2.25. SLOVAKIA

After expanding by 3.4% in 2017, the Slovak economy is expected to grow by around 4% in 2018 and 2019, with private consumption and investment likely to be the main drivers of growth. Investment growth is anticipated to peak in 2018, driven by booming investment in the automotive industry and some large-scale public infrastructure projects. Investment surged by 6.2% (q-o-q) in 2018-Q1, pointing to a robust annual increase for the year as a whole. Investment activity will probably remain solid throughout 2019, supported by a more buoyant drawdown of EU investment funds. Net trade is expected to contribute positively to growth as exports benefit from the car industry's expanded production capacity but there is heightened uncertainty surrounding global trade developments.

Households are expected to see their real disposable incomes rise as improving labour market conditions, including broad-based and swift wage growth, should outweigh the impact of rising inflation. This is expected to support continued growth in private consumption given that consumer confidence remains upbeat. Further labour market tightening in the context of already record-high labour shortages is set to keep nominal wage growth high throughout 2018 and 2019. At the same time, a shrinking supply of skilled workers, coupled with rising demand for labour, represents a potential bottleneck for Slovakia's booming economy.

Headline inflation is projected to increase to 2.6% in 2018, reflecting solid wage growth and robust household spending. Prices of services and food are expected to be the main contributors to overall growth in consumer prices over the forecast horizon. Core inflation is expected to pick up significantly this year. Both headline and core inflation are expected to ease somewhat in 2019, while remaining above 2%.

Graph 2.25: **Slovakia - Real GDP growth and contributions**