

Overview: This week, our expert analyzes the first year of Emmanuel Macron as the President of France in the context of the country's economic condition.

President Macron, One Year Later

By: [Diego Lopez](#), CASE Analyst

This past May 7th marked the first anniversary of Emmanuel Macron's arrival in the Élysée Palace, heralding a change in the country. Young, pro-European and distanced from the old French parties, he prevailed in the second electoral round with a message "neither right nor left" over the right-wing candidate Marie Le Pen, winning a decisive [66% of the votes](#). But his victory was not only based on France's newfound Europeanism in the light of the rise of the far-right movements in Europe. The youngest President in France's history arrived in the office with the goal of cutting down regulation and curtailing the role of the state in the economy. His electoral platform featured a number of ambitious (if occasionally controversial) reforms, such as the introduction of a [35 hours workday](#), tax cuts for corporations and great fortunes, and reduction of unemployment [to 7%](#).



Photo: Street protest against President Emmanuel Macron's overhaul of a labor code. Paris, October 2017. [Jeanne Menjoulet, Flickr, Attribution 2.0 Generic \(CC BY 2.0\)](#)

During his first year in the office, Macron pushed through three important fiscal reforms. In January, he began the process of gradual [reduction of the corporate income tax](#) from 33.3% down to 25%. In 2018, corporate profits will be taxed at 28% for the initial EUR 500,000 and at 33% for the excess, while in 2019 – at 31% for the excess. In 2020, a flat rate of 28% will be introduced, which will be replaced with 26.5% in 2021 and with 25% in 2022. Moreover, Macron replaced the progressive tax rates (running up to 45%) for capital income with a flat rate of [30%](#). Finally, he replaced the wealth tax (ISF) with the real estate tax (IFI), resulting in an effective [70% reduction of this contribution](#). While some

of these reforms have been [criticized](#) on the grounds of favoring the rich and perpetuating economic inequalities, they have in fact removed excessive burdens to investment and saving.

In other areas of the French economy, opportunities for reforms are also aplenty. At [56.4% of GDP](#), France had the highest public spending among all OECD countries in 2016. Macron's goal is to reduce this figure by 3 percentage points during his term, and he plans to do so by lowering social spending, laying off public servants, and finding savings in local governments. The budget deficit already [decreased](#) from 3.4% of GDP in 2016 to 2.6% in 2017 and is expected to dwindle further to 2.3% in 2018, although the drop must be viewed in the light of the favorable economic cycle in

Europe. The unemployment rate dropped from 10.1% in 2016 to [8.9% in the final three months of 2017](#), but structural unemployment – particularly among less qualified workers – remains a problem. In 2017, between 200,000 and 330,000 job offers [went unfilled](#) for this reason.

The good economic climate in France is a fact, but it remains to be seen whether it is sustainable. Macron himself has underlined that his measures will take full effect only after a year or two and that he and his team were “not cheering about the current upturn” because they were “perfectly aware that to a large extent it’s down to [the economic context](#).”



This week: The average salary in Poland in the first quarter of 2018 increased to PLN 4,622.84 (EUR 1,086.85) from PLN 4,516.69 (+2.35%) in the last quarter of 2017 and from PLN 4,353.55 in the first quarter of 2017 (+6.19%). According to the data published by the Ministry of Family, Labour and Social Policy, registered unemployment fell to 6.3% in April (from 6.6% in March). Eurostat data, which is internationally comparable, shows that the unemployment rate in Poland in March was 4.4%, compared to the EU average of 7.1%.

GDP (Q4 2017)

↓ **4.3% y/y (est.)**

Down from 5.2 % in Q3 2017

Unemployment (Apr 2018)

↓ **6.3%**

Down from 6.6% in Mar 2018

Inflation (April 2018)

↑ **1.6% y/y**

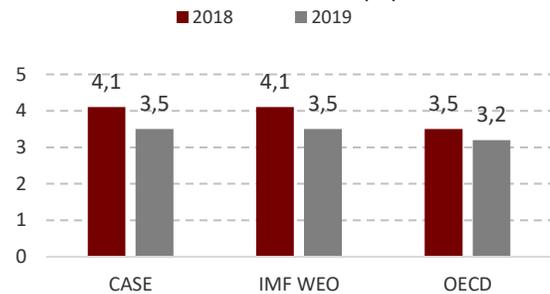
Up from 1.3% in Mar 2018

NBP Base rate

1.5%

From 2% in Mar 2015

Real GDP forecast (%)



This week: According to the AEB Automobile Manufacturers Committee (AEB AMC), sales of new cars and light commercial vehicles in Russia increased by 17.6% in April 2018 compared with the same month last year, or by 22,796 sold units, and amounted to 152,425 vehicles. In the first four months of 2018, 545,345 new cars were sold. AEB AMC's Chairman Joerg Schreiber has said that the weakening of the ruble hastened purchases as customers are expecting price increases, in a similar vein to the ruble's decline in 2014-2016.

GDP (Q4 2017)

↓ **0.9% y/y**

Down from 2.2% in Q3 2017

Unemployment (Mar 2018)

■ **5.0%**

Unchanged since Feb 2018

Inflation (April 2018)

■ **2.4% y/y**

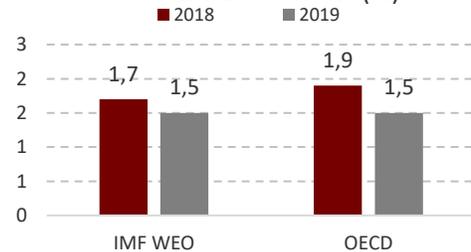
Unchanged since Mar 2018

CBR Base rate

7.25 %

From 7.5% in Feb 2018

Real GDP forecast (%)



This week: The German cabinet put forward a draft bill enabling consumers to file class-action lawsuits in the wake of the Volkswagen diesel emissions scandal. The scandal has seen the carmaker pay out billions of dollars to settle class-action lawsuits in the United States and Canada, but no such instrument has been so far available for consumers in Germany. The current draft law still needs parliamentary approval, but the government hopes that it can enter into force by November 1.

GDP (Q4 2017)

↑ **2.9% y/y**

Up from 2.8% in Q3 2017

Unemployment (Mar 2018)

↓ **3.5%**

Down from 3.8% in Feb 2018

Inflation (April 2018)

↓ **1.4% y/y**

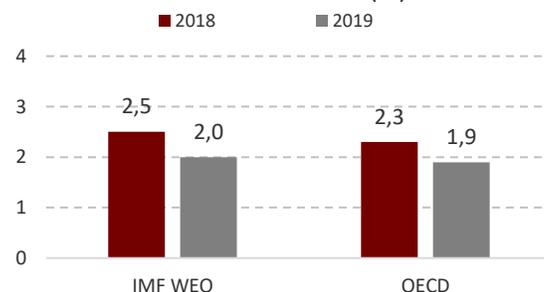
Down from 1.5% in March 2018

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015

Real GDP forecast (%)





This week: According to the State Fiscal Service, Ukraine exported 33.5% more electricity in the first four months of 2018 than in the same period last year. In 2018, Ukraine supplied the largest amount of electricity to Hungary (over USD 69.1 million), Poland (USD 26.466 million), and Moldova (USD 10.939 million), with other countries accounting for USD 2.799 million. The country has earned USD 109.3 million for exporting energy to the neighboring countries.

GDP (Q1 2018)

↓ 2.2% y/y

Down from 2.4% in Q4 2017

Unemployment (Q1 2018)

↑ 9.9%

Up from 8.9% in Q4 2017

Inflation (Apr 2018)

↓ 13.1% y/y

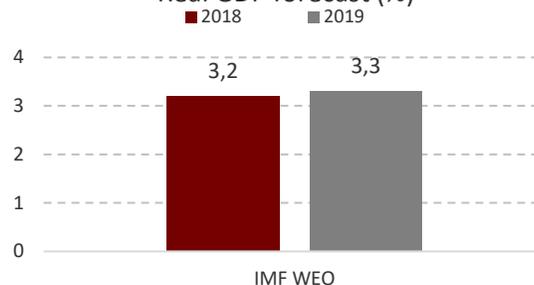
Down from 13.2% in Mar 2018

NBU Base rate

17.0%

From 16.0% in Jan 2018

Real GDP forecast (%)



This week: The Czech Statistical Office released preliminary trade data, according to which exports fell by 7.9% and imports by 6.6% in March 2018 compared with March 2017. The external trade balance in goods in March 2018 ended in a surplus of EUR 733.41 million, which was lower by EUR 235.32 million y/y, mainly due to the decline in car and transport machinery sales. The trade balance with the European Union dropped by EUR 235.32 million y/y, resulting in a surplus of EUR 2.38 billion, while the trade deficit with the non-EU countries expanded by EUR 11.77 million and reached EUR 1.58 billion.

GDP (Q4 2017)

↑ 5.5% y/y

Up from 5.1% in Q3 2017

Unemployment (Q4 2017)

↓ 2.4%

Down from 2.8% in Q3

Inflation (Apr 2018)

↑ 1.9% y/y

Down from 1.7% in Mar 2018

CNB Base rate

0.75%

From 0.5% in Jan 2018

Real GDP forecast (%)



This Week: Inflation in April increased to 2.3%, from 2.0% in March (y/y), narrowing the gap to the central bank's inflation target of 3.0%. According to data published by the Hungarian Central Statistical Office, trade surplus amounted to EUR 558 million in March. Exports decreased by 3.8% and imports by 1.1% in March 2018 compared to March 2017.

GDP (Q4 2017)

↑ 4.4% y/y (est.)

Up from 3.9% in Q3 2017

Unemployment (Q1 2018)

↑ 3.9%

Up from 3.8% in Q4 2017

Inflation (Apr 2018)

↑ 2.3% y/y

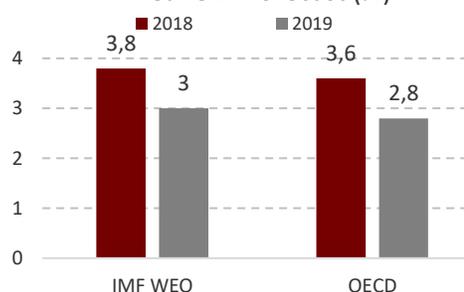
Up from 2.0% in Mar 2018

MNB Base rate

0.9%

From 1.05% in May 2016

Real GDP forecast (%)

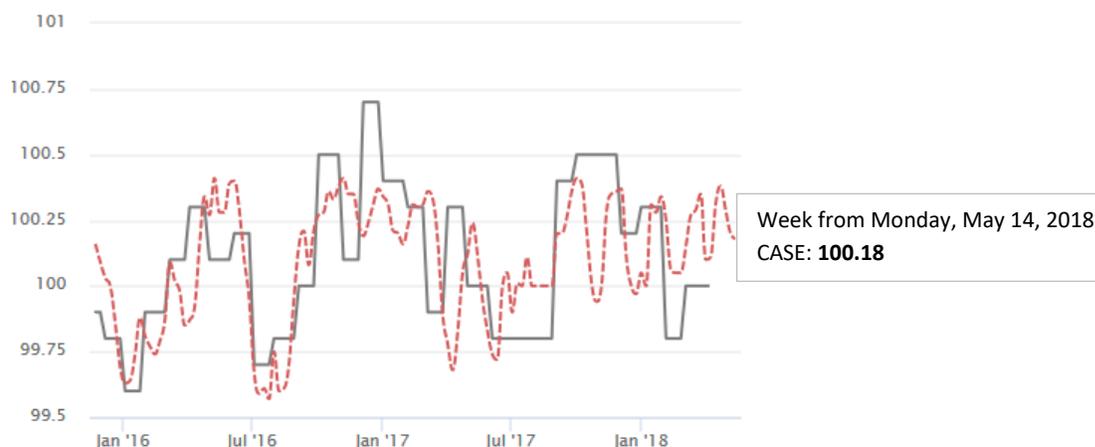


The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI

Online CASE CPI (---) vs GUS CPI (—)



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy

(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	4.1	4.0	4.9	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	Merchandise exports (USD, bn)	Merchandise imports (USD, bn)	Merchandise trade balance (USD, bn)	CA balance (USD, bn)
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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