Slovakia

February 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since September 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

In H1 of 2020, the sector was impacted by the consequences of the first lockdown (e.g. transport and supply chain issues), and agriculture value added is estimated to have decreased by 2% last year. The 2020 harvest had higher year-on-year yield per hectare compared to 2019, while energy costs decreased. In 2021 value added is forecast to increase by more than 5%.

Automotive/Transport

Remains Poor

Slovak automotive added value is estimated to have contracted by 12.5% in 2020. Producers and suppliers suffered from globally deteriorating sales for passenger cars and commercial vehicles, which has led to severe liquidity strains and cash shortfalls. Margins were already under pressure before the coronavirus outbreak, due to disappointing sales in 2019 and increased investment intended to cope with the shift away from combustion engines towards e-mobility.

While a rebound in automotive production started in H2 of 2020, production and sales volumes have declined again since Q4 of 2020 due to the second lockdown across Europe. While no substantial increase in payment delays or insolvencies was recorded in 2020, an increase in payment defaults cannot be excluded in the coming months. While the automotive performance outlook in H1 of 2021 is rather poor, in the mid-term the sector should benefit from massive investments announced for the upcoming years.

Chemicals/Pharmaceuticals

Remain Fair

Chemicals and pharmaceuticals businesses generally show robust business financials, good payment records and low insolvency rates compared to other industries. As many chemical businesses supply the automotive sector, they have suffered from decreased demand. In general, no increase in payment delays or insolvencies has been recorded in 2020, but the developments in 2021 are highly dependent on the performance of the end-user industries.

Within the pharmaceuticals industry, some businesses requested longer payment terms in 2020, but value added is forecast to grow 8.5% in 2021 due to higher health care expenses.

Construction/ Construction Materials

Remains Poor

Operating margins are very tight in this industry, with increased credit risk mainly for smaller players. Due to the recession in 2020, businesses are affected by postponement of projects and reduced order volumes. After a significant 18% drop in added value in 2020, the contraction is expected to continue in H1 of 2021. Although no substantial increase in payment delays or insolvencies was recorded in H2 of 2020, both are expected to rise in the coming months.

Consumer Durables

Remains Fair

Private consumption of non-food consumer goods has deteriorated due to the coronavirus impact, with many businesses temporarily closed due to the lockdowns. However, e-ommerce and online sales of consumer durable goods have increased. The second lockdown brought another contraction to the sector in Q4 of 2020, and although there were no frequent payment defaults or increases in insolvencies in 2020, the main effect is expected to be seen in H1 of 2021. Increased unemployment, postponed payments of household loan instalments and lower disposal income could have an adverse impact on consumer sentiment and household spending in 2021.

Electronics/ICT

Remains Fair

Sales of electronics/ICT products have been negatively affected by the temporary closure of businesses due to the lockdowns. While smaller stationary stores have struggled to survive, e-retailers have been able to offset the overall decrease with robust online sales, although at the expense of lower margins. Those sales were driven by higher demand for home-office equipment (phones, laptops, etc.) due to the increase in remote working. The 2021 performance outlook remains stable. However, due to the second wave of the pandemic and related lower consumer confidence, households are expected increase their savings in Q1 of 2021, postponing their expenditures to later in the year.

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Financial Services

Remains Fair

A large number of Slovakian companies faced lower revenues in 2020, going on to increase borrowing in order to fill the gap in working capital financing. This resulted in an increase of corporate loans supported by the state (including postponement of bank instalments, loans with state guarantees and wage compensation). Although there was no increased number of loan defaults in 2020, it is expected that the situation will deteriorate in 2021.

Food

Remains Fair

While many food producers have benefited from higher household consumption and decreased energy prices in 2020, some businesses had to tackle the adverse consequences of the coronavirus-related lockdown (e.g. transport issues, supply chain disruptions, closure of hotels and restaurants). In general, the outlook for H1 of 2021 is stable, and food value added is forecast to grow by 3% this year.

Machines/Engineering

Remains Poor

Mainly in H1 of 2020, investments of manufacturers in machines and related items deteriorated, while engineering companies faced issues with coronavirus-related restrictions in cross-border employee traffic. A significant rebound is not yet in the cards. It is expected that insolvencies will increase in H1 of 2021, after the temporary protection of debtors against creditors and state support have expired.

Metals

Remains Poor

In H1 of 2020, metal producers suffered due to deteriorating demand from key buyer sectors (automotive, construction and machines). The lift of restrictive measures and reopening of businesses had a positive impact on activity in H2 of 2020, and the sector benefited from resurging demand from automotive and rising metal prices. However, demand is expected to slow down again, as the current lockdown measures and the second wave of the pandemic impact the economic performance.

Paper

Remains Fair

The sector remains impacted by the ongoing digitalisation, which has led to decreasing demand over the past couple of years. This trend has accelerated during the pandemic. However, the performance outlook remains fair for the time being, and in 2021 paper value added is forecast to grow by more than 5%.

Services

Down from Poor to Bleak

Due to lockdown measures and subsequent business closures in H1 and again since Q4 of 2021, many segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotels and catering value added is estimated to have shrunk by 7% in 2020. The parliament adopted emergency financial support (e.g. postponement of bank instalments, guarantees and wage compensations) in order to help businesses to survive. While this has helped to avoid a sharp increase in payment defaults and insolvencies for the time being, it is expected that business failures will start to rise substantially in H1 of 2021. Services value added is forecast to just level off in 2021 after an estimated 8% contraction in 2020.

Steel

Remains Poor

In 2019 steel demand from manufacturing already slowed down, while steel producers were affected by rising energy and production costs and continued import of cheaper Chinese steel. Moreover, environmental regulations put additional pressure on the industry. The lift of the first lockdown and reopening of businesses had a positive impact on activity in H2 of 2020, and the sector benefited from resurging demand from automotive and rising steel prices. However, demand is expected to slow down again, as the current lockdown measures and the second wave of the pandemic impact the economic performance.

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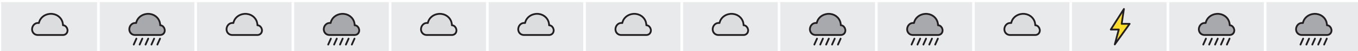

Source: Atradius

Industry performance

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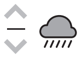
Textiles



Remains Poor

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition, thin margins, lower sales, changes in customer behavior and increased competition from new online retailers. The performance has further deteriorated due to low sales during the lockdowns. Textiles value added is estimated to have contracted 17% in 2020. It is expected that insolvencies will increase in 2021, after the temporary protection of debtors against creditors and state support have expired.