in 2016, up from 1.039 million the year before, as reported by the country's Automobile Association. Automotive accounts for 45% of Slovakia's manufacturing activities and 35% of exports. This country has the highest car production per capita in the world, as Slovakia is home to three car plants run by Volkswagen, Kia and Peugeot. A fourth run by Jaguar Land Rover is due to come online next year. The new £1 billion plant in Nitra, western Slovakia, is currently under construction and will eventually employ around 2,800 people. The first vehicles are expected to come off the production line in late 2018.

Major strengths of the industry are its close proximity to core export markets in Europe, low labour costs, and government support. Profit margins of vehicle manufacturers are expected to increase further in the near future due to healthy sales, lower costs for steel and plastics and improving efficiency in the production process. Car market conditions in Slovakia are anticipated to stay positive. However, due to its high export dependency, the Slovakian automotive sector remains highly vulnerable to unfavourable growths in the global car market such as a major fall in demand in the Eurozone and China. In 2016, Slovakia was ranked the twelfth in the world in terms of car exports value with USD15.5 billion which was about 2.2% of total car exports.

Interestingly, in 2016, the Czech Republic and Slovakia were ranked in the world as the sixth and seventh highest positive net exports involving international car sales, with USD15 billion and USD13.1 billion net exports respectively. The net export is defined as a value of a country's total exports minus the value of its total imports.



Poland

Polish automotive sector ranks the second in terms of manufacturing output as one of the major pillars of the country's economy. Three major passenger car OEMs (i.e. Fiat, Opel, Toyota), the new Volkswagen plant, several bus producers and hundreds of Tier 1 and 2 manufacturers make their firm industrial bases in Poland. In 2016, Poland was placed the 17th in the list of car exporting countries in the world with \$7.6 billion car exports and 1.1% of the total car exports in the world.

An outstanding cost-to-quality ratio in Poland offers the significant pool of talented people easy to reach. Short distance to major European motor vehicle markets, attractive incentives system, stable and predictable economy make Poland a place worth considering as an investment location.

In addition to car manufacturing, this country is well positioned as a part and accessories supplier, both for the domestic and the international market. In general, almost half of the revenue and exports in the automotive market in Poland are produced by component and part sales.

In summary, high growth potential for sales of new cars in Poland, with a large quantity of qualified workforce across numerous main Polish automotive regions, easy and quick access to key OEMs and suppliers in the European market are major opportunities and motivations for the expansion of the automotive industry in Poland.

Sources:

- Market Monitor Automotive Czech Republic and Slovakia 2016, by Atradius
- The Central and Eastern European automotive market, Slovakia and Poland by EY
- World's Top Exports Report, WTEEx, 2017
- Polish Investment and Trade Agency, Automotive