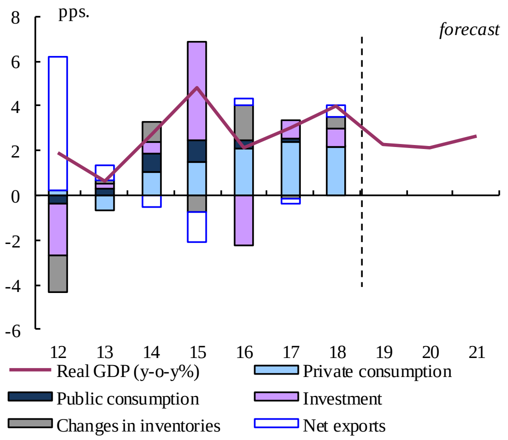
2.18. SLOVAKIA

After expanding by 4.0% in 2018, economic growth in Slovakia slowed markedly in 2019 to an estimated rate of 2.3%. This was mostly due to the negative contribution of net exports, a result of both lower foreign demand and temporary domestic factors, such as changes and delays in production in the large, export-focused automotive sector. Investment activity is also estimated to have weakened in 2019 after the strong growth observed in the previous year associated with the construction of a new car factory. By contrast, domestic demand remained robust, with record-low unemployment and strong wage increases fuelling private consumption.

The economy is projected to grow at 2.2% in 2020 and 2.6% in 2021 as exports recover and domestic demand eases slightly. Private consumption growth is likely to moderate as the rate of job creation is expected to slow markedly and real wage growth is likely to calm, both in the public and the private sector. Both exports and the trade balance are expected to slowly recover in 2020-2021. New production capacities and a competitive export sector should help Slovakia's exports regain market share. External developments constitute the main risk to the Slovak economy as it is particularly dependent on trade.

Graph 2.18: **Slovakia - Real GDP growth and contributions**



Consumer prices increased by 2.8% in 2019 and are expected to ease slightly. Services, food and energy all contributed substantially to overall inflation. The services sector is forecast to remain a key driver of price dynamics, as the increase in wages, though slowing, should continue to spill over to service prices. Inflationary pressures stemming from energy and food prices are expected to moderate. Overall, consumer price inflation is expected to settle to 2.5% in 2020 and 2.2% in 2021.