Slovakia

Automotive Sector Outlook

JULY 2026

ALLIANZ-TRADE.SK

Global sector rating:

High Risk

4

Local sector rating in Slovakia:

Medium risk

3

Sector strengths and weaknesses:

Strengths

- Historical and acknowledged manufacturing hub in Europe
- Low labor costs amid other European peers
- New European EV capacity build-out (industrial diversification)
- Growing interest from China's auto industry (rising greenfield FDI)

Weaknesses

- Export-dependent (almost all vehicle production is channeled to exports)
- High trade exposure to US tariffs
- Strong competition from Eastern European hub (Hungary, Romania, Czech Republic)

What to watch:

The outlook for European car demand is stubbornly cloudy. Five years on, the market has still not recovered from the pandemic — EU registrations sit roughly a fifth below their 2019 peak — and what recovery there is keeps being smothered rather than fueled. The macro backdrop in the big economies is sluggish, France and Germany foremost; squeezed household purchasing power keeps big-ticket buyers on the sidelines and consumers remain reluctant to make the jump to electric just as the regulatory calendar forces carmakers to expand their EV line-ups — a costly mismatch between what OEMs must sell and what buyers will actually take. Onto this lands a fresh external shock: US tariffs of 15%, with 25% threatened, have already cut EU car exports to America by a fifth. And China squeezes from two sides at once — displacing European brands in their once-lucrative Chinese profit pool while undercutting them on home turf. Demand isn't collapsing, but nearly every tailwind has turned into a headwind.

EVs at the tipping point: laggard adoption, 2026 momentum. Brussels' decarbonization calendar — 90% emissions-reduction target by 2035 — has forced carmakers to push electric models faster than buyers wanted to follow, and progress has been slow: battery-electrics were just 17.4% of EU sales in 2025, up from a low 13.6% a year earlier.

The drags are familiar — a cavernous gap between leaders and laggards, with Nordic shares near 80–98% against single digits in Italy and Spain, patchy charging infrastructure and, critically, stop-start incentives. Germany's abrupt scrapping of its purchase bonus sent BEV registrations down 27% in 2024 — the clearest proof that, as Norway's and China's blueprints show, only long and consistent support builds self-sustaining momentum. Slovakia like several other Eastern European peers, steadily upgraded into an EV production hub by German and Asian carmakers, is directly exposed to how this demand curve bends. And 2026 finally looks more constructive: The BEV share climbed to 19.4% in Q1, from 15.2% a year earlier, helped by a wave of cheaper models under intensifying Chinese competition, revived incentives in Germany and a fuel-price spike after the Iran conflict that sharply lifted EV enquiries, alongside growing confidence as range, charging speed and infrastructure improve. Ambition and market are, at last, edging in the same direction.

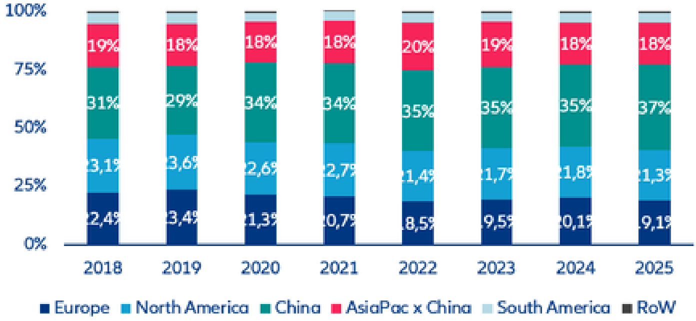
The new US tariff regime confronts Slovakia with a two-pronged threat. Higher duties on made-in-Europe cars either force European carmakers to overhaul their supply chains — relocating output toward the US or away from tariff-exposed hubs like Slovakia — or simply choke demand, as steeper sticker prices deter American buyers of imported vehicles. The damage is already on the books: US imports of motor vehicles from Slovakia fell roughly 25%, cutting the country's share of American vehicle imports from 3% to 2%. The slide has carried into 2026, though at a gentler pace. Here Slovakia has fared comparatively well — its US imports are down about 12% year-to-date, a far shallower drop than Germany's -27% or the UK's -33% through April, a reflection of its smaller absolute footprint in the US market. Cold comfort for a hub whose premium-SUV lines are built largely for export, but evidence that, for now, the tariff shock is hitting Europe's biggest car exporters harder than its Central European assembler.

Chinese capital is redrawing Eastern Europe's industrial map. Hungary and, historically, Serbia have led the way, and Slovakia has more recently joined them, scaling up on the back of Chinese capital. The logic is straightforward: as Chinese EV pure-players and battery makers seek a foothold inside the European market — to sit behind the EU's tariff wall and next to their customers — they are targeting exactly these countries, drawn by low labor costs, generous incentives and a deep, decades-old manufacturing expertise in autos. Hungary has become the flagship, home to the continent's largest Chinese battery and EV plants; Slovakia has followed with a Chinese-backed gigafactory and a Geely-owned car plant. The result is a two-speed periphery: a handful of states levelling up their industrial base and moving into the highest-value link of the EV chain, while others — Czechia most conspicuously — sit on the sidelines. For Beijing, these hubs are less an end than a gateway: the cheapest, most credible on-ramp into Europe's car market.

Global sector overview:

The automobile balance of power is shifting to Asia, notably China. The global car market grew for a third straight year in 2025, up ~5% and accelerating from 2024's +3% — but the engine of that growth has shifted decisively east. The two big mature markets stalled: Europe was flat and the US managed just +2%, while China surged +9%, with South America, the Middle East and the wider emerging world carrying the expansion; APAC ex-China and Japan added a more modest +3%. The balance of power is tilting fast. China alone now commands 37% of global sales — up 2 points on 2024 and 8 since 2019 — while Europe has slipped below 20% and North America to 21%, both at fresh lows. Together, China and the rest of Asia-Pacific now account for over half the world's cars (~55%). The story of 2025 isn't simply more vehicles — it's a market whose center of gravity has moved to Asia, and to China above all.

Figure 1: annual vehicle sales per region breakdown (market share)



Sources: Wards, Allianz Research

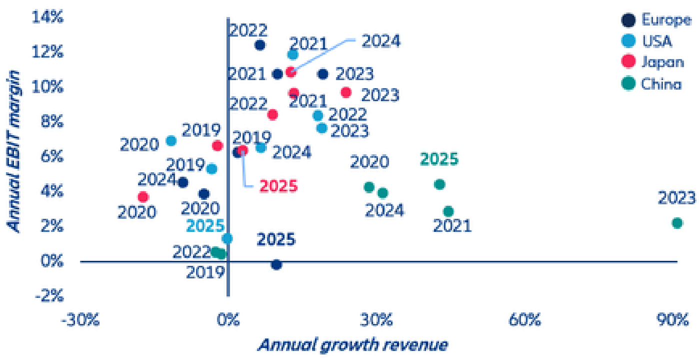
Rules have changed: protectionism is everywhere and Chinese competition turns international. On one side, Washington's 25% import tariff has abruptly raised the cost of reaching the world's most profitable market — a direct hit for Japanese and Korean makers that book an estimated 30-50% of revenue in the US, and one that forces hard questions about relocating production and rewiring supply chains. On the other, a Chinese export wave has intensified: with brutal price competition and overcapacity at home, Chinese OEMs are pushing surplus abroad and hunting new growth channels. Their European share roughly doubled to ~6% across 2025, exiting the year nearer 9%, and they are advancing fastest in the emerging Asian markets Japan and South Korea long dominated. This is no marginal threat — the new entrant pairs aggressive pricing with a genuine lead in EV and software-defined vehicles. And it lands just as the trade environment tightens from both ends: protectionism is no longer a US reflex but a European one too, with EU tariffs of up to 45% on Chinese EVs. Squeezed access, a sharper rival, walls rising on every side.

Figure 2: US imports and Chinese exports of cars (12-month trailing annual growth)

Sources: BEA, China Customs, Allianz Research

Profitability is draining out of the legacy auto industry — and the tariff argument is only a part of the story. For Europe, America and Japan's carmakers, 2022 marked the peak: double-digit EBIT margins built on post-pandemic pricing power. Three years on, most sit in low single digits, Europe's names barely above zero, and several have slipped into the red — enough to turn "crisis" into a word executives now use out loud. New trade barriers inflated access and input costs, but the squeeze runs wider. The Nexperia standoff of late 2025, a Dutch-Chinese dispute over a maker of penny-cheap chips, forced several large European and Asian carmakers to cut output and idle lines — proof that one component can still halt a plant and that supply chains remain a live cost risk. Carmakers have also written down past bets that underdelivered, from China ventures to EV programs. And soft EV demand has denied them the scale to bring costs down, keeping the still-wide gap between profitable ICE and loss-leading EV models stubbornly open. Europe compounds the pain: demand offers no lift, the market sits roughly a fifth below its 2019 peak, and its two biggest economies, France and Germany, remain sluggish.

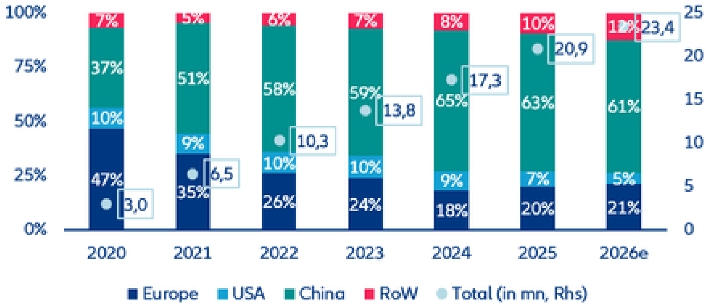
Figure 3: revenue momentum and profitability per carmaker origin and vintage (since 2019)



Sources: LSEG Datastream Allianz Research

China owns the electric car — at both ends of the transaction. It buys more EVs than the rest of the world combined, with battery and plug-in models now more than half of new cars sold at home, making the country the working blueprint for what mass electrification actually looks like. And it builds them cheaper: a domestic market so crowded — a hundred-plus brands locked in a brutal price war — that survival demands wafer-thin margins and relentless cost engineering, honing exactly the weapons Chinese makers now carry abroad. The upshot is competition Western incumbents struggle to answer, on technology and price at once. That sharpens Europe's dilemma. EU electric penetration — 17.4% of new cars in 2025 — is running well short of the pace its own 2035 combustion phase-out demands, at least at the point of new registrations. Which raises an uncomfortable question: should Europe court Chinese partners, capital and know-how to accelerate adoption and hit its climate goals? The appeal is obvious — cheaper cars, faster rollout — but so is the risk: leaning on a stronger external rival could hollow out an already fragile domestic industry, trading an environmental win for an industrial loss. The US took the opposite fork. With the USD7,500 federal credit dead since September 2025, EV mandates gutted and sales roughly halved, Detroit is pivoting back to petrol and hybrids — a de facto status quo likely to hold until the political wind shifts.

Figure 4: annual sales of electric vehicles per region breakdown

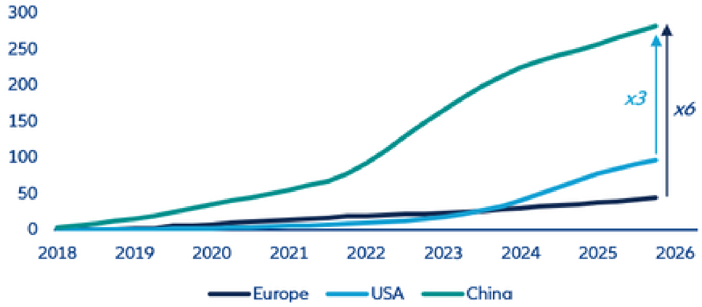


Sources: IEA, Allianz Research

Batteries are where the sovereignty debate bites hardest — and where China's lead is most daunting. Every supply shock of recent years has been the same wake-up call: whoever controls the cells controls the industry, and one disruption can idle a continent's assembly lines. On that measure Europe is dangerously exposed. Since 2018 China has poured roughly USD282bn into battery manufacturing — more than twice the US and Europe combined, and six times Europe's own usd44bn. Europe's flagship attempt to build a home-grown champion collapsed into bankruptcy in early 2025, throwing the door open to Asian suppliers. The response now is second-best by design: import the capability. Chinese battery and car makers are building and buying across the continent — multi-billion-euro cell plants, new gigafactories — while their OEMs quietly take over the plants that struggling European incumbents can no longer fill: a shuttered Spanish factory restarted, a stake in an idle site bought, Chinese models assembled inside Europe's own lines. For cash-strapped carmakers desperate to cut costs and keep plants open, Chinese capital is a lifeline. But that is precisely the trap.

What looks like a bridge to climate targets — and a patch to keep output afloat — may harden into something permanent: a historic industry hollowed out from within, its factories running on foreign capital, technology and terms. The question is no longer whether Europe can build batteries. It is how much of its own auto industry it will hand over to build them.

Figure 5: manufacturing investment into battery technology (cumulative in USD bn)



Sources: Bruegel, Rhodium, Allianz Research

The next battleground is autonomy. The car is turning from a mechanical object into a software platform, a shift already under way and now accelerating as AI matures and spreads through the vehicle stack. Autonomous driving is its sharpest expression: a market still in commercial infancy, but one that has absorbed years of investment and could be worth tens of billions within five to ten years. Here the map looks familiar. If robotaxis are the proxy for who can actually deploy at scale, the US and China are already well out in front — America's leading service now runs around 500,000 paid driverless rides a week across roughly ten cities, China's largest around 350,000 across some twenty-plus, and both are now pushing into Europe. Tellingly, the first driverless services on European roads are being launched by American and Chinese operators, not European ones. Europe lost the battery race by moving too slowly; it cannot afford a repeat on autonomy. The technology is early enough that the contest is not settled — but the window in which Europe's historic carmakers can still claim a place at the front is narrowing fast.

Table 1: average estimation of mass-deployment of autonomous technology into passenger vehicle

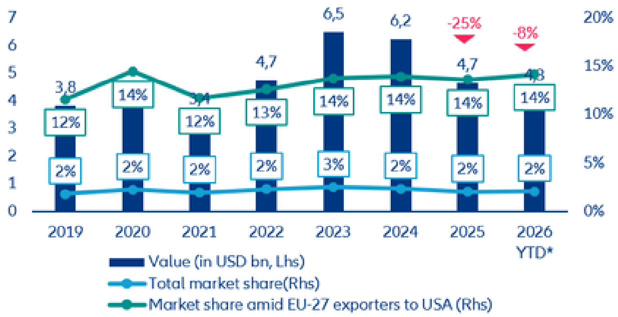
Autonomous level (cars)	Europe	North America	China	APAC	Average	Spread vs. 2023 estimate
L3 (highway pilot)	Beyond 2035	2028	2026	2029	2028	
L4 - limited usage on highway / specific urban areas)	2035	2031	2030	2029	2032	+2Y
L4/L5 (robotaxi) in urban areas	2032	2025	2028	2031	2030	+1Y

Sources: McKinsey (January 2026), Allianz Research

Local sector overview: SLOVAKIA

US tariffs have struck Slovakia's most valuable export channel. American imports of Slovak-made vehicles collapsed by roughly 25% in 2025 — from USD6.2bn to USD4.7bn — a direct consequence of the new duties, and the decline has carried into 2026, down a further ~8% as of April on annualized basis. Slovakia's share of total US car imports has slipped toward 2%, and its seventh-place ranking among America's top vehicle suppliers is now under threat from Sweden. The pain is concentrated in precisely the wrong place: Slovakia's US-bound shipments are dominated by the premium SUVs built in Bratislava — high-value units that bear the tariff's full weight. Yet the sharpest point is what did not happen — there was no offsetting gain to cushion the economy. Slovak GDP growth more than halved to just 0.8% in 2025, among the weakest readings of the post-pandemic era, as tariffs capped export momentum and fiscal consolidation squeezed domestic demand — while the country's traditionally auto-driven trade surplus, already eroding from EUR4.5bn in 2023 to EUR3.1bn in 2024, came under fresh strain. With US tariffs on European cars expected to remain over time, Slovakia's automotive industry has no choice but to find a new growth channel to offset losses from weaker US demand.

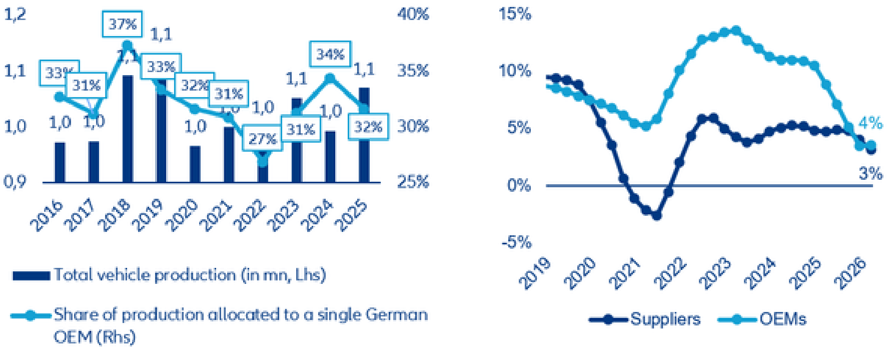
Figure 6: US imports of motor vehicles from Slovakia, value and market share amid total and from EU-27 car imports



Sources: US International Trade Agency, Allianz Research

Germany's automotive slump threaten to irradiate outward through the European supply chain. As German carmakers' operating margins have collapsed from roughly 14% in 2022 to about 4% by 2026, the pain has been passed down: their suppliers' margins have fallen further still, to around 3%, slipping below the OEMs' own for the first time. That inversion tells the story — squeezed manufacturers protect themselves by driving ever-harder bargains with suppliers, and Eastern Europe's component base, wired into German OEMs, absorbs the blow through thinner order books and cost-restructuring plans. Slovakia is doubly exposed: roughly one-third of its output now feeds a single German group. Yet it is also partly shielded — Slovakian labor costs sit around 55% below the EU-27 average, barely half the German level, so if German OEMs relocate production to cut costs, Slovakia is a natural beneficiary. The catch is that this shield is one-directional: Slovakia is among the pricier of the Central European hubs, with Czech Republic, Hungary, Poland and Romania all cheaper, so the same cost calculus that favors Bratislava over Stuttgart works against it versus its regional rivals.

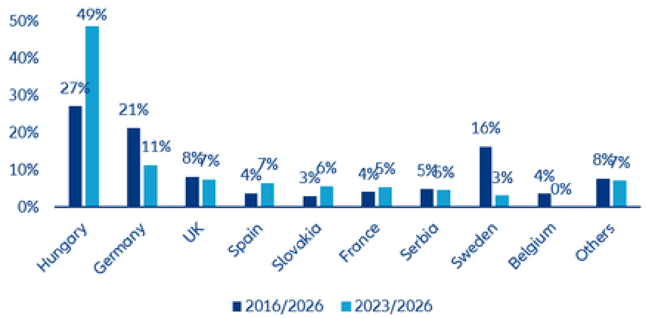
Figure 7 & 8: Slovakia car production and share of its largest German client / Operating margin rate of German carmakers and automotive suppliers



Sources: Wards, LSEG Datastream, Allianz Research

Slovakia's opening lies in a subtle shift in Chinese strategy. As Chinese carmakers — EV pure-players and increasingly others — deepen their push into Europe, they are beginning to spread their industrial bets across Eastern Europe. Hungary remains the overwhelming magnet, drawing 49% of Chinese automotive FDI in the most recent period, more concentrated than ever — but a second tier is now emerging, and Slovakia is among its clearest beneficiaries: its share of Chinese auto capital has doubled, from 3% over the past decade to 6% since 2023. That matters because the money is flowing into exactly the high-value upstream links Slovakia has lacked, the Gotion-InoBat battery gigafactory being the flagship. For an economy long stuck in downstream assembly, Chinese capital and cell technology offer a genuine route up the value chain — and a hedge as Chinese brands localize to sit within Europe's tariff wall. The caveat is Brussels. As the EU sharpens its drive to defend automotive sovereignty — tightening "Made in EU" content rules and limiting non-European inputs in cars sold in the bloc — the very investment that could lift Slovakia risks colliding with the rules designed to protect the European industry.

Figure 9: geographic distribution of Chinese automotive FDI in Europe* over 2016-2026 and 2023-2026 periods

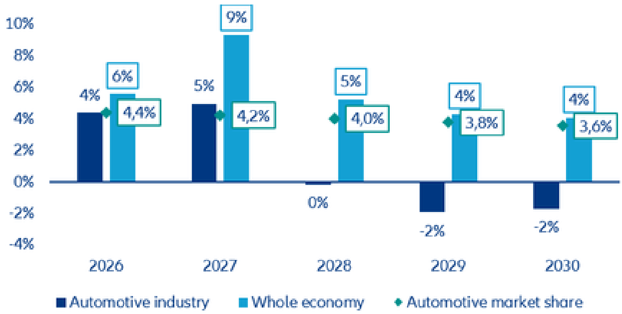


* *Europe ex Russia.*

Sources: Rhodium (China cross-border monitor), Allianz Research

Cloudy skies as Europe's car industry mutates. Slovakia's automotive gross output is expected to grow in 2026–2027, buoyed by new EV capacity buildout and battery investments coming on stream. But it will underperform a faster-expanding wider economy so the sector's share of output erodes year after year, from 4.4% toward 3.6%. Worse, that growth fades to zero by 2028 and turns negative from 2029: Unlike Czechia, Slovakia's auto sector is projected not merely to lag but to shrink as its historic growth channels deplete. The forces are structural, not passing. Protectionism is hardening — nowhere more painfully than on Slovakia's premium-SUV exports to the US — while European carmakers keep losing ground at home to a relentless Chinese advance, and tepid demand in a slow-growing Germany offers no relief. Beneath it all, the ground has shifted: the car is no longer a fossil-fueled mechanical object but a low-carbon, software-defined asset whose supply chain now runs through Asia, forcing a wholesale rethink of a model built on cheap, skilled assembly. This is a structural crisis, though not necessarily a terminal one — survivable if the right remedies are found, but only after a painful period of deep industrial mutation. In the meantime, Slovakia's manufacturing firepower need not sit idle: the same engineering base can be redeployed toward sectors where European demand is surging and capital is pouring in — defense and aerospace foremost among them.

Figure 10: Slovakia automotive growth outlook and market share, based on gross output estimates



Sources: Oxford Economics, Allianz Research

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