2.18. SLOVAKIA

The recovery of the Slovak economy slowed down in the second half of 2021, as global supply bottlenecks proved to be more disruptive than expected, and the pandemic situation deteriorated. After a marked deceleration in the third quarter, annual GDP growth is expected to have been 3% for 2021. The outlook for economic activity remains weak in the first quarter of this year. The recovery is expected to regain momentum thereafter, with the economy forecast to surpass its pre-pandemic output level in the second quarter, bringing projected annual GDP growth to 5.0% in 2022, and 5.1% in 2023.

Private consumption bounced back sharply in mid-2021 on the back of easing COVID-19 containment measures. However, the resurgence of infections since autumn, combined with a low vaccination rate, is expected to have hurt domestic spending towards the end of 2021, and to continue weighing on domestic demand throughout the first quarter of 2022. The scope of the omicron wave is likely to have temporary adverse effects on labour supply via rising sick leaves and quarantine obligations. Pandemic-related uncertainty and ongoing supply chain disruptions are assumed to delay the recovery of private investments, while consumption is likely to be weakened also by slower real income growth due to higher inflation. After this temporary disruption, domestic demand is forecast to resume its robust expansion over the rest of the forecast horizon, as spending by households and corporations catches up to its pre-crisis path. Accelerating public investments funded via Next Generation EU are set to provide additional growth stimulus.

Slovakia's industry-heavy export sector has been hit by severe supply-chain disruptions. Global semiconductor shortages are assumed to persist throughout 2022, gradually fading by the end of the year. This is expected to constrain Slovakia's automotive industry, resulting in markedly lower export levels. Due to a large share of imported intermediate inputs, weaker exports should also go along with lower import growth, before trade volumes catch up to their previously predicted paths from 2023 onwards. As the robust recovery in domestic demand fuels imports further, the contribution of net exports to GDP growth is expected to be slightly negative over the forecast horizon.

Inflationary pressures have intensified recently, driven by adverse supply side developments and labour shortages, as well as by fast-rising commodity and input prices. A sharp increase in regulated energy prices and faster food price growth is expected to raise inflation further at the beginning of 2022, before price growth decelerates during the rest of the year, bringing average annual inflation to 6.4% in 2022. Well-anchored inflation expectations should prevent temporary price pressures from becoming entrenched, and allow inflation to slow to 2.4% in 2023.

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