2.25. POLAND

Poland’s economy proved relatively resilient in the first quarter of 2020, mainly due to its low exposure to hard-hit sectors and diversified economic structure. GDP fell by -0.4% quarter-on-quarter driven by a significant fall in private consumption, while investment decreased only moderately as the construction sector kept expanding and industrial production recorded just a mild contraction.

GDP is expected to plunge in the second quarter and to gradually recover from then onwards, leaving annual GDP growth at around -4½% in 2020 and 4¼% in 2021. Despite the government measures put in place, private consumption is likely to suffer in 2020 as consumers accumulate precautionary savings and withhold spending due to social distancing and high uncertainty. Coupled with supply chain disruptions and a fall in orders in March and April, low business confidence will likely have an impact on investment, which is projected to plunge in the second quarter and to recover only partially over the forecast horizon. Furthermore, a fall in demand in Poland’s main trading partners will likely take its toll on exports in 2020, especially in the transport and tourism sectors. As the drop in imports is expected to be less pronounced, the trade balance is set to be a drag on growth in 2020.

HICP inflation accelerated significantly at the end of 2019 and the beginning of 2020, driven by a sustained increase in service and food prices. However, slower wage growth and weak demand caused by the COVID-19 pandemic is set to put an end to a nearly two-year-long trend of uninterrupted increases in service price inflation, which is expected to drop in the second half of 2020 and early 2021. Moreover, a significant fall in oil prices in the first four months of the year is likely to bring energy prices down in 2020. As a result, HICP inflation is expected to average 2.7% y-o-y in 2020 and to reach 2.8% in 2021 as economic activity recovers.

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