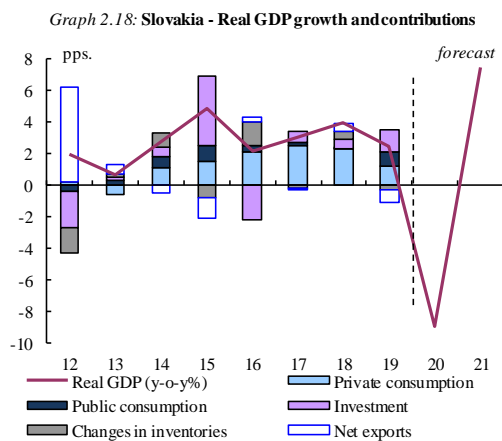


2.18. SLOVAKIA

The COVID-19 crisis is projected to severely suppress domestic and foreign demand for Slovak goods and services. Despite government measures put in place to cushion this impact, real GDP in Slovakia is forecast to contract sharply by 9% in 2020 amid a deep recession in the first half of the year, but to recover as containment measures are lifted and to grow by about 7½% in 2021.

Private consumption is expected to drop sharply in 2020 as consumers withhold spending due to closed stores, travel restrictions and higher precautionary savings. It is expected to recover swiftly in the second half of 2020 and in 2021, but not to fully return to its previous trajectory, as employment and wage growth are also impacted. The uncertainty, liquidity constraints and restrictions to business activity are projected to weigh even more on investment in 2020.

Supply chain disruptions and weaker demand in key trading partners are projected to take their toll on exports in 2020, particularly so for Slovakia's large, export-focused automotive sector, which saw exceptionally steep drops in production during the lockdown. Nevertheless, goods exports, the bulk of Slovakia's trade activity, are expected to recover relatively well in the second half of 2020 and in 2021. As the drop in imports is expected to be less pronounced, net exports are likely to act as a drag on growth. While the recovery in trade remains subject to significant uncertainties and depends on prospects in Slovakia's key trading partners and on demand in the automotive sector, Slovakia's exports are well-positioned to regain market share.



HICP inflation is forecast to decline substantially over the forecast horizon, moderating from 2.8% in 2019 to 1.9% in 2020 and to 0.8% in 2021. Energy prices are a prime contributor as fuel prices collapsed in early 2020. This is expected to reduce regulated energy prices in 2021. Services price inflation is also expected to slow overall inflation as the recession weighs on demand and on wage growth. Food prices are projected to continue growing more swiftly than overall inflation.