2.21. POLAND

Poland's GDP growth reached 5.1% in 2018, the fastest growth rate since 2007. Growth was mainly driven by domestic demand, especially strong private consumption, public investment, and a sizeable build-up of inventories. Economic sentiment indicators weakened in the last months of 2018 and in January 2019, but they remain above their long-term averages.

Public investment growth is expected to remain strong in 2019 with the support of EU funds. High capacity utilisation is set to be an important factor strengthening private investment, especially machinery and equipment investment. Fast wage growth should support private consumption, but slowing employment and higher inflation are set to have the opposite effect. As a result, consumption growth is expected to moderate compared to 2018. The dynamics of both exports and imports are set to slow from 2018 levels given weaker external demand. Overall, real GDP growth is expected to gradually slow to 3.5% in 2019 and 3.2% in 2020. Risks to this outlook are broadly balanced and mainly related to external demand and private investment trends.

Inflation, and especially the dynamics of energy and service prices, decreased at the end of 2018. Inflation is expected to average 2.3% in 2019 before increasing to 2.7% in 2020. The administrative freeze on household electricity prices is assumed to remain in place in 2019. The gradual rise in annual inflation is expected to be observed in most categories of goods and services with fast wage growth projected to have a particularly strong impact on service prices.

Graph 2.21: **Poland - Real GDP growth and contributions**