2.18. SLOVAKIA

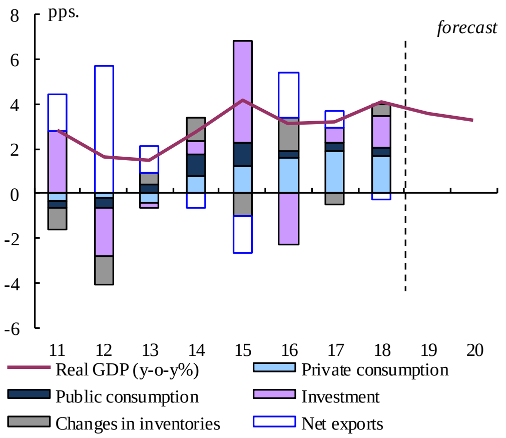
Economic growth in Slovakia remains strong but is projected to moderate from 4.1% in 2018 to 3.6% in 2019 and 3.3% in 2020. Conditions remain favourable for domestic demand to continue fuelling GDP growth, albeit at a somewhat slower pace than in 2018. While remaining the key driver of overall growth, private consumption growth is expected to slow slightly in 2019 and 2020 compared to the preceding year, as an expected slowdown in employment growth may dampen otherwise robust growth in household disposable income.

In the first quarter of 2019, the economy grew by 0.9% quarter-on-quarter, supported mainly by net exports. Despite rising concerns about global trade prospects, net exports are expected to stimulate economic growth markedly in 2019, not least due to rising production volumes in the export-oriented automotive sector. These are likely to help offset the moderation in global demand. Moreover, Slovakia's export product mix – especially in higher-value automobiles – has proven relatively resilient to this moderation.

Investment activity is likely to normalise to more moderate growth rates from 2019 onwards as capacity-building in the automotive sector comes to an end. However, EU funds are projected to shore up overall investment activity.

Falling unemployment, general government wage hikes and a sharp rise in the number of job vacancies in 2018 have put upward pressure on the growth in labour earnings, which is expected to peak in 2019. This is forecast to significantly bolster household disposable income, allowing private consumption to maintain much of its recent momentum in 2019 and 2020. Net job creation is anticipated to continue in 2019 and in 2020, though at a slower pace than recently.

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



Consumer price inflation reached 2.5% in 2018, with all components contributing positively. In line with the tight labour market and rising wages, service price inflation picked up in 2018 and is set to play a major role in maintaining the consumer price inflation rate at 2.4% in 2019 and 2.3% in 2020.