

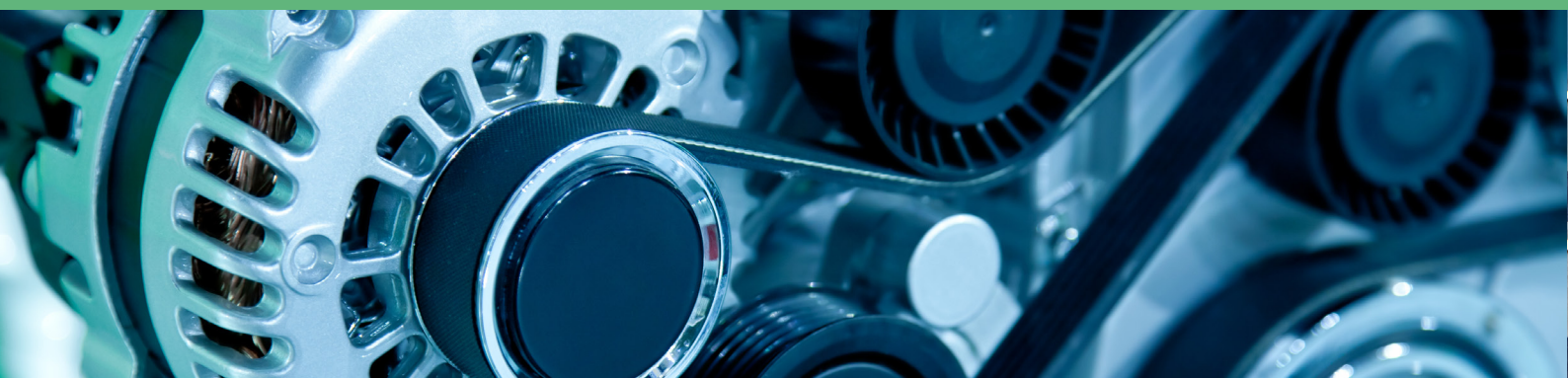
PANORAMA

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Automotive Sector Central Europe

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by Grzegorz Sielewicz,
Coface Economist based in Warsaw, Poland



The automotive sector plays an important role in the CEE's economic activity. Thanks to low labour costs, the educated workforce, geographical proximity to Western European markets, tax incentives and the stabilising legal environment, CEE countries have become attractive destinations for investment by global car manufacturers.

The automotive sector contributes to the economic growth of CEE and has a sizeable share in the region's economy. As an employment sector, it provides 850,000 jobs - a 2.5 % share of total employment. Our Panorama focuses only on car manufacturers in CEE countries where significant volumes of cars are produced: the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. There are, in total, 33 car plants in these countries, manufacturing engines, personal cars, commercial vehicles and buses. The CEE region has been able to attract FDIs thanks not only to attractive labour costs and its geographical proximity to Western Europe, but also its educated

workforce and the improving business climate which is more favourable for investors. Despite these strong foreign direct investment (FDI) inflows, only two CEE countries figure in the list of the world's 20 biggest vehicle producers. If last year's total car production from the 6 countries covered by our analysis (the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) were combined, they would equal the amount manufactured in India - the world's 6th largest car manufacturer.

Despite the economic deterioration noted in several emerging economies, the automotive sector in the CEE region has been generating fairly dynamic sales growth. This mirrors the improved prospects of the sector's main external market, the Eurozone, where a significant share of CEE automotive production is shipped. Since the 1990's, the CEE region has been benefitting from FDIs in its domestic car plants. Some of these plants became sites for manufacturing and assembling foreign brands. However two local brands, Czech Skoda and Romanian Dacia, have been able to survive in the competitive global market.

Although the increased volumes in car production sales are confirmed by hard data, the automotive sector is not risk-free. Many CEE economies are dependent on foreign trade. This huge dependence on exports is positive during a period of booming demand but can be negative when markets are deteriorating. Although rebounding private consumption in CEE economies makes this addiction to external markets less of a danger, it still remains a crucial factor given that the prevailing share of the CEE's automotive production is sent abroad. Despite improved economic prospects, consumers are still cautious in their purchasing decisions and expectations of sizeable discounts are an important criterion in their brand selection process. At the same time, growth in car registrations is not only a result of increased demand for vehicles but also due to self-registrations affected by car manufacturers and their dealers. With these latest developments and improving domestic prospects, is the CEE automotive sector still reliant on foreign demand?

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