

Łukasz Lewkowicz

The automotive industry in Slovakia has overshadowed by the COVID-19 Pandemic

The automotive industry is a key industrial sector in Slovakia. It is also the main source of direct foreign investment in the country. The situation in the automotive industry during the first wave of the COVID-19 pandemic, when automotive manufacturers suspended car production, had a significant impact on the Slovak economy. On the other hand, the lockdown introduced by the Slovak authorities in autumn 2020 affected the industry to a very limited extent, which was related to, inter alia, exports to East Asian markets. In order to fight unemployment and maintain employment, the Slovak government launched a modified aid program, "First Aid Plus".

The state of the automotive industry in Slovakia. Slovakia is currently one of the most important centres of the global automotive industry and is the world leader in the number of passenger cars produced per capita. This country of about 5.5 million inhabitants has produced more passenger cars in recent years than Italy or Great Britain, whose populations each exceed 60 million. Until 2006, there was only one car manufacturer in Slovakia – Volkswagen Slovakia in Bratislava. In 2006, two more car companies started operations: KIA in Žilina and PSA Peugeot Citroën in Trnava. In October 2018, Jaguar Land Rover Slovakia, with a factory in Nitra, entered the Slovak market. Large car manufacturers decided to invest in Slovakia mainly due to its proximity to the main European markets, its well-developed communication infrastructure in the western part of the country, its qualified workforce, and favourable tax exemptions. At the same time, thanks to investments by the automotive industry, the most modern assembly lines were built throughout the region, which also includes a component production network.

Car manufacturers in Slovakia currently employ over 177,000 people. The main pillar of Slovak exports is Volkswagen Slovakia. The company is one of the largest private employers in Slovakia and along with its employees is also the largest taxpayer to state budgets. During its operations in Slovakia, the company has invested over EUR 4.5 billion. Currently, it employs 12,100 workers, while KIA employs 3,800 people, PSA about 4,500, and Jaguar, 1,500.

Impact of the pandemic on the automotive industry. During the first lockdown in Slovakia, all factories suspended production for several weeks due to the declining demand for cars, disruptions in supply chains, and the introduction of government restrictions to limit the spread of the COVID-19 pandemic. The autumn lockdown affected the Slovak car industry to a much lesser extent. Although customers in Western Europe are buying fewer and fewer cars, Slovak manufacturers have not yet felt the decline directly, as the decline in sales will not translate into a slowdown in production for a few more months. In addition, in recent months there has been an increase in demand for passenger cars in China, which is the largest sales market for Volkswagen in Slovakia. Jaguar Land Rover Slovakia plans to limit its losses by introducing new car models this year, including the Land Rover Defender 90. It also makes its economic situation dependent on the shape of economic agreements between the EU and Great Britain. All manufacturers emphasize the uncertainty in the car market in the coming months. Slovak economists believe that a lasting improvement in the economic situation will only come after the end of the general COVID-19 vaccination program and the lifting of restrictions. The mobilization of funds from the EU Reconstruction Fund this year is also expected to improve the situation, but these effects will not be felt until 2022.

The labour market and the new anti-crisis shield. Despite the lockdown, the situation in the Slovak labour market remains relatively stable. However, a slow increase in unemployment has been visible for 10 months. In



December 2020, approx. 196,000 people remained unemployed in Slovakia. The effects of the pandemic mainly affected services, but they were also felt in industry, trades and construction. Due to the second wave of the pandemic, on October 28, 2020, the Slovak government extended the anti-crisis package for entrepreneurs until March 31, 2021. Some modifications were also made to the existing support program "First Aid". The new rules for transferring funds apply to applications submitted in October 2020. Entrepreneurs can also receive financial aid for the period from January to March 2021.

In the "First Aid Plus" program – compared to its previous version – financial assistance was increased from 80% of the average earnings of an employee to 80% of the total labour costs of the employee for the time of the obstacle by the employer (an increase from EUR 880 to a maximum of EUR 1100), the assistance for self-employed persons, representatives of liberal professions, and sole proprietorships with limited liability has also increased (the lump-sum allowance has been increased to EUR 315). In addition, the SOS grant of EUR 300 was reinstated for those who had stopped working as a result of the State of Emergency and were not entitled to any other assistance. Additional remuneration for COVID-19-related expenses has also been introduced for health care workers, social workers, and volunteers who have been infected with the virus in connection with the performance of their job duties. Additional funds in conjunction with the sickness benefit may amount to approximately 80% of the employee's gross salary. Although the program introduces a number of facilities for small and medium-sized enterprises and the self-employed, the above-mentioned car factories and their employees can also use it.

Conclusions. The automotive industry in Slovakia is experiencing the economic crisis related to the COVID-19 pandemic relatively mildly. This is particularly important because this sector generates nearly half of Slovak industrial production. Automotive concerns quickly resumed production after a several-week hiatus during the spring lockdown. So far, there have also been no mass layoffs of employees working in this industry. Thanks to orders for the coming months and a very absorbent Chinese market, car companies are currently managing to keep production at a good level. Entrepreneurs can also take advantage of the "First Aid Plus" program.

A significant challenge facing Slovakia is the excessive dependence of the economy on one industry. Due to the narrow concentration of industry, the country is prone to fluctuations in global demand as well as to supply chain disruptions similar to those experienced in the first wave of the pandemic. Another problem may be the global trend of switching to electric vehicles, which will eventually eliminate part of the Slovak production related to internal combustion engines.