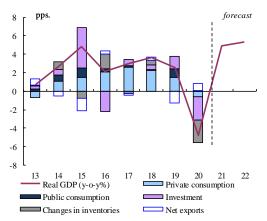
2.18. SLOVAKIA

After declining by 2% q-o-q in the first quarter of this year due to persisting pandemic-related restrictions, real GDP in Slovakia is expected to bounce back by 2.0% in the second quarter, and by 3.3% in the third quarter. On an annual basis, real economic activity is forecast to grow by 4.9% in 2021, which is slightly higher than projected in the spring, reflecting a sharper-than-expected rebound of short-term indicators. The Slovak economy is projected to reach its pre-pandemic output level in the third quarter of 2021 and to continue growing at a robust annual rate of 5.3% in 2022.

The improving health situation allowed a significant easing of containment measures in the second quarter, which should facilitate a sharp rebound in domestic spending. The latter is also assumed to benefit from a partial drawdown of excess savings accumulated during the pandemic. Continued improvements in sentiment, including in the hard hit services, retail and construction sectors, suggest that domestic demand moved onto a solid recovery path in the second quarter and should keep expanding in the coming months.

While currently hampering manufacturing exports, supply-chain disruptions due to ongoing semi-conductor shortages are assumed to have only a temporary effect on Slovakia's automotive industry, which should benefit from robust growth in external demand. Going forward, the implementation of the Recovery and Resilience Plan is set to strengthen private and public investment, further contributing to the recovery.

Rising oil prices and supply-side bottlenecks explain part of the HICP increase recorded since January, but higher inflation for services also signals strengthening demand pressures. However, continued slack in the labour market should prevent temporary price pressures from becoming more persistent. After picking up in the second half of the year, annual HICP inflation is expected to be 2.1% in 2021. Despite a projected deceleration of quarterly dynamics from early 2022 onwards, annual HICP inflation is forecast to stay around 2.2% in 2022.



Graph 2.18: Slovakia-Real GDP growth and contributions