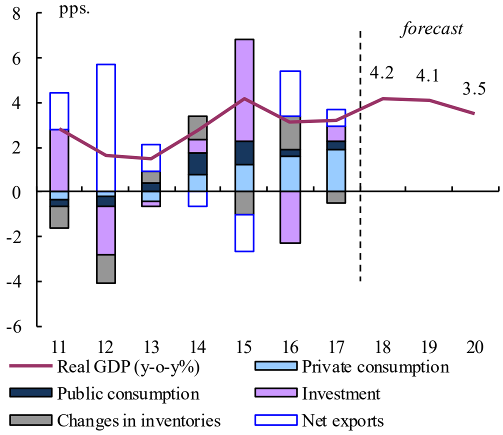
2.25. SLOVAKIA

Slovakia's economic growth is estimated to have strengthened to 4.2% in 2018 from 3.2% in 2017, driven mainly by domestic demand. Private consumption is expected to have eased slightly in 2018, contrasting with robust investment growth last year, particularly in the first two quarters. Private consumption is set to remain a robust contributor to economic growth. Indeed, consumer confidence remains at post-crisis record levels, underpinned by swift wage growth and a solid economic outlook.

Despite rising concerns about global trade prospects, net foreign demand is 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 more than offset the anticipated moderation in global trade flows.

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



Investment growth is likely to slow somewhat from 2019 onwards as capacity-building in the automotive sector comes to an end. While public investment — partly funded by the EU — is likely to shore up overall investment activity, a significant increase in the pace of EU funds absorption is unlikely to occur during the forecast horizon. Overall, real GDP growth is projected to remain strong at 4.1% in 2019 before declining to 3.5% in 2020.

Falling unemployment in 2018 has fuelled labour shortages and put upward pressure on wages. Backed by rapid job creation, rising earnings are bolstering household budgets and are likely to allow private consumption to maintain its momentum in 2019 and 2020.

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 a consumer price inflation rate of around 2.5% in 2019 and 2020.