

The Covid-19 Crisis and the Automotive Industry in Central and Eastern Europe: Risks and Opportunities

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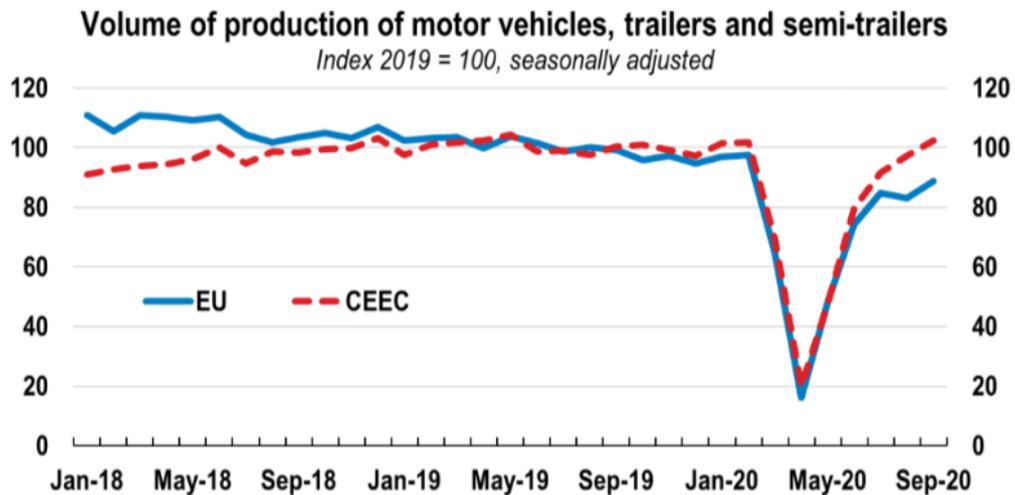
In many Central and Eastern European (CEE) countries, including the Czech Republic, Hungary, Poland, Slovenia, Slovakia and Romania, the automotive sector plays an important role in economic growth and employment. The industry has been hit hard by the Covid-19 pandemic (Figure 1). Lockdown measures in spring 2020 forced factories to close down or to operate at a fraction of their normal capacity. Demand for motor vehicles plunged and is likely to be subdued for longer, reflecting income losses and heightened uncertainty.

A recent OECD paper discusses the industry's outlook in the CEE region and shows it will mainly hinge on foreign demand and the ability to seize new opportunities as the industry adapts and transforms.

The economic outlook is highly uncertain, but, after a sharp recovery in the third quarter of 2020, activity in the

industry will likely remain subdued in the short to medium run. The Covid-19 crisis is expected to have a long-lasting impact on economic growth in CEE countries' main trading partners (OECD, 2020). In 2021, demand for cars manufactured in Europe is projected to remain below its pre-crisis level, based on OECD Economic Outlook projections and an estimated relationship between car sales and GDP growth.

Figure 1



Note: CEEC include the Czech Republic, Hungary, Poland, Slovak Republic and Romania. Data refer to the Motor vehicles, trailers and semi-trailers industry (i.e. category 29 in the ISIC Rev 4 classification), except for Slovak Republic (Manufacture of transport equipment industry i.e., categories 29 and 30).
 Source: Eurostat; National Bank of Slovakia

The impact of the COVID-19 crisis on car demand will vary by market segment. Consumers tend to buy smaller cars during economic downturns, which can benefit countries specialised in mass-market segments. At the same time, while sales of fossil-fuel powered cars have plunged, demand for electric cars has remained high. This shift might not benefit car producers in CEE countries, as alternative cars still account for a low share of total production in the region.

There have been concerns that the pandemic could cause supply chains disruptions with large negative impact on the automotive industry because of its high degree of integration into global value chains. Until now, supply disruptions have played a more limited role in crisis transmission mechanisms than the shock to demand. At the same time, bankruptcy risks

among sub-contractors, especially the smaller ones, have increased and shortages of semi-conductors have affected car production.

In the longer term, the crisis could leave lasting scars in the industry, by stalling investment and upgrading to knowledge-intensive activities. This is worrisome, as investment is needed to adapt to structural transformations, especially the shift to alternative powertrains and digitalisation. Besides, it is unclear if the pandemic might trigger a shortening of the supply chains, offering CEE countries opportunities to tighten the links between multinational car producers and domestic suppliers.

Policies to improve the investment climate and strengthen resilience of viable firms can help the recovery. Addressing labour shortages and adapting skills to fast-changing manufacturers' needs will be key to maintain competitiveness of the CEE region in the automotive industry.

Further reading

Klein C., J. Høj, and G. Machlica, (2021), "The impacts of the COVID-19 crisis on the automotive sector in Central and Eastern European Countries" OECD Economics Department Working Papers, No.1658, OECD Publishing, Paris.