2.25. POLAND

Poland’s economy rebounded strongly in the third quarter after a steep fall in economic activity in the first half of 2020. Real GDP grew by 7.9% quarter-on-quarter, mainly driven by a sharp rebound in household consumption and a rise in exports, which boosted the trade balance. The economy continued on a strong footing into the last quarter of 2020, but a surge in new infections and the reintroduction of restrictions to control the pandemic supressed economic activity towards the end of the year, particularly in the services sector. As a result, despite some favourable readings of industrial production and retail sales during the last months of 2020, the fourth quarter is expected to show a mild contraction, leaving the annual growth rate of real GDP at -2.8%, according to the latest data by the national statistical office.

The prolongation of restrictions into early 2021 are expected to weigh on economic activity at the start of the year. However, as vaccinations are gradually rolled out and the stringency of containment measures is eased, real GDP is expected to rebound in the second half of the year. Private consumption is set to lead the recovery driven by an expected reduction in accumulated savings, increased confidence and a favourable situation on the labour market. The outlook for investment is also expected to brighten towards the end of the second quarter on the back of improved business sentiment and low borrowing costs, which are also likely to support the construction sector. Foreign trade is set to rebound strongly too, but imports should grow faster than exports after a sharp fall in 2020. Consequently, net trade is expected to detract from growth in 2021 and, to a lesser extent, 2022. Overall, real GDP growth is expected to reach 3.1% in 2021 and 5.1% in 2022. This forecast does not include any measures expected to be funded under the Recovery and Resilience Facility, posing a significant upside risk to the growth projections.

Contrary to most EU countries, HICP inflation in Poland rose noticeably in 2020 to 3.7%, mainly driven by rising service and food prices. A hike in administrative prices, which reflected changes in waste disposal charges and electricity prices, also played a role. Slower wage growth and higher un-employment are expected to dampen price pres-sures in 2021, bringing inflation down to 2.3%. In line with the steady recovery of economic activity, HICP inflation is expected to increase again to 2.9% in 2022.

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