GLOBAL ECONOMIC OUTLOOK - JULY

Monetary Department
External Economic Relations Division

2019

CZECH NATIONAL BANK

Cut-off date for data
12 July 2019

CF survey date
8 July 2019

GEO publication date
19 July 2019

Notes to charts

ECB, Fed, BoE and BoJ: midpoint of the range of forecasts.
The arrows in the GDP and inflation outlooks indicate the direction of revisions compared to the last GEO. If no arrow is shown, no new forecast is available. Asterisks indicate first published forecasts for given year. Historical data are taken from CF, with exception of MT and LU, for which they come from EIU.
Leading indicators are taken from Bloomberg and Datastream.
Forecasts for EURIBOR and LIBOR rates are based on implied rates from interbank market yield curve (FRA rates are used from 4M to 15M and adjusted IRS rates for longer horizons). Forecasts for German and US government bond yields (10Y Bund and 10Y Treasury) are taken from CF.

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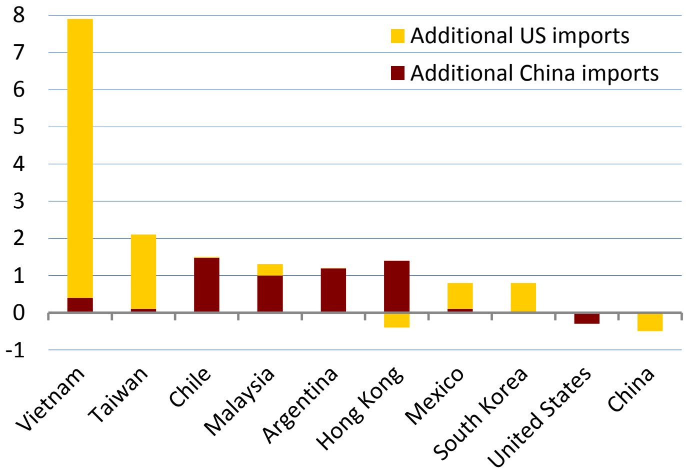
I. Introduction

A few new tiles were added to the mosaic of key global issues in July, specifically the future movement of interest rates in the USA, the future direction of global trade disputes and the form of Brexit. The issue of Brexit was clarified a little (although by the narrowest possible margin of one vote). The future UK prime minister will not be able to push through a "no-deal" Brexit by dissolving the lower house of parliament. There is, of course, the question of whether this step will help in finding the final form of the exit deal. As regards future monetary policy in the USA, Fed head Jerome Powell in both chambers of the US Congress announced a dovish stance, i.e. the central bank's openness to a rate cut, mainly because of the uncertain economic outlook. No major or visible progress has yet been made in the area of trade disputes.

The chart in the July issue shows that some countries are benefiting from the ongoing dispute between the two giants of the global economy. The winner is Vietnam, with Taiwan a long way behind in second place, as US producers try to redirect their orders from China to the nearest similar economies unaffected by the trade dispute. Both Vietnam and China have thus naturally profited much more from the US tariffs on Chinese goods than from the Chinese tariffs on goods from the USA. The opposite applies to the other gainers – Chile, Malaysia, Argentina and Hong Kong. Turning to the sectoral breakdown, the US tariffs on imports from China have forced firms to seek new sources, particularly for electronic products, furniture and travel goods. Conversely, the Chinese tariffs on US goods have led to rerouting of orders for soy, aircraft, cereals and cotton from the USA to other countries.

Countries benefiting most from the trade war between the USA and China, in % of GDP



Source: Nomura Holdings

The GDP growth outlooks have mostly shifted lower since last month, the exceptions being the USA and Russia, whose outlooks for 2020 have been raised. The economic outlook for the euro area remains growth of just above 1%, reflecting a particularly weak outlook for this year for its strongest economy Germany. According to CF, German GDP will grow by just 0.7%, the same low rate as that of permanently sluggish Japan.

July GDP growth and inflation outlooks for monitored countries, in %

GDP	EA		DE		US		UK		JP		CN		RU	
2019	1.1	➡	0.7	⬊	2.5	➡	1.3	⬊	0.7	⬊	6.2	⬊	1.4	⬊
2020	1.2	⬊	1.4	➡	1.9	⬈	1.3	⬊	0.3	⬊	6.0	➡	1.9	⬈

Inflation	EA		DE		US		UK		JP		CN		RU	
2019	1.3	➡	1.5	➡	1.9	➡	1.9	➡	0.6	➡	2.3	➡	4.5	⬊
2020	1.4	➡	1.6	➡	2.1	➡	2.0	➡	0.8	⬊	2.3	➡	4.0	➡

Source: Consensus Forecasts (CF)
Note: The arrows indicate the direction of revisions compared with the last GEO.

The inflation outlooks are unchanged, except for a slight drop in those for Japan and Russia. Next year, inflation in the countries we monitor (except Russia) should thus stay above the levels expected for this year. The dollar will weaken slightly against the euro, sterling and the yen at the one-year horizon. By contrast, it is expected to strengthen slightly against the renminbi and the rouble. The CF outlook for the Brent crude oil price 12 months ahead moved only slightly lower to USD 65.3/bbl (highest estimate USD 76/bbl, lowest estimate USD 55/bbl) relative to the previous month. The outlook for 3M USD LIBOR market rates is still slightly falling, while 3M EURIBOR rates will remain negative and keep falling according to the July outlooks.

The July issue also contains an analysis: Macron's reforms, or What has driven the yellow vest protesters to take to the streets? The article analyses these reform efforts and the factors underlying them in detail. It discusses the fundamental changes in French economic policy in the context of the specificities of the French labour market. Attention is also paid to the strong disagreement expressed by French citizens with some of the reforms and to the effect of the mass protests on the future course of the French president's reform steps.

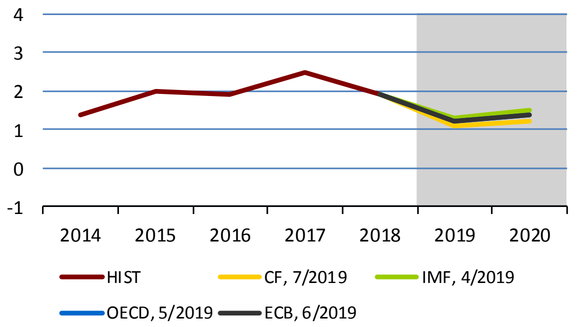
II.1 Euro area

GDP growth in the euro area surprisingly accelerated early this year. The economy continued to be affected by uncertainty linked with growth in protectionism and Brexit. These factors also influenced the volume of global trade, which shrank by 0.2% in Q1 according to CPB. However, these effects were outweighed by one-off positive factors – a moderate winter, car purchases after the introduction of new emission standards and strong demand from the UK ahead of the originally expected Brexit date. The growth was also driven by solid domestic demand, reflecting ongoing favourable labour market developments. Euro area GDP growth thus reached 0.4% in quarter-on-quarter terms in Q1. Of the large economies, Germany, Spain and France all contributed to the expansion, recording growth of 0.4%, 0.7% and 0.3% respectively.

However, the available indicators suggest a slowdown in Q2. The international trade situation is now weighing mainly on manufacturing. The June PMI in manufacturing, for example, remained in the contraction band (47.6), indicating a sharp drop in output of capital goods and intermediate goods. Moreover, the survey reveals that its forward-looking component (mainly reflecting orders) is showing no signs of stabilisation. However, industrial production rose by 0.9% in May following declines in the previous two months (but is continuing to fall in year-on-year terms). By contrast, labour market developments were favourable – the unemployment rate fell to 7.5% in May and annual wage growth rose to 2.5% in Q1. Nevertheless, retail sales declined in both April and May.

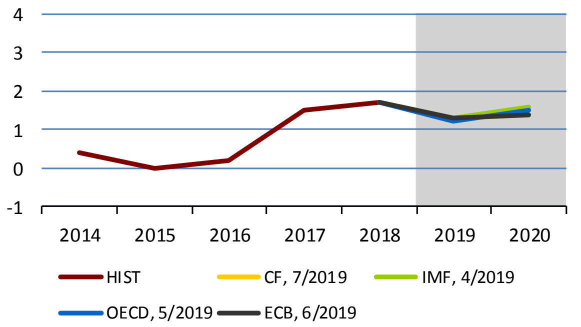
Euro area growth is expected to slow this year compared with last year and to pick up slightly next year. The regular outlooks expect growth of 1.1%–1.3% this year and 1.3%–1.5% next year. Compared with the previous month, CF revised its outlook for next year downwards by 0.1 pp. The European Commission's summer forecast is similar (expecting growth rates of 1.2% and 1.4%).

GDP growth, %



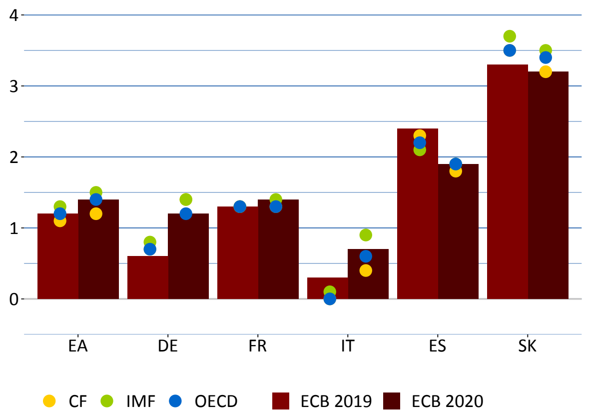
	CF	IMF	OECD	ECB
2019	1.1	1.3	1.2	1.2
2020	1.2	1.5	1.4	1.4

Inflation, %

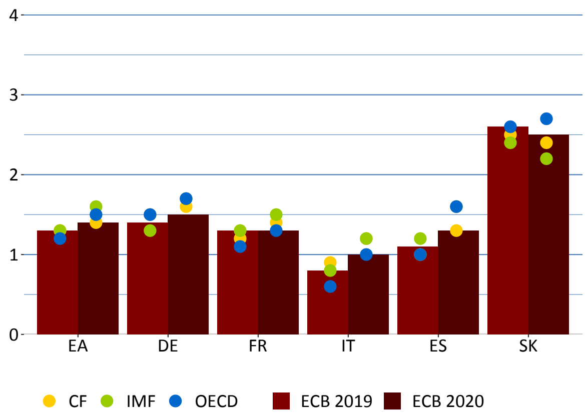


	CF	IMF	OECD	ECB
2019	1.3	1.3	1.2	1.3
2020	1.4	1.6	1.5	1.4

GDP growth in selected euro area countries in 2019 and 2020, %



Inflation in selected euro area countries in 2019 and 2020, %

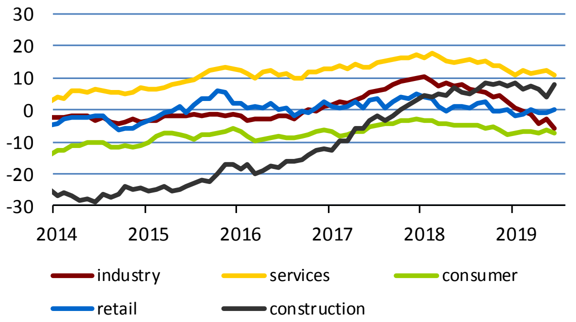


Note: Charts show institutions' latest available outlooks of for the given economy.

Inflation in the euro area remains muted. Headline HICP inflation was flat at 1.2% in June, i.e. at a more than one-year low, which it hit in May. The contribution of energy prices declined, while core inflation rose by 0.3 pp to 1.1%. Similarly low inflation levels can be expected in the months ahead due to a stable oil price outlook. The path of core inflation is uncertain. While wages are rising at a solid rate, uncertainty regarding the economic growth outlook and lower external demand are dampening consumer price inflation. The regularly monitored outlooks expect inflation of 1.2%–1.3% this year. Next year, inflation should rise to around 1.5%. The new European Commission forecast is consistent with these outlooks, expecting average inflation of 1.3% both this year and the next.

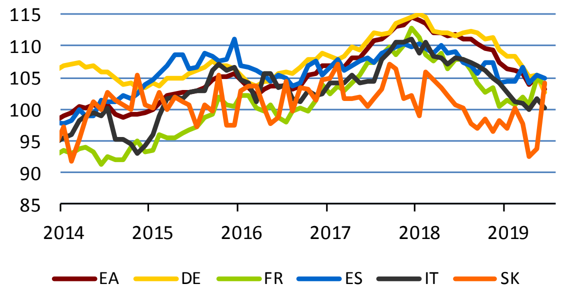
The uncertainty regarding the economic growth outlook and the subdued inflation outlook are increasing the likelihood of further monetary policy easing by the ECB. In June, the Governing Council put off the expected hike in key rates until at least mid-2020. At the press conference after the policy meeting, Mario Draghi expressed the possibility of easing monetary conditions if inflation outlook deteriorates further and did not rule out any of the available tools (a deposit rate cut, renewed asset purchases and an adjustment to the parameters of the interest rate commitment). This signal was amplified in his statement at a conference in Sintra and again after the publication of the minutes of the policy meeting. Five-year swap-based inflation expectations have declined gradually during the year, reaching historical lows in early July (see the chart below). Government bond yields have also fallen markedly. The ten-year German government bond yield hit a new historical low in early July, falling to almost -0.4%. However, yields on government bonds of other euro area countries, including Italy, have also declined. Italian bond yields have returned to the levels seen at the start of the year (1.7%), due not only to expectations about monetary policy developments in the euro area and the USA, but also to the Commission's decision that Italy will avoid the EU's disciplinary excessive deficit procedure.

Leading indicators



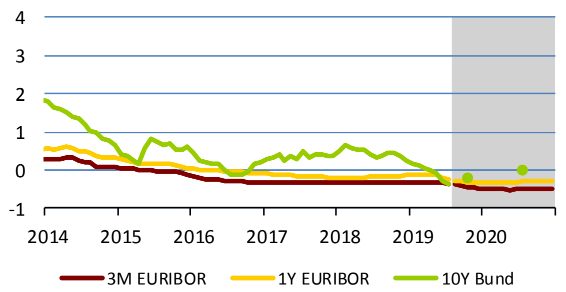
	industry	services	consum.	retail	constr.
4/19	-4.3	11.8	-7.3	-1.1	6.5
5/19	-2.9	12.1	-6.5	-0.9	4.1
6/19	-5.6	11.0	-7.2	0.1	7.7

Leading indicators



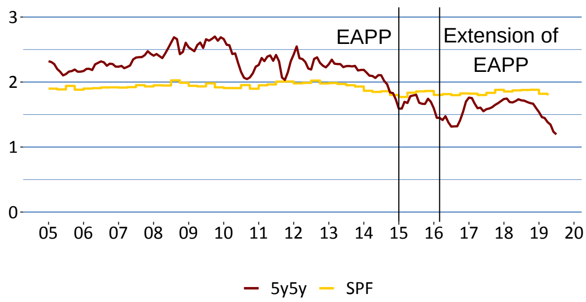
	EA	DE	FR	ES	IT	SK
4/19	103.9	105.1	100.8	104.1	100.0	92.5
5/19	105.2	105.5	104.9	105.4	101.7	93.7
6/19	103.3	102.6	103.9	104.8	100.2	104.3

Interest Rates, %



	6/19	7/19	10/19	7/20
3M EURIBOR	-0.33	-0.35	-0.46	-0.51
1Y EURIBOR	-0.19	-0.25	-0.31	-0.30
10Y Bund	-0.27	-0.36	-0.20	0.00

Inflation expectations in the euro area, %



Note: Inflation expectations based on 5year inflation swap and SPF

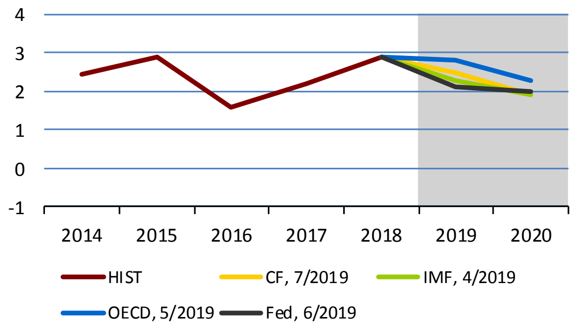
II.2 United States

Tensions between the USA and China eased slightly after the G20 summit in Japan, but the USA started to threaten the EU with tariffs on further goods due to a dispute over aircraft production. The US and Chinese presidents agreed to renew trade talks, another round of tariffs was put off, and the US side also promised to relax its restrictions on Huawei. For an agreement to be reached, however, China is demanding the lifting of all tariffs imposed to date, while the USA has repeatedly emphasised the need to immediately take steps to protect the intellectual property of foreign firms in China. The calming of US-Chinese relations was offset by a new round of tariff threats against the EU. In early July, the USA extended the list of EU products on which it could levy tariffs due to a dispute over aircraft production subsidies. The list contains imports from the EU totalling USD 4 billion, including olives, Italian cheese and Scotch whisky.

The US economy is experiencing the longest expansion in its history, but signs of a slowdown are growing. According to revised data, GDP grew by 3.1% in Q1 (in quarter-on-quarter annualised terms). Imports and inventories improved markedly, while consumer demand was less favourable. According to the Atlanta Fed, the economy will slow to 1.4% in Q2 (in quarter-on-quarter annualised terms). The growth is expected to be driven by consumer demand, as annual retail sales growth fell to only just below 3% in May. The labour market also remains robust. Non-farm payrolls rose by 224,000 in June and wage growth remains at 3% (y-o-y) amid unemployment of 3.7%. The situation in industry is less optimistic. The leading ISM PMI indicator for manufacturing fell to its lowest level since June 2016.

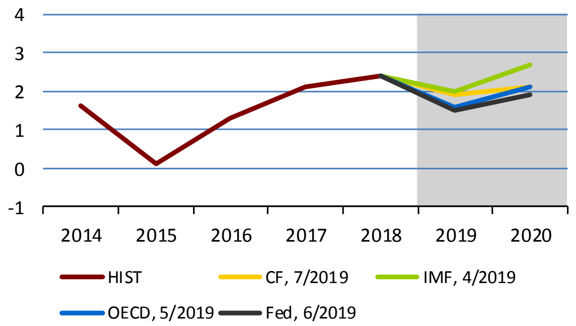
The slowing growth and inflation, especially in an environment of growing concerns about the impacts of the trade war, are turning the Fed's policy around. The first cut in the rate range can probably be expected at the end of July. The Fed's concerns are also illustrated by its new outlooks for domestic variables, which are well below the Consensus Forecasts expectations, especially in the case of inflation and GDP growth this year.

GDP growth, %



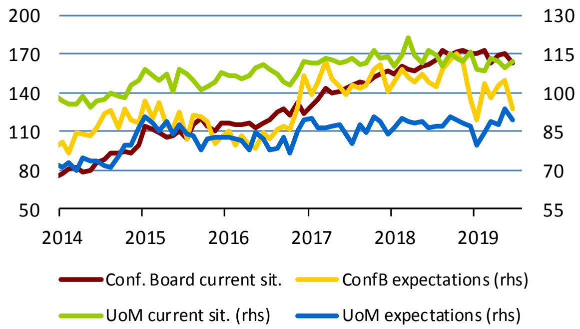
	CF	IMF	OECD	Fed
2019	2.5	2.3	2.8	2.1
2020	1.9	1.9	2.3	2.0

Inflation, %



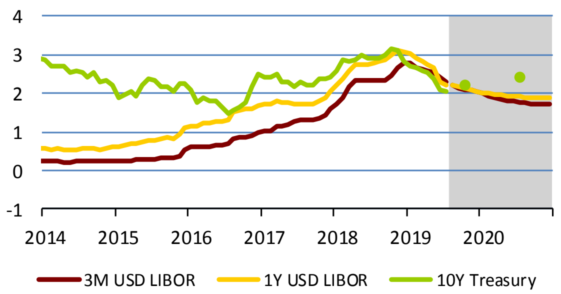
	CF	IMF	OECD	Fed
2019	1.9	2.0	1.6	1.5
2020	2.1	2.7	2.1	1.9

Leading indicators



	ConfB curr.	ConfB exp.	UoM curr.	UoM exp.
4/19	169.0	102.7	112.3	87.4
5/19	170.7	105.0	110.0	93.5
6/19	162.6	94.1	111.9	89.3

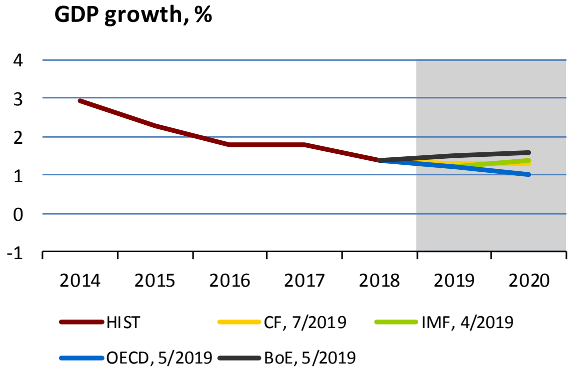
Interest Rates, %



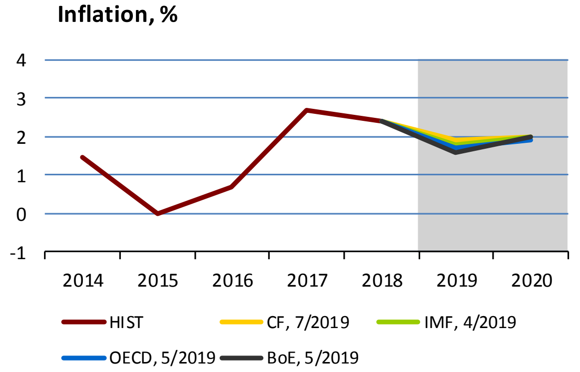
	6/19	7/19	10/19	7/20
USD LIBOR 3M	2.40	2.31	2.08	1.77
USD LIBOR 1R	2.28	2.28	2.11	1.91
Treasury 10R	2.07	2.05	2.20	2.40

II.3 United Kingdom

The UK economy probably experienced a decline in GDP in Q2. According to a NIESR estimate, economic activity dropped by 0.1% quarter on quarter. The official monthly GDP data so far show only the extent of the damage that the economy suffered around the originally expected Brexit date. GDP grew by 0.3% in May, failing to offset the 0.4% April decline caused by extensive factory shutdowns. Soft indicators have long been indicating worsening performance in all sectors of the UK economy. The composite PMI indicator fell below 50 points in June. The construction index slumped to 43.1, the manufacturing index fell to 48 (a six-year low) and the index for services – the main sector of the UK economy – stayed just above the threshold between expansion and contraction (50.2). Nevertheless, it does not seem that the economy will run into a technical recession. GDP is expected to return to positive quarter-on-quarter growth in Q3. CF lowered its GDP growth outlooks for this year and the next to 1.3%.



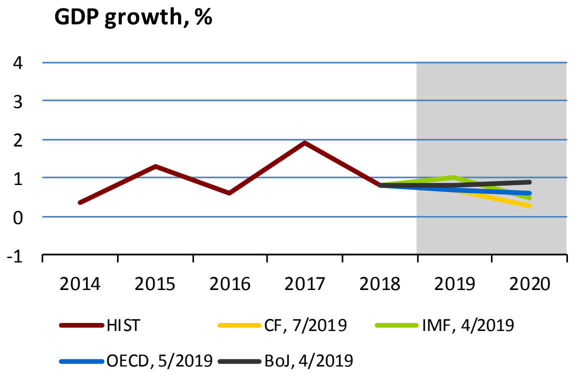
	CF		IMF	OECD	BoE
2019	1.3		1.2	1.2	1.5
2020	1.3		1.4	1.0	1.6



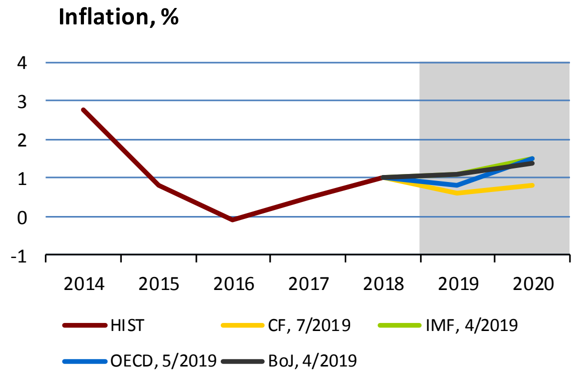
	CF		IMF	OECD	BoE
2019	1.9		1.8	1.7	1.6
2020	2.0		2.0	1.9	2.0

II.4 Japan

The Japanese economy, which is being driven mainly by domestic demand and hampered by developments abroad, continues to show mixed trends. Household consumption growth picked up to a four-year high of 4% year on year in May. This indicator has been fluctuating between 1.3% and 2.1% this year and repeatedly turned negative in 2018. Retail sales rose by just 1.2%. However, they were the strongest since last December. On the other hand, industrial production in May showed its highest month-on-month growth in seven months (by 2%), but fell in year-on-year terms (by 2.1%). The leading indicators do not imply any improvement in industry. The Nikkei PMI in manufacturing stayed in the contraction band for the second month. In June, moreover, it fell to 49.5 due to a drop in output in the most important sectors. CF estimates negative growth in industrial production for this year and 0.1 pp lower GDP growth in both years positive to the June outlook.



	CF		IMF	OECD	BoJ
2019	0.7		1.0	0.7	0.8
2020	0.3		0.5	0.6	0.9

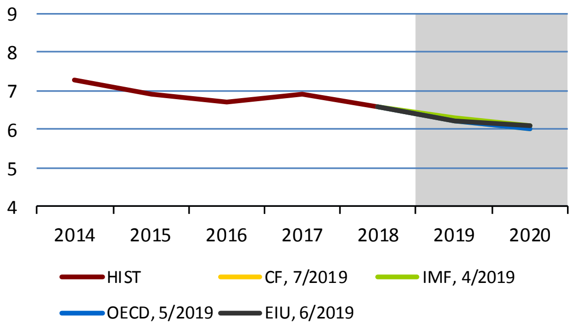


	CF		IMF	OECD	BoJ
2019	0.6		1.1	0.8	1.1
2020	0.8		1.5	1.5	1.4

II.5 China

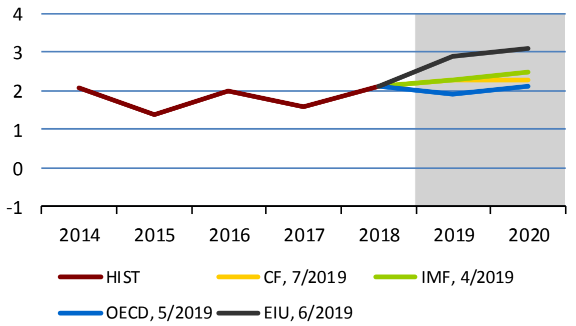
Chinese economic growth slowed to 6.2% in 2019 Q2, the lowest rate since 1992, due to trade disputes. However, numerous previously published data had already indicated a slowdown. Industrial output growth fell to a 17-year low in May as the escalating trade disputes with the USA hit both business and consumer confidence. The leading Caixin PMI indicator for manufacturing slumped into the contraction band in June, mainly due to new orders and overseas sales. The leading indicator for services also declined but remained in the expansion band. Government stimuli have been moderate so far, but the new conditions will enable the authorities to launch more infrastructure projects and speed up the ones already in progress. The central bank has also announced another support package for small banks. In line with the worse economic outlook, the new CF and EIU publications lowered their growth outlooks for this year.

GDP growth, %



	CF	IMF	OECD	EIU
2019	6.2	6.3	6.2	6.2
2020	6.0	6.1	6.0	6.1

Inflation, %

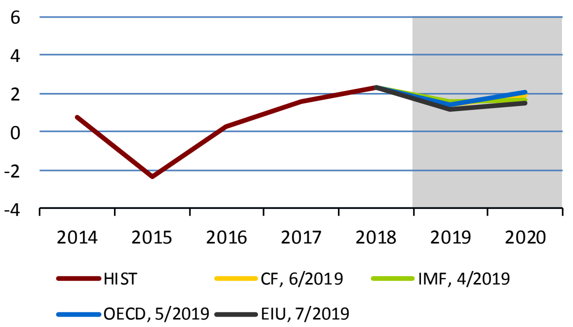


	CF	IMF	OECD	EIU
2019	2.3	2.3	1.9	2.9
2020	2.3	2.5	2.1	3.1

II.6 Russia

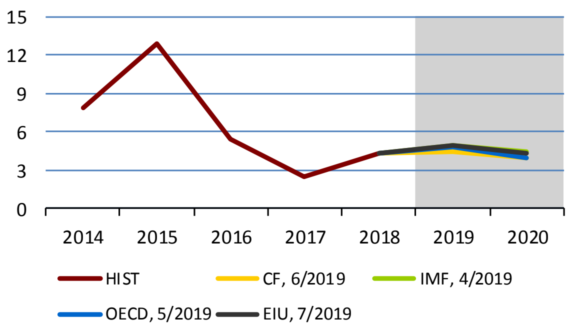
The growth of the Russian economy remains favourable but subdued. Industrial production growth slowed to 0.9% year on year in May. The weaker growth was due to a lower increase in mining and quarrying and also in manufacturing, which dropped by 1%. The PMI indicators for manufacturing and services remained in the contraction band in both May and June. The labour market situation was favourable overall. The unemployment rate surprisingly fell to 7.5% in May. The real wage rose by 2.8% year on year in the same month. The June CF lowered its GDP and inflation outlooks for 2019 by 0.1 pp. The Russian central bank also expects more moderate inflation at the end of this year (4.2%–4.7%, i.e. half a percentage point lower than its previous outlook). It lowered its key rate by 0.25 pp to 7.5% in June and is not ruling out a further cut in the months ahead.

GDP growth, %



	CF	IMF	OECD	EIU
2019	1.4	1.6	1.4	1.2
2020	1.9	1.7	2.1	1.5

Inflation, %



	CF	IMF	OECD	EIU
2019	4.5	5.0	4.8	4.9
2020	4.0	4.5	4.0	4.3

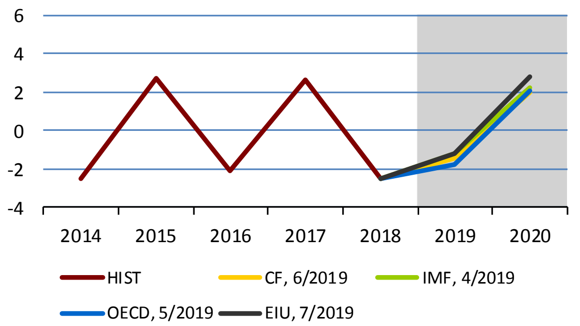
II.7 Developing countries in the spotlight

Argentina seems to have overcome one of the worst periods in its history. Following last year's monetary crisis and an overall economic destabilisation, it could be in for better times now. However, GDP is still falling (by 2.0% quarter on quarter in Q1), consumer inflation is still out of control (57.3% in May), the unemployment rate exceeds 10% and the poverty rate remains close to 32%. However, not all this is Argentina's fault. Last year, extreme drought damaged Argentina's agricultural sector, on which the country is heavily dependent. Monetary conditions abroad were simultaneously tightened, worsening Argentina's financing options. Its debt-to-GDP ratio has risen by 36 percentage points to 89% since 2015.

Presidential elections, the first-round of which will take place on 27 October, are of key importance now. Current President Mauricio Macri has failed to keep numerous promises, and last year's crisis, which brought Argentina into the IMF's embrace and led to a rescue package of USD 56 billion, has complicated his chances of being re-elected. According to opinion polls, his rival Alberto Fernandez has roughly the same chance of being elected as Macri. However, financial markets favour the current president. A Fernandez victory could thus trigger an investor flight and a deepening of the Argentinian crisis. Macri's re-election depends largely on stability of the peso and a slowdown in consumer inflation, which is denting wage growth significantly. A more accurate picture of voters' preferences will emerge on 11 August, when the primaries take place.

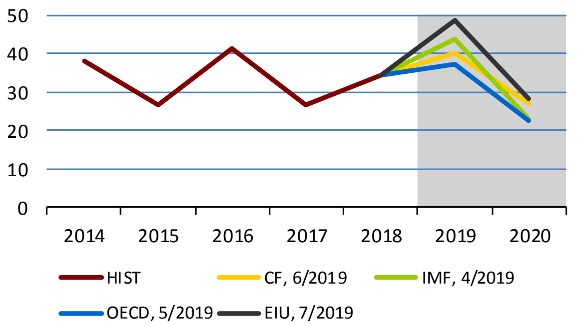
The short-term outlook is very uncertain. If the Argentinian currency stabilises and the incumbent president wins the election, the economic situation in Argentina will have a chance to change for the better. Monthly data suggest that quarterly GDP growth could turn positive in Q2, mainly on the back of the agricultural sector. The Argentinian central bank (BCRA) is planning to ease monetary conditions very gradually. The BCRA decided to cut its key interest rate by 41 bp to 59.5% this month. It still maintains a lower 58% limit, below which it will not allow its benchmark rate to fall. Consumer inflation is estimated to slow sharply at the end of the year, but the key interest rate is not expected to drop much further.

GDP growth, %



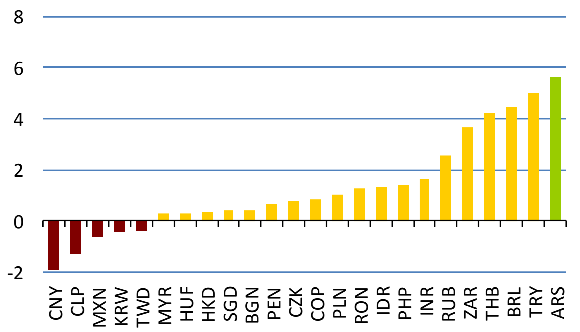
	CF	IMF	OECD	EIU
2019	-1.4	-1.2	-1.8	-1.2
2020	2.0	2.2	2.1	2.8

Inflation, %

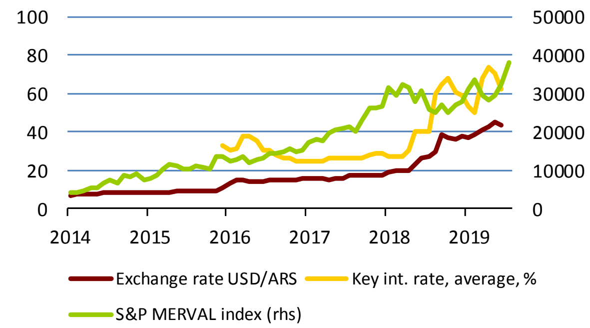


	CF	IMF	OECD	EIU
2019	40.1	43.7	37.4	48.6
2020	26.9	23.2	22.7	28.2

Currency performance, % (from May 1)



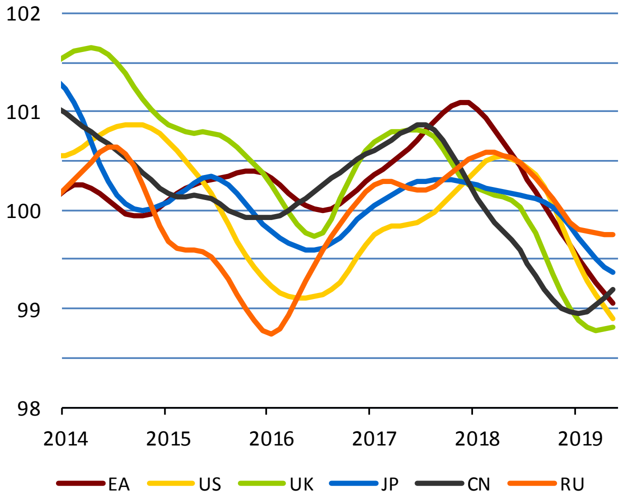
Financial indicators



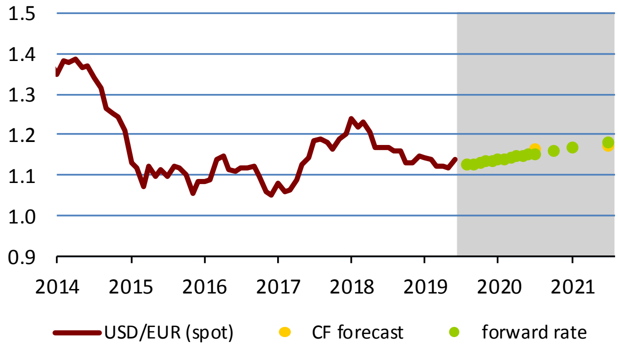
	USD/ARS	Interest rate	S&P MERVAL
4/2019	44.89	70.7	29467
5/2019	43.78	62.7	32222
6/2019			38096

III. Leading indicators and outlook of exchange rates

OECD Composite Leading Indicator

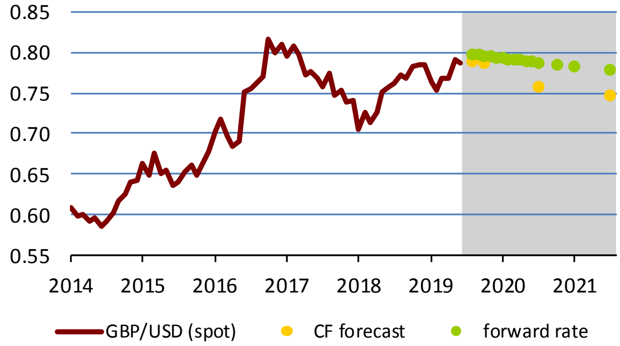


The US dollar (USD/EUR)



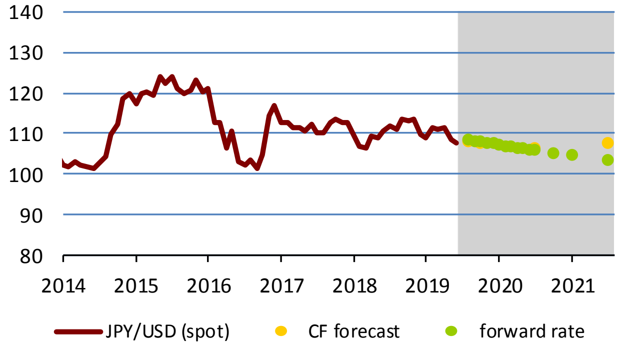
	8/7/19	8/19	10/19	7/20	7/21
spot rate	1.122				
CF forecast		1.128	1.131	1.162	1.174
forward rate		1.125	1.130	1.153	1.181

The British pound (GBP/USD)



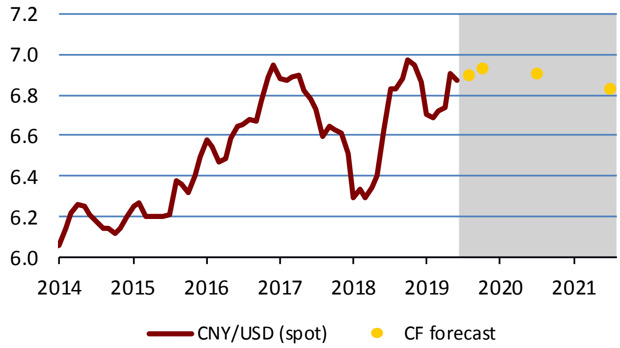
	8/7/19	8/19	10/19	7/20	7/21
spot rate	0.799				
CF forecast		0.789	0.787	0.758	0.746
forward rate		0.798	0.796	0.788	0.779

The Japanese yen (JPY/USD)



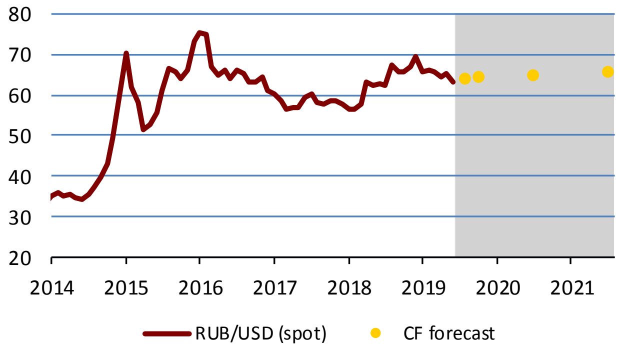
	8/7/19	8/19	10/19	7/20	7/21
spot rate	108.7				
CF forecast		107.9	107.6	106.4	107.5
forward rate		108.4	108.0	105.9	103.5

The Chinese renminbi (CNY/USD)



	8/7/19	8/19	10/19	7/20	7/21
spot rate	6.879				
CF forecast		6.899	6.930	6.905	6.826

The Russian rouble (RUB/USD)



	8/7/19	8/19	10/19	7/20	7/21
spot rate	63.58				
CF forecast		64.09	64.48	64.79	65.58

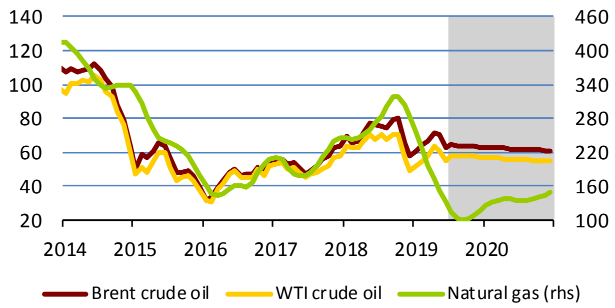
Note: Exchange rates as of last day of month. Forward rate does not represent outlook; it is based on covered interest parity, i.e. currency of country with higher interest rate is depreciating. Forward rate represents current (as of cut-off date) possibility of hedging future exchange rate.

IV.1 Oil and natural gas

Following a sharp fall in the second half of May, the Brent crude oil price fluctuated just above USD 60/bbl until mid-June and rose quite sharply for the rest of the month. The halt in the decline and the subsequent growth in oil prices were due mainly to the further escalation of political tensions between the USA and Iran, which could put oil supplies from the Persian Gulf at risk. Expectations of renewed trade talks between the USA and China also contributed to the price growth. A better outlook for oil demand was also supported by signals that the Fed is ready to cut rates and a comment that the ECB is preparing further stimulus measures. The related weakening of the dollar also supported oil price growth. Falling oil stocks in the USA contributed as well. By contrast, the extension of the deal between OPEC+ countries to limit production until March 2020 was expected by the market and did not lead to rising prices. The oil price actually fell sharply after the OPEC meeting in early July as concerns of weaker growth in global demand due to the US-Chinese trade disputes prevailed again and weaker economic data came in from the USA, Europe and China. The EIA cut its global demand growth outlook this year by 0.2 to 1.1 million barrels a day due to very weak growth in demand in 2019 H1. Next year, demand is expected to rise by 1.4 million barrels a day. Even so, the EIA expects global oil stocks to increase by an average of just 0.1 million barrels a day both this year and the next.

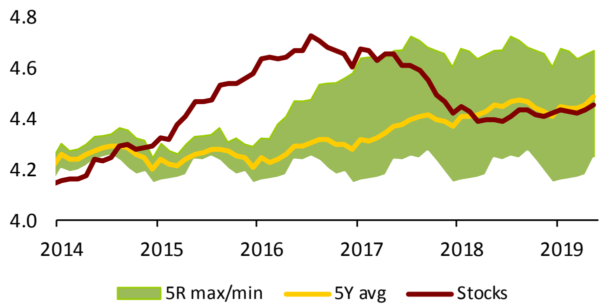
Based on these assumptions, the EIA expects Brent spot prices to average USD 67/bbl in both 2019 H2 and 2020 The July CF predicts a price close to USD 65/bbl one year ahead. The market futures curve for 2019 H2 and 2020 is even lower, signalling prices of USD 63.7/bbl and USD 61.9/bbl respectively.

Outlook for prices of oil (USD/barrel) and natural gas (USD / 1000 m³)

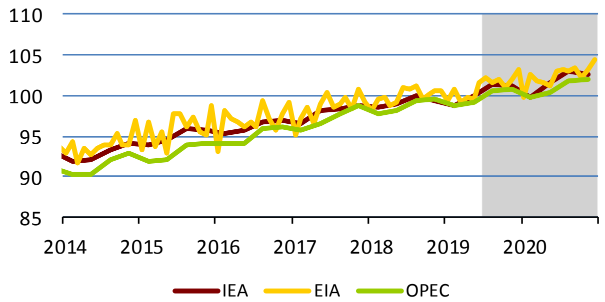


	Brent	WTI	Natural gas
2019	64.90	57.47	147.83
2020	61.92	55.84	136.84

Total stocks of oil and oil products in OECD (bil. barrel)

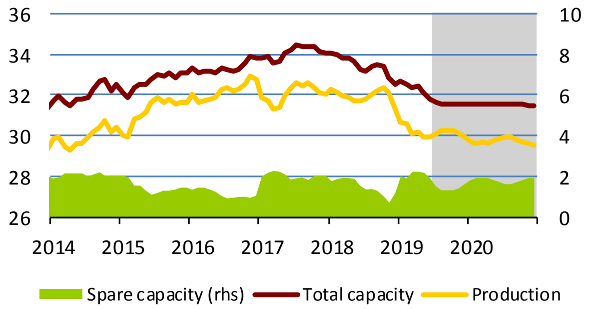


Global consumption of oil and oil products (mil. barrel / day)



	IEA	EIA	OPEC
2019	100.33	101.00	99.86
2020	101.73	102.41	101.00

Production, total and spare capacity in OPEC countries (mil. barrel / day)



	Production	Total capacity	Spare capacity
2019	30.20	31.95	1.75
2020	29.73	31.54	1.81

Source: Bloomberg, IEA, EIA, OPEC, CNB calculation
Note: Oil price at ICE, average gas price in Europe – World Bank data, smoothed by the HP filter. Future oil prices (grey area) are derived from futures and future gas prices are derived from oil prices using model. Total oil stocks (commercial and strategic) in OECD countries – IEA estimate. Production and extraction capacity of OPEC – EIA estimate.

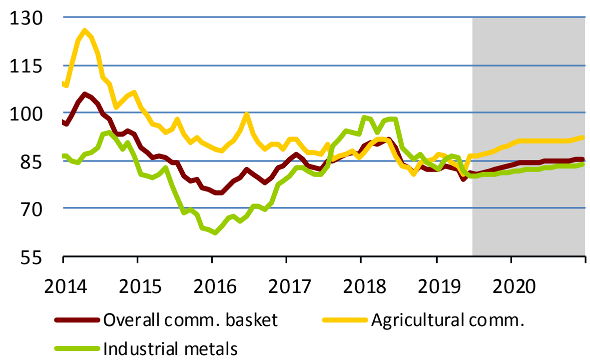
IV.2 Other commodities

The aggregate non-energy commodity price index grew in June but lost some of its gains in the first half of July. The sub-indices showed very mixed trends. The food commodity price sub-index rose sharply in June and weakened only slightly in early July. Its outlook until the end of the year is rising. By contrast, the food commodity price sub-index fell for the third month in a row, although the fall halted in the first half of July.

The several-month-long decline in base metal prices, caused by worsening global manufacturing activity, halted in the first half of June and prices returned to growth. The J.P.Morgan Global Manufacturing PMI dropped from 49.8 to 49.4 in June, signalling a decline in global manufacturing for the second straight month. However, the second truce in the trade war between the USA and China and the expected renewal of talks brought some relief to the markets in the second half of June. The price of copper was additionally supported by a two-week strike in one of Chile's largest mines. However, stronger growth in the copper price is being prevented by weakening demand, as also indicated by growth in stocks at the LME. By contrast, the iron ore price kept rising sharply due to shortfalls in output in Brazil due to mining accidents and in Australia due to bad weather. The coal price fell in June but erased its losses in early July.

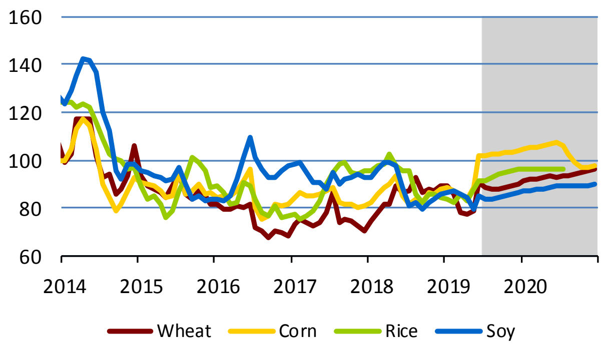
The strong growth in grain prices recorded in May continued into the first half of June, but prices then fell slightly. Sugar, coffee and cocoa prices also rose slightly. By contrast, prices of pork and beef declined. The price of cotton has also been falling for two months now.

Non-energy commodities price indicies



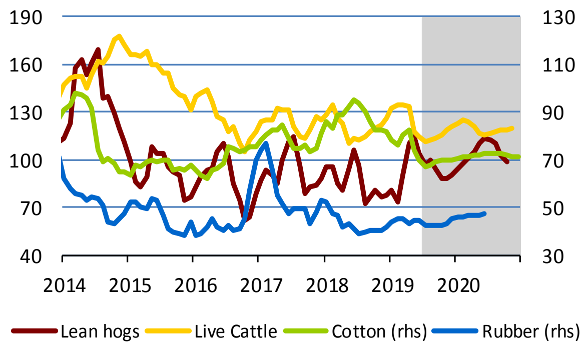
	Overall	Agricultural	Industrial
2019	81.9	86.3	82.2
2020	84.7	91.2	82.7

Food commodities



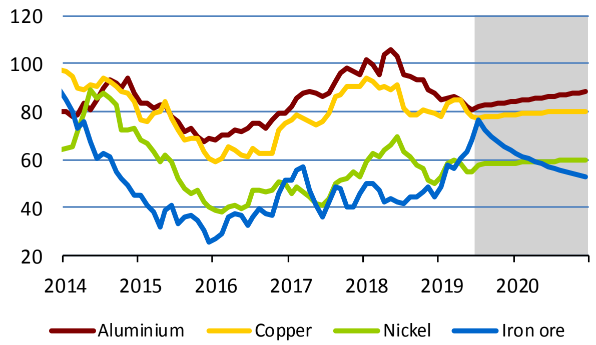
	Wheat	Corn	Rice	Soy
2019	86.1	96.2	89.9	84.8
2020	93.6	102.8	96.6	88.8

Meat, non-food agricultural commodities



	Lean hogs	Live Cattle	Cotton	Rubber
2019	94.2	121.6	72.9	43.8
2020	104.6	119.6	71.8	46.4

Basic metals and iron ore



	Aluminium	Copper	Nickel	Iron ore
2019	83.7	79.8	57.4	64.2
2020	86.2	79.7	59.3	57.2

Source: Bloomberg, CNB calculations.
Note: Structure of non-energy commodity price indices corresponds to composition of The Economist commodity indices. Prices of individual commodities are expressed as indices 2010 = 100.

Macron's reforms: What has driven the yellow vest protesters to take to the streets?[1]

French President Emmanuel Macron is two years into his term of office, which he embarked on with the aim of making crucial reforms in the land of the Gallic rooster. It is well known that the third-largest European economy does indeed need structural reforms. After a rocket-fast start, however, President Macron encountered – quintessentially French – vocal opposition from the public. This article sums up Macron's reform steps and his response to the mass street protests, putting them into the context of the economic situation not only in France, but in advanced economies in general. Although it is too early to assess their impacts, the reforms seem to be heading in the right direction.

The sharp rise of an ambitious man

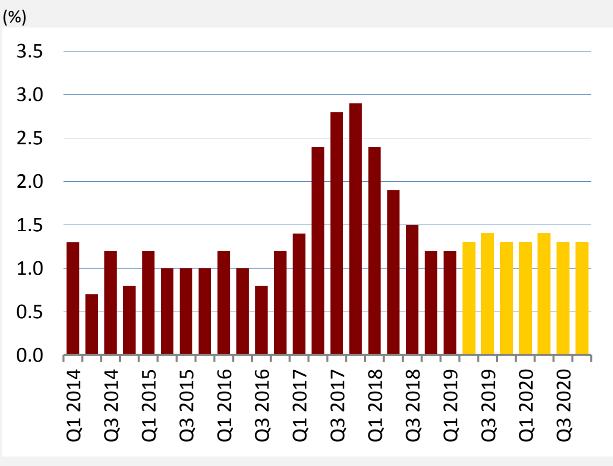
Emmanuel Macron is a politician with a clear focus on the economy. He studied philosophy and public affairs (specialising in management and economics). After graduating, he joined the Ministry of Finance in 2004. Four years later he left to become a successful investment banker. In 2012, he moved out of the private sector and was appointed deputy secretary general to the president. Two years later, he left this post at his own request and shortly thereafter became finance minister. He again spent only two years in office, resigning in August 2016 to found his own political party and launch a bid in the presidential election. He became President of the French Republic in May 2017.

His reform efforts logically follow up on the steps he pushed through during his previous spell in the public sector. Just a few months after taking up the post in the office of his predecessor François Hollande in 2012, he put forward a proposal to extend the working week from 35 to 37 hours (see Box 1 for details). In addition, he actively opposed the government's plan to sharply increase taxes on the highest earners and tabled his own proposal for a budget responsibility pact. However, all these efforts were rejected by the president and other staff in his office, forcing Macron to quit.

It was not until he became finance minister that he managed to fulfil his undeniable ambition to overhaul the French economy. He prepared and, with the help of the prime minister, pushed through in a special procedure a package of laws to support economic growth and equality of economic opportunity (known as the *Loi Macron*, the Macron Law). Its aim was to rejuvenate the French economy by making it easier to do business. Among other things, the law changed (and softened) the regulations on Sunday work, haulage and driving licences, public sector jobs and the transport market.[2] Although the changes were not fundamental, some regulated professions were partially liberalised and the very problematic redundancy process in France was made somewhat easier. According to estimates of OECD (2015), this law had a significant positive impact on French economic growth (quantified as a 0.3% increase in GDP over five years; for actual and currently expected GDP growth see Chart 1[3]).

However, Macron failed to push through other fundamental reforms as finance minister. He was unable to gain support for his second major legislative proposal (*Loi Macron 2*), which was rejected by the president and the prime minister. The proposal was aimed at supporting SMEs, investment and digital technology by reducing regulatory and legal barriers. Macron subsequently decided to leave the position of finance minister with the aim of becoming president. The president has extensive powers in France.

Chart 1 – Annual GDP growth



Source: INSEE (France's statistical office), CF outlook
Note: Yellow columns show the CF outlook.

[1] Author: Pavla Růžičková. The views expressed in this article are those of the author and do not necessarily reflect the official position of the Czech National Bank.

[2] What particularly resounded in the Czech Republic was the section of the law on the application of the minimum wage and other social rules to haulage employees, under which drivers transporting goods to or from France are entitled to the French minimum wage (which is about 2½ times higher than the usual driver's wage in the Czech Republic) and are also subject to other French social regulations on working hours and rest periods, leave entitlement, overtime payments and so on.

[3] However, the faster GDP growth in 2017 cannot be interpreted solely as a benefit of the Macron law, as growth went up in most advanced economies in the same period; nonetheless, the pace of growth was higher in France than in many other countries (see Chart 2).

Box 1 – The shortest working week in the world

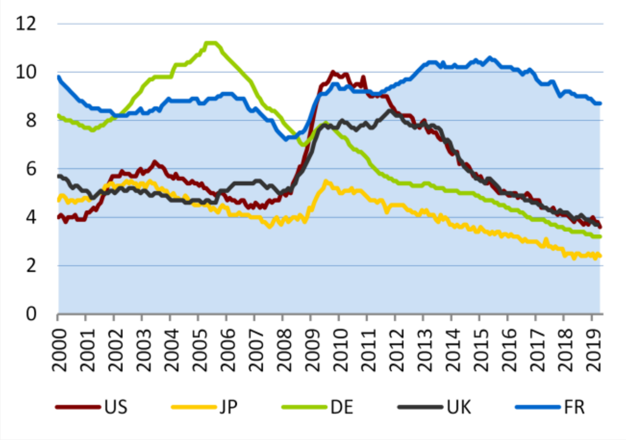
A 35-hour working week was introduced in France in 2000. The working week was shortened from 39 hours with the aim of cutting unemployment, which had long been high. The change had another, very progressive ambition: to "decommodify" French citizens (i.e. to shorten time at work while maintaining the same living standard). The measure was meant to encourage employers to hire a greater number of employees for shorter working hours at the same volume of production. Although the official working week length does not forbid longer hours, any hours worked above this limit are classed unconditionally as overtime and paid accordingly.

Unemployment in France has not fallen below 7% in more than three decades. Although the share of unemployed persons was for a time lower than in the UK in the 1980s and slightly better than in Germany in the 2000s (see Chart B1), France scores very badly by international comparison. French strikers have persistently blocked necessary labour market reforms which have meanwhile been successfully implemented in many European economies. Partly as a consequence of this, unemployment has failed to return to the 2008 level more than ten years after the crisis.

France's 35-hour working week is unique in the world. The overwhelming majority of countries have a standard 40-hour working week. Among the advanced European economies, shorter working weeks can also be found, for example, in Belgium (38 hours) and Denmark (37 hours). Nevertheless, the official length of the standard working week says nothing about hours actually worked. Although the French score very well in this respect in international terms, Luxembourgers, Austrians, Swedes, the Dutch, Norwegians, Danes and Germans actually work even fewer hours on average, with the Germans surprisingly spending the shortest hours at work (see Chart B2).

Chart B1 – Comparison of unemployment rates in selected advanced economies

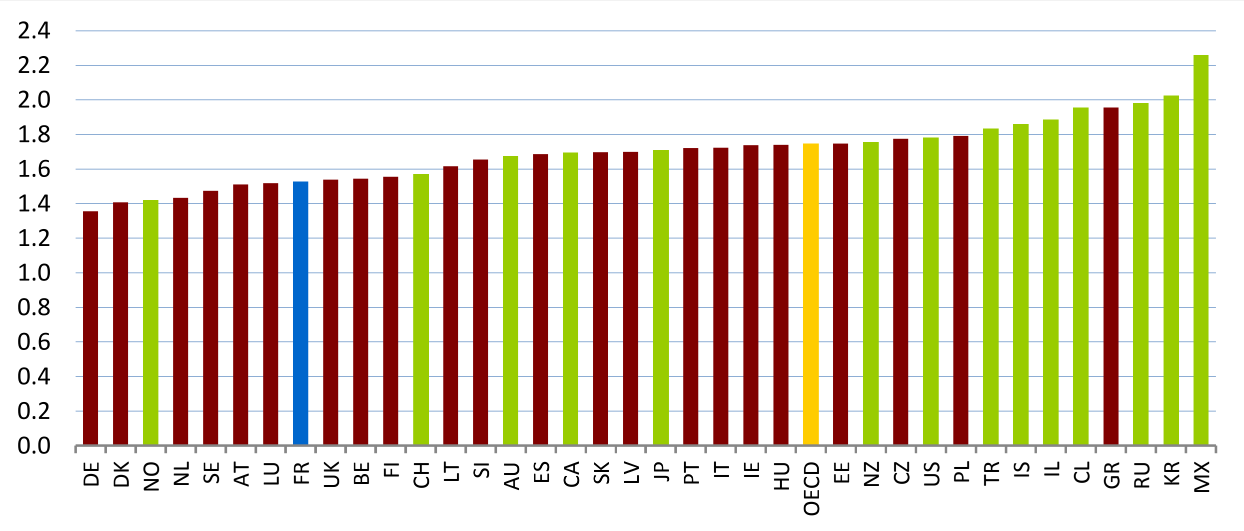
(%; harmonised unemployment rate)



Source: Eurostat
Note: The economies are ordered according to the size of nominal GDP in 2018.

Chart B2 – Comparison of average annual hours worked

(thousands of hours)



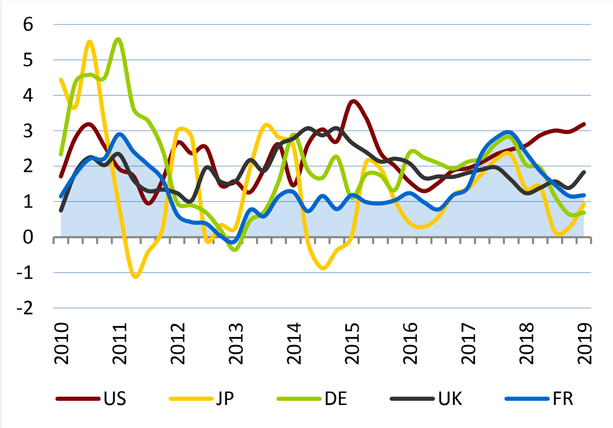
Source: OECD
Note: Latest available data (2018 or 2017; 2016 and 2015 respectively for France and Turkey only). The OECD average is shown in yellow, non-EU countries are shown in green and France is highlighted in blue. Countries are identified by their official ISO two-letter codes; this standard is also followed in all the other charts in this article.

Poking the sleeping bear – how to move the notoriously rigid French labour market?

In the first year of his five-year presidential term, Emmanuel Macron pushed through – by French standards – brave reforms, especially on the labour market. In a country whose motto is more *la grève* (strike) than the official *liberté, égalité, fraternité* (freedom, equality, brotherhood), he has made many necessary changes despite opposition from unions and protests by some employees. France has long been a symbol of a relatively inflexible economy with an oversized public administration and a very rigid labour market. Analysts agree his reforms have gone in the right direction but could have been far more ambitious.

Chart 2 – Comparison of GDP growth rates in selected advanced economies

(%, y-o-y)



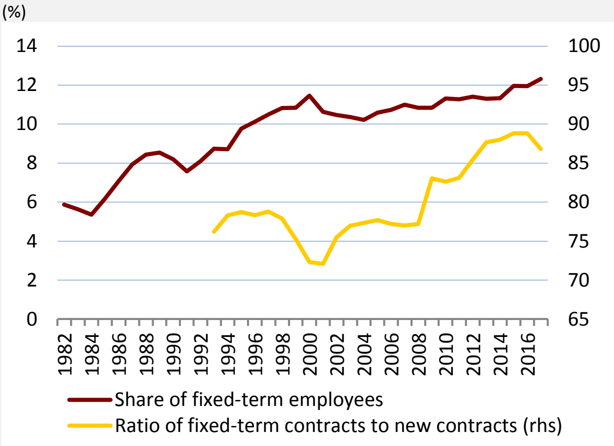
Source: Datastream
Note: The economies are ordered according to the size of nominal GDP in 2018.

The main success was changes made to the labour code. They concerned collective bargaining, for example. France has strong unions, and wages and many other arrangements relating to employees' working conditions were previously set uniformly for the entire economic sector rather than at firm level. Firms can now strike simplified deals with unions in the event of an economic downturn, allowing them to respond more quickly by changing wages or working hours. Although the system may still seem relatively inflexible, the previous rigidities have been reduced significantly. This example also illustrates well how the business conditions and overall functioning of the labour market in France differ from those in other, much less regulated European economies such as Germany and Sweden.

Besides having greater powers concerning wages and working hours, firms can now dismiss employees rather more easily. France requires multiple dismissals to be approved by the Chamber of Commerce. The Chamber could stop the dismissal if it held that the firm was globally profitable. The firm could thus not limit loss-making production in France. This led to the closure of several major companies.[4] Now only the firm's economic condition relating to its activities in France may be considered for the purposes of approving a dismissal. The amendment to the labour code also includes sanctions against firms for unjustified dismissals. Although there used to be sectoral directives, cases were actually decided in lengthy arbitration proceedings, which often ended with awards of very high compensation to dismissed workers. This practice led to unpredictable outcomes for firms and discouraged them from laying off employees. Compensation is now determined on an exactly specified scale starting with three months' pay and increasing by a further three months' pay for every two years spent with the firm.

Chart 3 – Proportion of fixed-term contracts

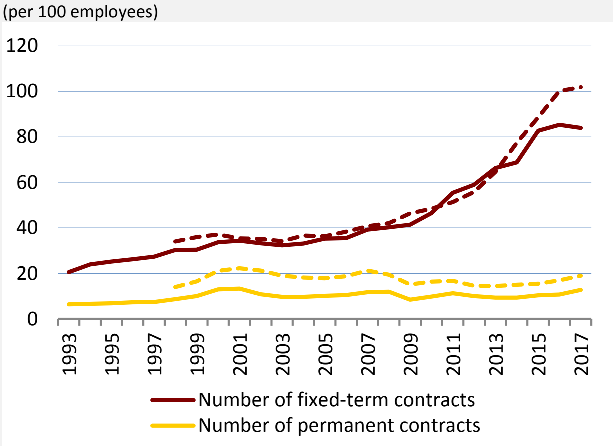
(%)



Source: Dares, (Milin, 2018)
Note: Dares stands for the Directorate for Research, Studies, and Statistics under the French Ministry of Labour.

Chart 4 – Number of new employment contracts

(per 100 employees)



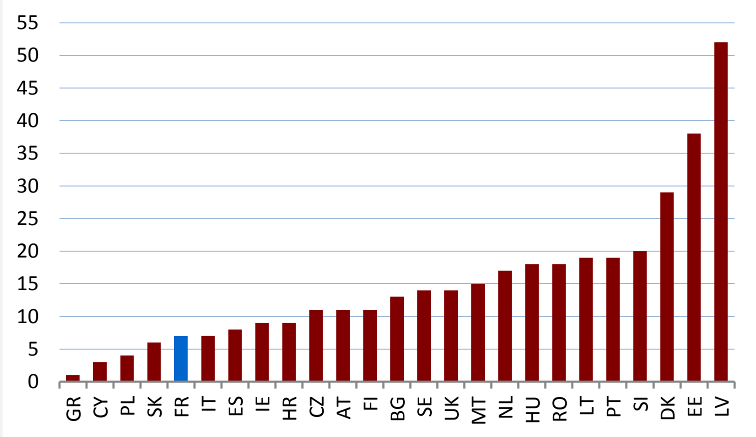
Source: Dares, (Milin, 2018)
Note: The solid line represents data for firms with 50 employees or more and the dashed line data for firms with 10–49 employees.

[4] An example of this is the closure of blast furnaces at ArcelorMittal in Florange in northern France in 2013. ArcelorMittal is the largest steel producer in the world. It is based in Luxembourg and owns plants in around 60 countries (including the Czech Republic).

This notwithstanding, the reform has left the serious problem of the duality of the French labour market more or less unnoticed. Employees with permanent contracts are protected unusually generously by global standards, while employees with fixed-term contracts can only dream of a similar level of protection. Owing to the above barriers to dismissing employees, French firms are highly reluctant to offer permanent contracts to their employees, as they do not allow them to respond to changes in demand for their products or services. Short-term contracts are in fact firms' main instrument for managing the number of employees. According to a study (Milin, 2018) conducted under the auspices of the French Ministry of Labour, 88% of employees had permanent contracts, but the share of employees with fixed-term contracts grew sharply from the early 1980s until the end of the millennium and has been rising steadily since then, albeit at a slightly slower pace (see Chart 3).

Chart 5 – Replacing fixed-term contracts with permanent contracts in the EU

(%)

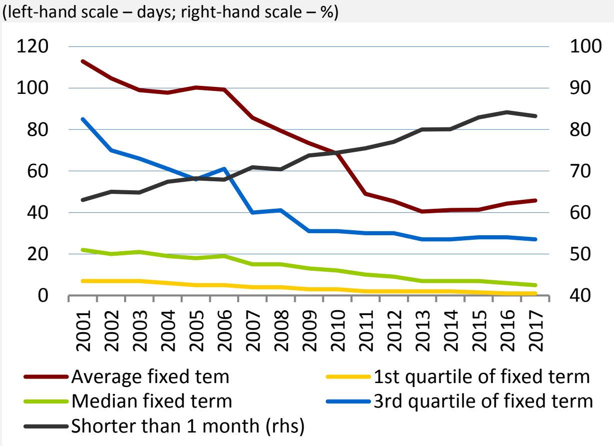


Source: Eurostat
Note: Latest available data for 2017; annual averages of quarterly data. Data are not available for Belgium, Luxembourg and Germany. France is highlighted in blue.

Although it concerns only a relatively small proportion of workers, this structural change has had some quite bizarre results. Fixed-term contracts have accounted for almost 90% of all new employment contracts in recent years, partly because of a steady fall in the average duration of fixed-term employment, which is subsequently rolled over. As a result, there are more than 100 short-term contracts per 100 employees on average in small firms (see Chart 4[5]). Only 7% of employees in France have a realistic chance of being "promoted" to permanent employment (see Chart 5[6]). The average duration of fixed-term employment has meanwhile decreased to 40 days (see Chart 6). One quarter of all fixed-term contracts are concluded for just a single day (see the yellow curve in Chart 6) and one half for less than five days (see the green curve). Contracts shorter than one month account for almost 85% (see the black curve). Although the applicable legislation allows a fixed-term contract with the same employer to be extended only twice, the system is frequently circumvented in practice.[7] Although the economic impacts of the dual labour market, where some employees are strongly protected and the rest "know neither the day nor the hour", are obvious and significant, President Macron paid minimal attention to this area in his first large presidential reform. There was generally only one change: the maximum number of extensions of short-term contracts and the limit on their duration are no longer stipulated by law with binding effect but may be specified differently at the

Chart 6 – Duration of fixed-term contracts

(left-hand scale – days; right-hand scale – %)



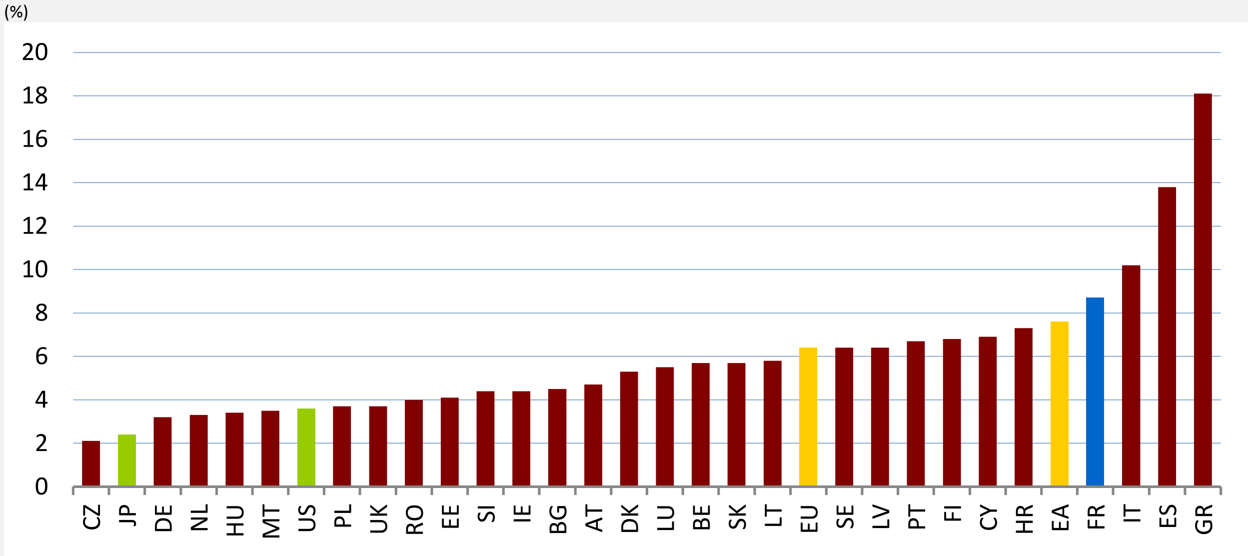
Source: Dares, (Milin, 2018)
Note: The black curve shows the proportion of fixed-term contracts concluded for less than one month in the total number of fixed-term contracts.

[5] The chart shows that the number of new permanent contracts has long stood at around 10 per 100 employees (for larger firms) and responds to the business cycle (increasing in expansions and decreasing in contractions). Conversely, the number of new fixed-term contracts does not reflect the cycle but rose sharply after the crisis.

[6] The percentage of switches from fixed-time contracts to permanent contracts in a year may be significantly affected by the usual duration of fixed-term employment. The probability of an employee getting a permanent contract in a given year is naturally lower in countries where it is customary to provide fixed-term contracts with a longer horizon (e.g. 3 years).

[7] Under the French labour code, fixed-term contracts may only be concluded in exceptional cases (replacement of a temporary absent worker, a temporary increase in economic activity – seasonal work – or work on a specific task). The period for which they could be concluded could not exceed 18 months and could be extended only twice. Then a new fixed-term contract could be concluded with a worker only after a waiting period equal to half the length of employment of less than 14 days and to one-third of longer employment. However, it was still worth it for companies to hire workers with breaks than to give them "airtight" permanent employment.

Chart 7 – Comparison of unemployment rates in EU countries, the United States and Japan

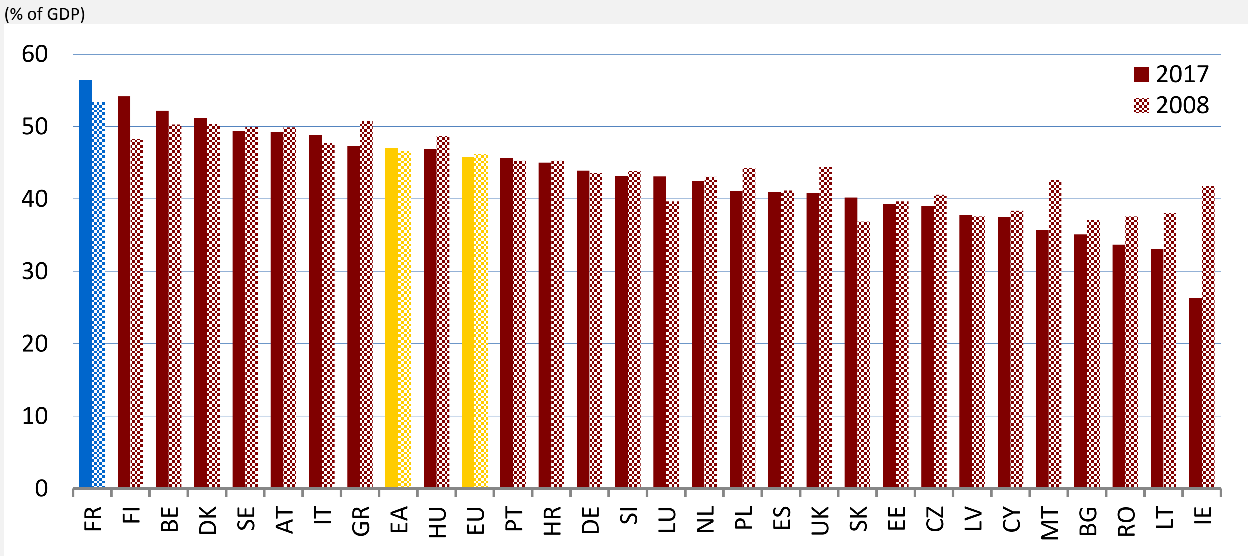


Source: Eurostat
Note: Harmonised unemployment rate. Latest available data (for April 2019 in most countries, for May in the Netherlands, Bulgaria and Portugal and for March in Austria, Poland, Ireland and Greece). The EU and euro area averages are shown in yellow, non-EU countries are shown in green and France is highlighted in blue.

sectoral level. Thus, rather than helping disadvantaged workers, this was an attempt to appease the unions, which had lost their previous privileges.

Over time, Macron has abandoned his attempts to extend the official working week. The French are proud of their short working week and any political action to extend it would meet with strong public resistance. Moreover, as Box 1 shows, the standard number of weekly working hours says nothing about hours actually worked. The unemployment rate in France remains high. At just below 9%, it is the fourth highest in the EU after Greece, Spain and Italy (see Chart 7). If the short working week (and better paid overtime when its standard length is exceeded) is encouraging employers to divide work among more workers, it makes sense to leave it in effect as an employment support measure. Macron has therefore stopped seeking to change it, focusing instead on increasing labour efficiency.[8] He has set a personal goal of

Chart 8 – Comparison of total government expenditure relative to GDP across EU countries



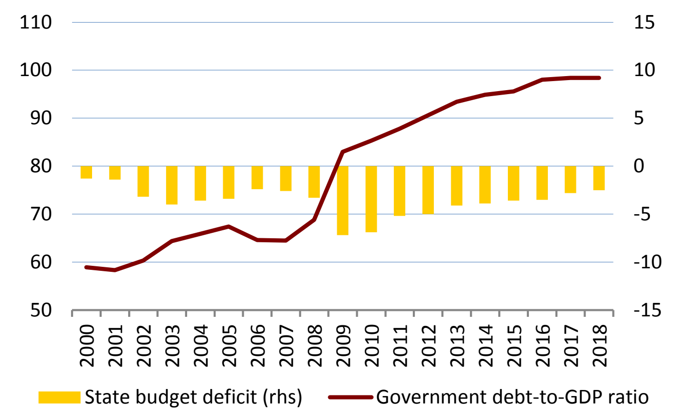
Source: Eurostat
Note: Data for 2017 for France, the Netherlands and Malta are provisional; only an estimate is available for Portugal. The EU and euro area averages are shown in yellow and France is highlighted in blue.

[8] Despite prejudices, labour efficiency is fairly high in France. According to Eurostat, it is the seventh highest in the EU (with relatively specific economies taking the first three places: Ireland, Luxembourg and Belgium). Nominal labour productivity (per hour) in France was 124.8% of the EU average in 2017 (latest available data). Labour productivity in France is only slightly lower than the famous productivity in Germany and comparable to that in the USA (e.g. Piketty, 2017).

reducing unemployment to 7%. This is an ambitious task in the French economic conditions. During Macron's time at the helm in France, the unemployment rate has dropped from 9.5% in May 2017 to 8.8% in April 2019.[9]

Chart 9 – Public finances

(% of GDP)



Source: Eurostat

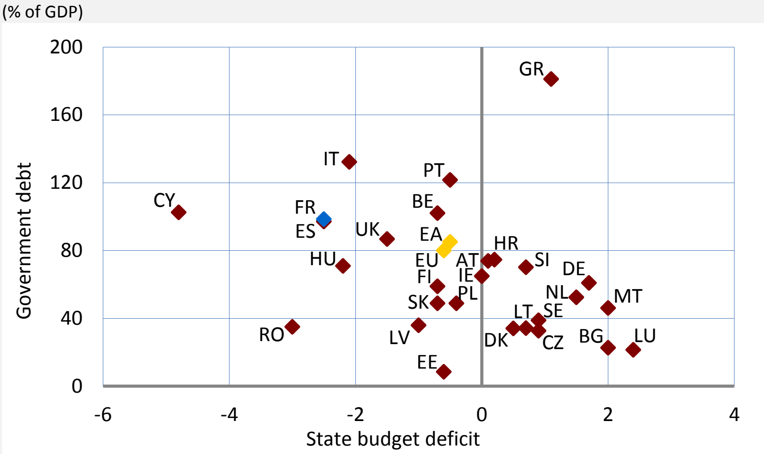
Stirring up a hornet's nest – expenditure and revenue cuts

Another area the president wants to overhaul is France's infamous state administration. Macron would like to turn the French economy from extreme dependence on government expenditure towards a healthier growth model based on greater activity of private firms, which has the potential to breathe life into the rigid Hexagon.[10] Government expenditure accounts for an incredible 57% of GDP in France, the most of all the EU countries and more than 10 percentage points above the EU average (see Chart 8). In addition, unlike in the other member states, its ratio to GDP has risen significantly since the financial crisis. Macron would like to reduce this figure to 51% by the end of his mandate in 2022, i.e. roughly to the level in Belgium and Denmark. He has therefore announced a plan to scale down public expenditure by EUR 60 billion over five years. He complemented this unpopular plan in his election programme with an even harder-to-digest declaration that the number of civil servants might be cut by 120,000. Public sector employment in France has long been one of the highest in the EU.[11]

Macron would also like to reduce the general government deficit. The French budget is chronically in deficit. It has been in negative figures for more than 40 years.[12] The deficit exceeded a full 5% of GDP at the start of the 1990s and again after the financial crisis. Only two years ago did it return below the 3% reference value which should not be exceeded by EU member states under the rules of the Stability and Growth Pact. The government budget ended last year in a deficit of 2.5% of GDP. This helped halt the growth in the country's relative debt level. The public debt, which has continuously been above the permitted threshold of 60% of GDP since 2002, surged during the financial crisis and increased rapidly further during the subsequent euro area debt crisis. It came to a halt only last year at just below 100% of GDP.[13] The French government's relative debt is currently the sixth highest in the EU (see Chart 10). Only Cyprus and Romania recorded higher budget deficits than France last year – in the current favourable phase of the business cycle.

Chart 10 – Comparison of public finances in EU countries

(% of GDP)



Source: Eurostat
Note: Data for 2018. Data for the EU and the euro area are shown in yellow and France is highlighted in blue.

[9] The figures correspond to the harmonised unemployment rate as reported by Eurostat. The INSEE data are on a quarterly basis. According to them, the unemployment rate was 9.5% in 2017 Q2 and 8.7% in 2019 Q1.

[10] "The Hexagon" is one of France's nicknames. It refers to the similarity between the shape of the country and this six-sided geometric figure.

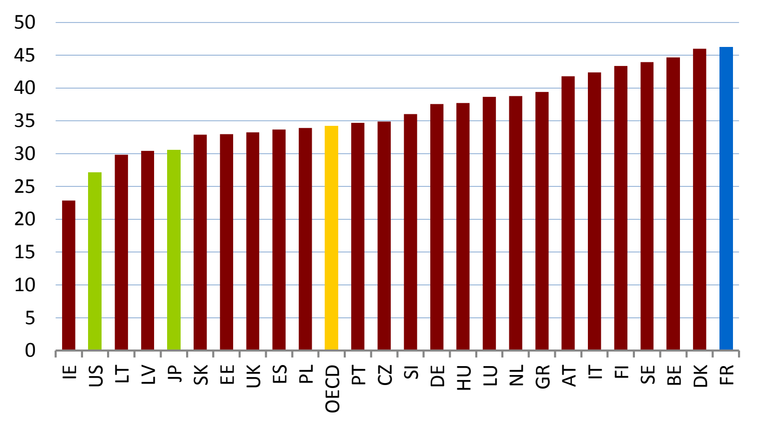
[11] According to a study of Eurofound (2015), public sector employment (in the broader concept of services of general interest, which, along with public administration, comprise health, education, public transport, telecoms, postal services and so on) accounted for 37% of the total labour force in 2013. It was higher only in Belgium (39%), Denmark and Sweden (both 40%). The EU average was 32%. It was lower than average in most of the new member states and surprisingly also in Italy and Spain (27% and 28% respectively).

[12] A surplus was last recorded in 1974.

[13] It amounted to 98.4% of GDP in 2017 and stayed at the same relative level in 2018.

Chart 11 – Comparison of tax revenues in EU countries, the United States and Japan

(% of GDP)



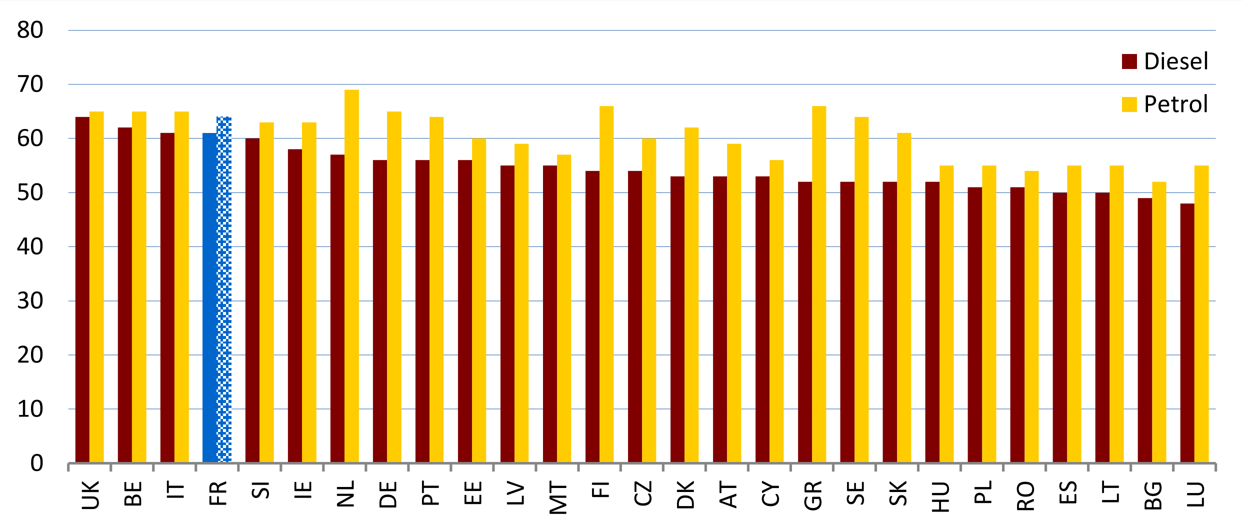
Source: OECD
Note: Latest available data (for 2017; for 2016 in Japan). Data for Bulgaria, Croatia, Cyprus, Malta and Romania are not available. The OECD average is shown in yellow, non-EU countries are shown in green and France is highlighted in blue.

However, Macron aims to offset the government spending cuts by lowering taxes. This is another area undergoing sweeping reforms. Tax revenues are very high in France compared with other countries. In 2017 they exceeded 46% of GDP (see Chart 11); this is also another indicator in which France is the undisputed "champion". Macron would like to return his country closer to normal and reduce the tax burden on private economic activity. In autumn 2017 he abolished the controversial wealth tax.[14] Although it accounted for a mere 2% of tax revenues, it provoked heated disputes – for some it was a symbol of solidarity, while others blamed it for making the wealthiest entrepreneurs leave the country, causing it to lose valuable sources of private investment. A year later, Macron launched a gradual decrease in residential tax (for less wealthy households as a priority); it should be fully abolished by 2021. In addition, corporate income tax is gradually declining (from 33.3% to 25% in 2022). Another major change was a shift to the pay-as-you-earn system for income tax payments, launched in early 2019 after postponements. The French previously paid these taxes only after filing their tax returns, i.e. retrospectively for the previous year. Since January, the tax has been withheld directly from their wages, as is customary in most other European countries.

Nevertheless, fuel tax was set to increase as part of climate change measures. It has stood at EUR 0.43 for a litre of diesel and EUR 0.61 for a litre of petrol in France since 2014. President Macron wanted to raise it gradually to EUR 0.78 for a litre of both types of fuel. However, the planned first increase sparked massive protests, the participants in which became known as the yellow vest movement (*Mouvement des Gilets Jaunes*). The protesters were angered by the further increase in the already high fuel prices, which primarily hurt lower-income households, especially in rural areas, where people depend

Chart 12 – Comparison of fuel taxes in the EU

(%)



Source: (Seely, 2018)
Note: Calculated on the basis of data for March 2018. Data are not available for Croatia. France is highlighted in blue.

[14] This tax applied to assets in excess of EUR 800,000. Its rate increased with asset value from 0.5% to 1.5% (for assets in excess of EUR 10 million). It was partially replaced by a property wealth tax, which uses the same rates and thresholds as the previous tax on wealth but applies only to real estate assets and shares in property-owning companies.

on driving not only to work, but also to access public services.[15] In addition to fuel tax, value added tax is levied on the price of raw materials (20% in France). Overall, fuel taxation thus significantly exceeds 50% (depending on the current price of raw materials) of forecourt prices and is one of the highest in the EU (see Chart 12). As a result, the French pay more for fuels than most other EU citizens.[16] Facing weeks-long and often violent protests, the president ultimately backed down. The fuel tax increase was first postponed and then abolished. In addition, electricity and gas prices were not increased as planned and technical inspections of older vehicles were not made stricter. On the other hand, the reduction in speed limits on normal roads from 90 to 80 km/h, against which the yellow vest movement had also protested massively, remained in effect.[17]

To the barricades!

Progress with other reforms has been slowed considerably by the extensive yellow vest protests. The movement arose out of spontaneous demonstrations in November 2018 and gained its name from the reflective vests worn by the participants. At first, the protesters were united by their dissatisfaction with rising fuel prices. These had been a consequence of oil price growth on global markets at the time, but the final straw was Macron's plan to increase fuel taxes. The protests gradually drew attention to the increasingly general trend of growing social inequality: Macron's reforms have primarily benefited the rich (although they should boost the entire economy in the long run), while poor households have tended to be harmed by them. The yellow vests particularly resented the abolition of the wealth tax, which, together with the lower corporate tax, really helped only the richest French citizens (even though it was aimed at supporting private enterprise and investment). People in rural areas, who cannot get by without a car, also felt repeatedly attacked by the president's actions – not only by the plan to increase the price of unsustainable means of transport, but also by the above measures to increase road safety.

The president responded to the wave of protests by launching a "Great National Debate". In the debate, which went on for two months, all citizens could express their views about the future of France. In December, he also announced a package of measures totalling EUR 10 billion to help low-earners. It contained, for example, an increase in the minimum wage of EUR 100 a month from January 2019, the abolition of overtime tax and an exemption for pensions below EUR 2,000 a month from the recently introduced increase in social contributions. The measures are to be financed from digital tax revenues introduced in early April. The 3% tax has been imposed on the income of large international internet firms.

Based on the results of the debate, Macron focused his attention on households and on increasing their income. In April, he announced a raft of new measures responding to some of the public's most frequent complaints, but emphasised that he still considered the previous course of his reform policy to be correct. The declared steps consist mainly of further tax cuts and partial reforms of the public sector. The president pledged to significantly reduce income tax (by around EUR 5 billion in total)[18] and to peg the lowest pensions (below EUR 2,000 a month) to inflation. These steps give rise to concerns about whether France will be able to maintain its general government deficit below 3%,[19] as the president wants to fill the hole in the budget with further (as yet unspecified) government spending cuts and especially with more consistent collection of current taxes. Although he does not want to increase the official retirement age (62 years), he has said that people should work longer if possible (a comprehensive pension reform is to be introduced this summer). Another measure responding to citizens' complaints is Macron's promise that no hospital or school will be closed until the end of his term. He has also agreed to greater decentralisation of the public administration. Broader discretion will be given both to ministers of his government (in developing detailed plans for reform measures as outlined by the president) and to regional authorities.

[15] This issue is more pressing in France than, say, in Germany (and many other Western European countries) due to a lower population density. It is 123 people per km^2 in France and almost double that in Germany (227 per km^2).

[16] The picture changes if income in individual countries is taken into account. Fuels in France, as in other wealthier Western countries, are relatively cheaper than in the poorer East and South of the EU. Sénécat (2018) states that the French paid only 4% of their 2017 median monthly income to refuel a 50-litre tank in March 2018, only slightly more than the Dutch, the British and the Germans. A full tank took the smallest portion of the income of Luxembourgers (1.9%) and the largest slice of the income of Romanians (24.4%). Czechs spent 8.7% of their monthly income on it.

[17] An option to delegate the power to set the maximum speed limit on these roads to individual *départements* (French administrative units; 96 in central France and five overseas) is currently being discussed. A bill enabling this was approved by the French parliament in May, but the legislative process is not finished yet.

[18] Prime Minister Édouard Philippe clarified the specific form of this measure in mid-June. Personal income tax is strongly progressive in France. The rate gradually increases in five bands depending on income level. Income (more specifically, the tax base minus a tax-free income allowance and deductible items) in the first band is exempt from tax and the part of income falling within each of the other bands is taxed at the corresponding rate (14%, 30%, 41% and 45%). There will be two major changes next year. The rate for the second band has been reduced from 14% to 11%, which will benefit lower-income households. The revenue shortfall will be slightly offset by a reduction of the upper limits for the second and third bands. Income of up to EUR 9,964 a year will also be tax exempt, but the new, lower 11% rate will apply only to annual income of up to EUR 25,406 (instead of EUR 27,519 this year) and the upper limit for the 30% rate will be lowered from EUR 73,779 to EUR 72,614. The threshold between the fourth and fifth bands will remain unchanged at EUR 156,244.

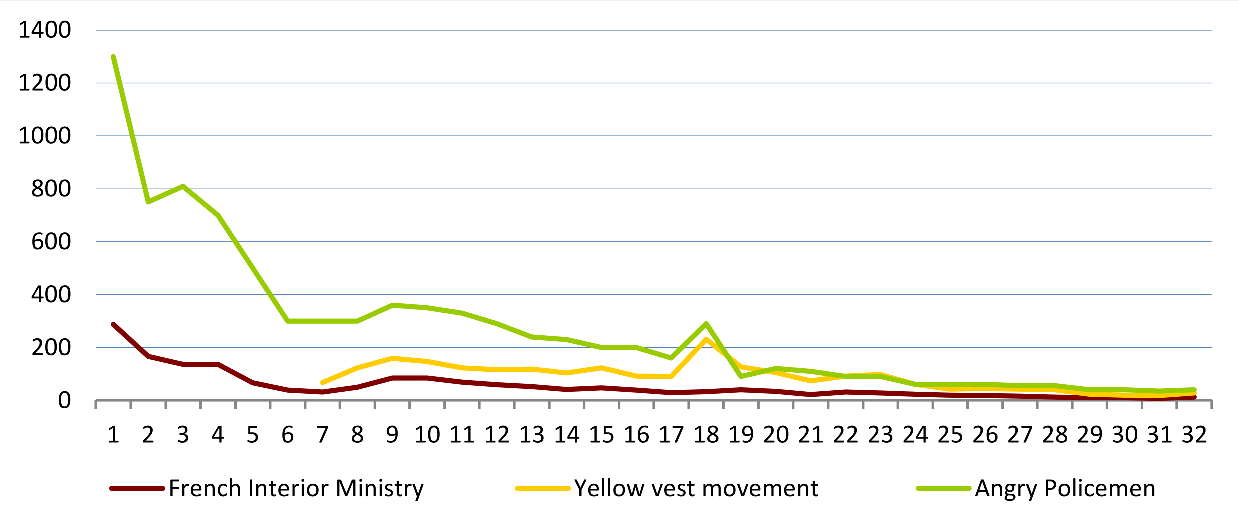
[19] The French government already expects it to be exceeded on a one-off basis this year.

Greatest media attention has been paid to the plan to close the prestigious *École Nationale d'Administration* (National School of Administration) in Strasbourg.[20]

The yellow vest protests, which are still being held regularly, gradually lost momentum in the spring and are now just a shadow of what they were at the turn of the year. At the start, in November 2018, almost 300,000 people were taking part in the demonstrations.[21] In mid-January, the turnout exceeded 80,000. Since then, however it has been weakening constantly and it currently stands at a mere 10,000. These figures come from the French Interior Ministry, but the protesters consider them underestimated. Among alternative sources, *Policiers en colère* (Angry Policemen, a small union of the French police close to the far right) have been estimating the attendance to be about five times higher than the Ministry's statistics throughout the protests. The yellow vest movement has been publishing its own estimates since the end of December; these are about 2½ times higher than the Interior Ministry's (see Chart 13).

Chart 13 – Alternative estimates of the number of yellow vest protesters in individual weeks

(thousands)



Source: French Interior Ministry, Le Nombre Jaune, Syndicat France Police – Policiers en colère
Note: The first protest was held on 17 November 2018. The yellow vest movement started to publish its own estimates in week 7 of protests (the demonstration held on 29 December 2018). The fluctuation in the estimates of the yellow vest movement and police unions for the demonstration turnout in the week 18 (16 March) was due to a coincident climate change march and the related difficulties in distinguishing attendees to the two events. The latest available data (for week 32) correspond to protests held on 22 June.

The way ahead is clear again – where next?

Now he has calmed the crowds in the streets, Macron will continue his reform campaign – next up are the pension system, health care and other changes in public administration. As noted by the Financial Times (2018), these are among the most costly, politically sensitive and reform-resistant areas of French public life. It will thus not be easy to carry out the necessary changes and the people in vests may take to the streets again. Yet the country badly needs these reforms to develop successfully. The current pension system is extremely complex (consisting of an incredible number of 42 separate systems) and provides French pensioners with very generous pensions from a relatively early age by European standards. It needs to be significantly simplified and, ideally, adjusted so as to reflect increasing life expectancy and not to jeopardise public finance sustainability. It will be even harder to make more profound changes in the functioning of the public administration. The volume of wages and salaries in the public sector in France is one of the highest in the EU and Macron needs to cut government spending. At the same time, state employees enjoy the highest degree of employment protection. The president has meanwhile said he wants to introduce performance-related pay to a much greater extent and more frequent use of fixed-term employment contracts in the public sector.

However, there are other areas in which he wants to modernise France as well. In addition to environmental issues, he is devoting a lot of energy to the country's technological development. For example, in March 2018 he announced that the government would spend EUR 1.5 billion on developing

[20] It is one of the most prestigious education institutions in France. Its graduates find employment in the highest echelons of the French public administration and in the management of large firms. Its alumni include both Emmanuel Macron and Prime Minister Édouard Philippe, as well as former presidents François Hollande and Jacques Chirac. The French public has long criticised the school for its strongly elitist character.

[21] The population of France is around 67 million.

artificial intelligence to support innovation. The funds will be used to finance research projects and laboratories and also French start-ups in this field.

Conclusion

President Emmanuel Macron has left an indelible mark on French history after only two years in office. Also worth noting are his imprints in world politics. Although France may never regain the significance it had in the 19th century, when it was a world power, President Macron is unquestionably returning it to centre stage. He has proudly claimed allegiance to the European spirit, and, less than six months after his election, he delivered an outstanding speech at the Sorbonne in which he presented his vision for the future of the EU. Although none of his proposals have taken hold so far and his speech has failed to instigate a deeper debate in the lethargic EU28, his positive approach came like something from out of this world at a time when the EU had for decades been discussed only in connection with crises, firefighting and shoring up an unfinished house. He recently drew attention to himself again when he gave a speech in Geneva on the occasion of the 100th anniversary of the International Labour Organisation (under the United Nations) calling for the introduction of a minimum wage in all EU countries.[22]

It will be interesting to assess from a distance how his reforms are reflected in the condition of the French economy. Critics point out that the consequences of the initial changes should already be apparent in economic indicators but maintain that they are not visible. However, it is not easy to distinguish between the mutually opposite effects of the downward phase of a business cycle and the reforms. The years ahead will bring a clearer answer. We can say for the time being that the French economy has been slowing less than its German neighbour over the last five quarters and public finances have been moving in the right direction. The coming quarters will tell us more about whether this is just a coincidence or the beginning of a longer-term trend.

Although we do not know what further reforms France awaits, the politician who has within himself a philosopher and an economist, combined with "youthful" enthusiasm and energy, still seems to have a lot to offer. In the course of his career, Emmanuel Macron has never stayed in one position longer than four years. So, if he remains as president until the end of his five-year term, it will be his longest professional engagement. Given the explosive nature of his reform programme and the equally quick temper of the French public, however, it is not entirely certain whether he will do so. We certainly cannot say he is acting like a politician seeking re-election. It would be wrong to say, though, that he does not listen to voters. If he succeeds in curing some of the chronic illnesses of the French economy, he may even become a role model for other advanced and less developed countries, even those outside Europe.

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[22] Some EU states do not have a minimum wage. Its level should not be uniform across the EU but should correspond to the competitiveness of each country.

Keywords:
France, Macron, reforms, economic policy, labour market, taxes

JEL Classification
E24, E62, O52

A1. Change in predictions for 2019

GDP growth, %

	CF		IMF		OECD		CB / EIU	
EA	0	2019/7 2019/6	-0.3	2019/4 2019/1	+0.2	2019/5 2019/3	+0.1	2019/6 2019/3
US	0	2019/7 2019/6	-0.2	2019/4 2019/1	+0.2	2019/5 2019/3	0	2019/6 2019/3
UK	-0.1	2019/7 2019/6	-0.3	2019/4 2019/1	+0.4	2019/5 2019/3	+0.3	2019/5 2019/2
JP	-0.1	2019/7 2019/6	-0.1	2019/4 2019/1	-0.1	2019/5 2019/3	-0.1	2019/4 2019/1
CN	-0.1	2019/7 2019/6	+0.1	2019/4 2019/1	0	2019/5 2019/3	-0.1	2019/6 2019/6
RU	-0.1	2019/6 2019/5	0	2019/4 2019/1	0	2019/5 2019/3	0	2019/7 2019/6

Inflation, %

	CF		IMF		OECD		CB / EIU	
EA	0	2019/7 2019/6	-0.4	2019/4 2018/10	-0.7	2019/5 2018/11	+0.1	2019/6 2019/3
US	0	2019/7 2019/6	-0.1	2019/4 2018/10	-0.7	2019/5 2018/11	-0.3	2019/6 2019/3
UK	0	2019/7 2019/6	-0.4	2019/4 2018/10	-0.6	2019/5 2018/11	-0.4	2019/5 2019/2
JP	0	2019/7 2019/6	-0.2	2019/4 2018/10	-0.6	2019/5 2018/11	0	2019/4 2019/1
CN	0	2019/7 2019/6	-0.1	2019/4 2018/10	-1.1	2019/5 2018/11	0	2019/6 2019/6
RU	-0.1	2019/6 2019/5	-0.1	2019/4 2018/10	-0.2	2019/5 2018/11	0	2019/7 2019/6

A2. Change in predictions for 2020

GDP growth, %

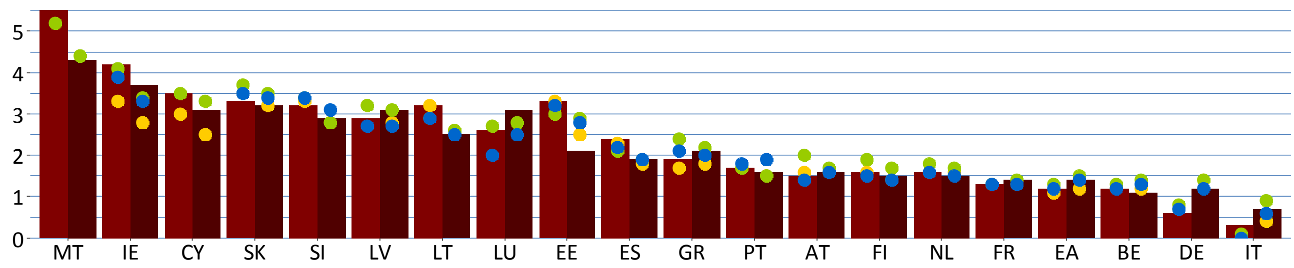
	CF		IMF		OECD		CB / EIU	
EA	-0.1	2019/7 2019/6	-0.2	2019/4 2019/1	+0.2	2019/5 2019/3	-0.2	2019/6 2019/3
US	+0.1	2019/7 2019/6	+0.1	2019/4 2019/1	+0.1	2019/5 2019/3	+0.1	2019/6 2019/3
UK	-0.1	2019/7 2019/6	-0.2	2019/4 2019/1	+0.1	2019/5 2019/3	+0.1	2019/5 2019/2
JP	-0.1	2019/7 2019/6	0	2019/4 2019/1	-0.1	2019/5 2019/3	-0.1	2019/4 2019/1
CN	0	2019/7 2019/6	-0.1	2019/4 2019/1	0	2019/5 2019/3	0	2019/6 2019/6
RU	+0.1	2019/6 2019/5	0	2019/4 2019/1	+0.6	2019/5 2019/3	-0.2	2019/7 2019/6

Inflation, %

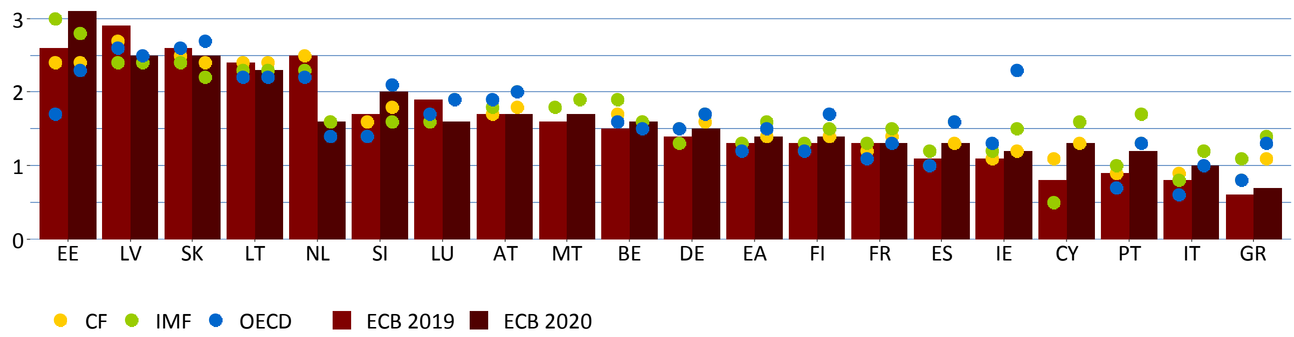
	CF		IMF		OECD		CB / EIU	
EA	0	2019/7 2019/6	-0.2	2019/4 2018/10	-0.4	2019/5 2018/11	-0.1	2019/6 2019/3
US	0	2019/7 2019/6	+0.4	2019/4 2018/10	-0.3	2019/5 2018/11	-0.1	2019/6 2019/3
UK	0	2019/7 2019/6	0	2019/4 2018/10	-0.2	2019/5 2018/11	-0.1	2019/5 2019/2
JP	-0.1	2019/7 2019/6	-0.2	2019/4 2018/10	-0.4	2019/5 2018/11	-0.1	2019/4 2019/1
CN	0	2019/7 2019/6	-0.2	2019/4 2018/10	-0.9	2019/5 2018/11	0	2019/6 2019/6
RU	0	2019/6 2019/5	-0.3	2019/4 2018/10	0	2019/5 2018/11	0	2019/7 2019/6

A3. GDP growth and inflation outlooks in the euro area countries

GDP growth in the euro area countries in 2019 and 2020, %



Inflation in the euro area countries in 2019 and 2020, %

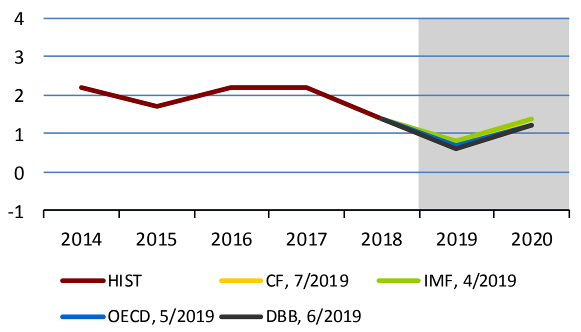


Note: Charts show institutions' latest available outlooks of for the given country.

A4. GDP growth and inflation in the individual euro area countries

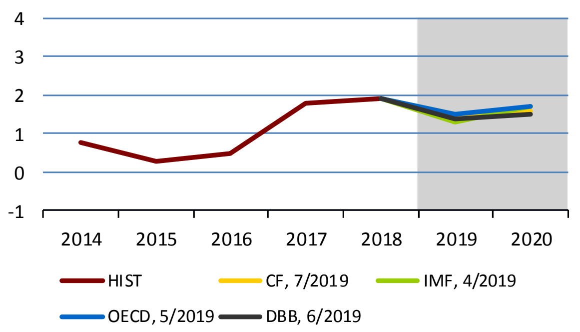
Germany

GDP growth, %



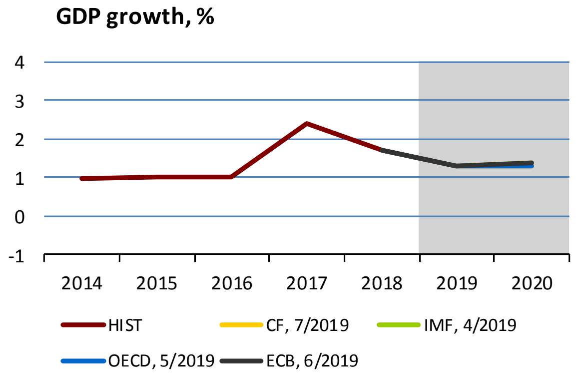
	CF	IMF	OECD	DBB
2019	0.7	0.8	0.7	0.6
2020	1.4	1.4	1.2	1.2

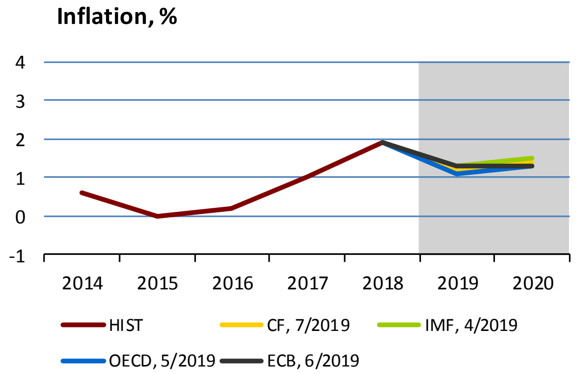
Inflation, %



	CF	IMF	OECD	DBB
2019	1.5	1.3	1.5	1.4
2020	1.6	1.7	1.7	1.5

France

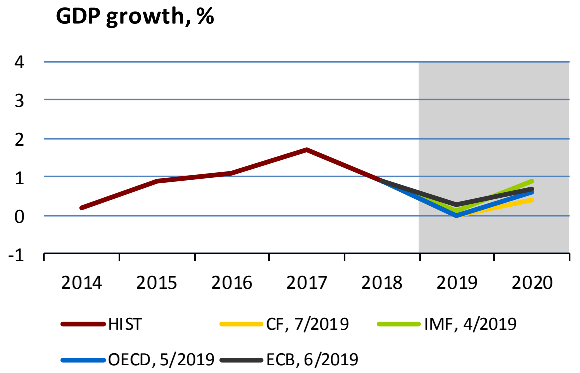


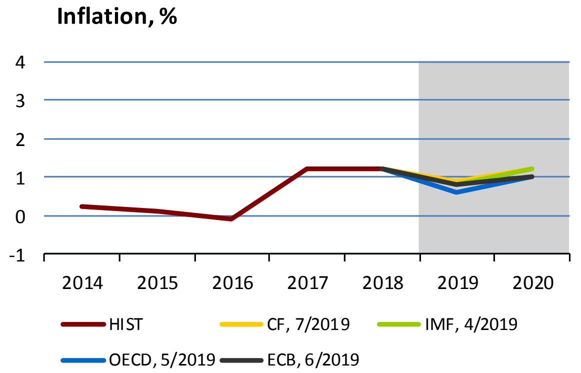


	CF	IMF	OECD	ECB
2019	1.3	1.3	1.3	1.3
2020	1.3	1.4	1.3	1.4

	CF	IMF	OECD	ECB
2019	1.2	1.3	1.1	1.3
2020	1.4	1.5	1.3	1.3

Italy

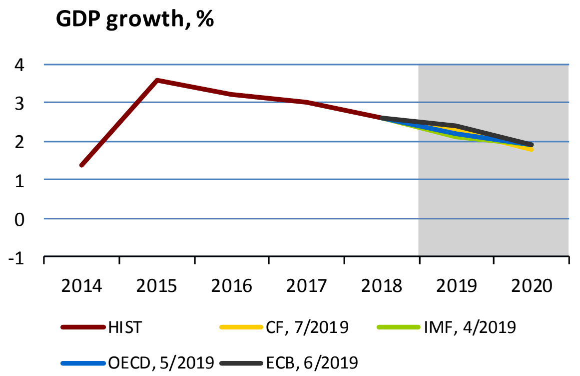


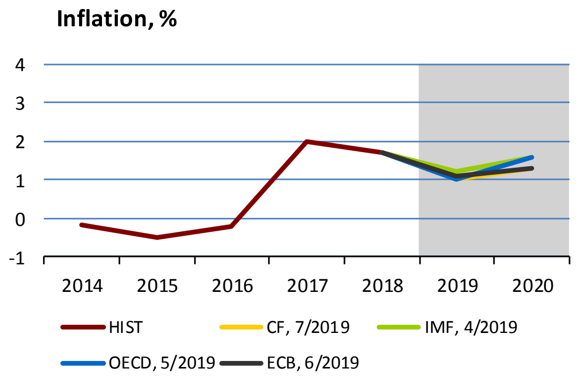


	CF	IMF	OECD	ECB
2019	0.0	0.1	0.0	0.3
2020	0.4	0.9	0.6	0.7

	CF	IMF	OECD	ECB
2019	0.9	0.8	0.6	0.8
2020	1.2	1.2	1.0	1.0

Spain



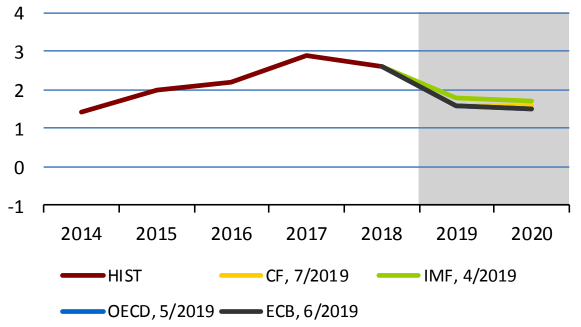


	CF	IMF	OECD	ECB
2019	2.3	2.1	2.2	2.4
2020	1.8	1.9	1.9	1.9

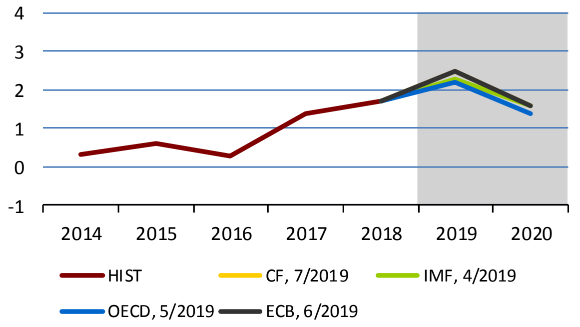
	CF	IMF	OECD	ECB
2019	1.0	1.2	1.0	1.1
2020	1.3	1.6	1.6	1.3

Netherlands

GDP growth, %



Inflation, %



GDP growth, %

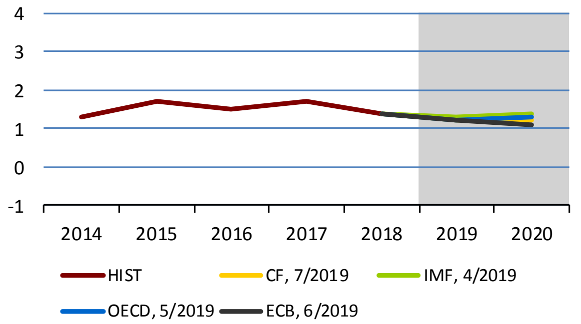
	CF		IMF	OECD	ECB	
2019	1.6	→	1.8	1.6	1.6	↘
2020	1.6	→	1.7	1.5	1.5	↘

Inflation, %

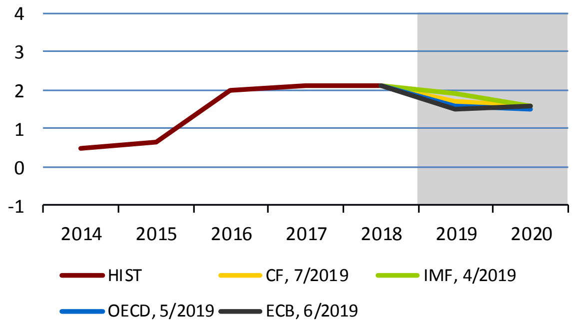
	CF		IMF	OECD	ECB	
2019	2.5	↗	2.3	2.2	2.5	↘
2020	1.6	→	1.6	1.4	1.6	↘

Belgium

GDP growth, %



Inflation, %



GDP growth, %

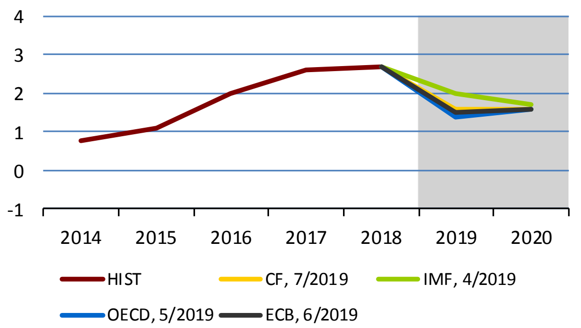
	CF		IMF	OECD	ECB	
2019	1.2	→	1.3	1.2	1.2	↘
2020	1.2	→	1.4	1.3	1.1	↘

Inflation, %

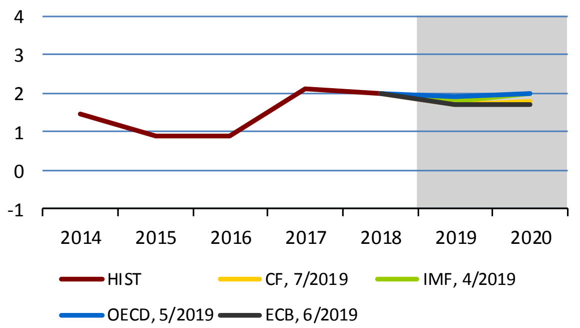
	CF		IMF	OECD	ECB	
2019	1.7	↗	1.9	1.6	1.5	↘
2020	1.6	→	1.6	1.5	1.6	→

Austria

GDP growth, %



Inflation, %



GDP growth, %

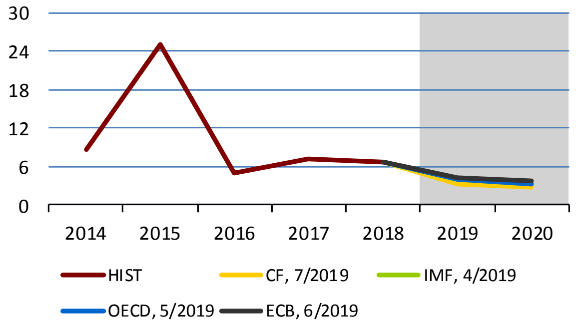
	CF		IMF	OECD	ECB	
2019	1.6	↘	2.0	1.4	1.5	↘
2020	1.6	→	1.7	1.6	1.6	↘

Inflation, %

	CF		IMF	OECD	ECB	
2019	1.7	→	1.8	1.9	1.7	↘
2020	1.8	→	2.0	2.0	1.7	↘

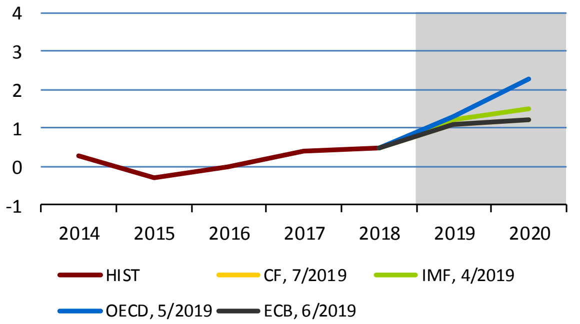
Ireland

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.3	4.1	3.9	4.2
2020	2.8	3.4	3.3	3.7

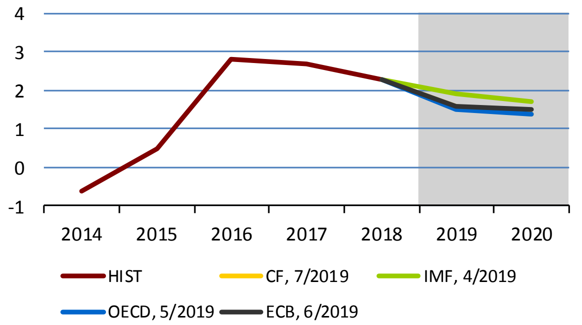
Inflation, %



	CF	IMF	OECD	ECB
2019	1.1	1.2	1.3	1.1
2020	1.2	1.5	2.3	1.2

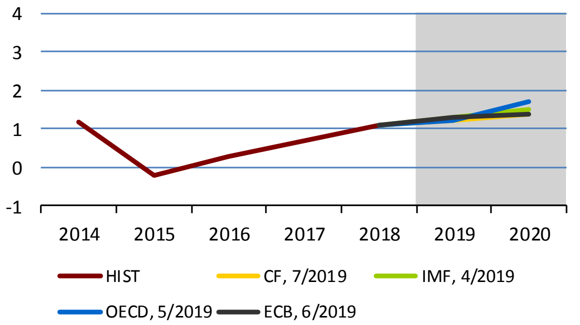
Finland

GDP growth, %



	CF	IMF	OECD	ECB
2019	1.6	1.9	1.5	1.6
2020	1.4	1.7	1.4	1.5

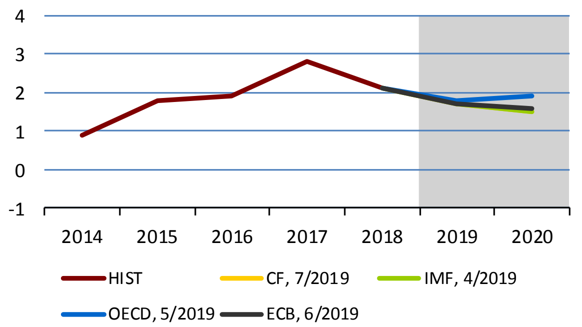
Inflation, %



	CF	IMF	OECD	ECB
2019	1.2	1.3	1.2	1.3
2020	1.4	1.5	1.7	1.4

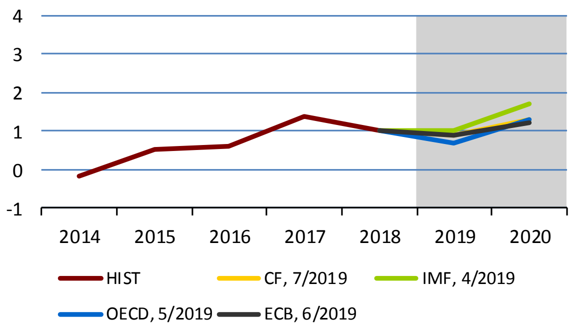
Portugal

GDP growth, %



	CF	IMF	OECD	ECB
2019	1.7	1.7	1.8	1.7
2020	1.5	1.5	1.9	1.6

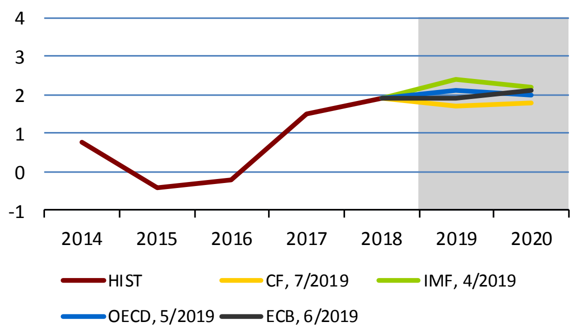
Inflation, %



	CF	IMF	OECD	ECB
2019	0.9	1.0	0.7	0.9
2020	1.3	1.7	1.3	1.2

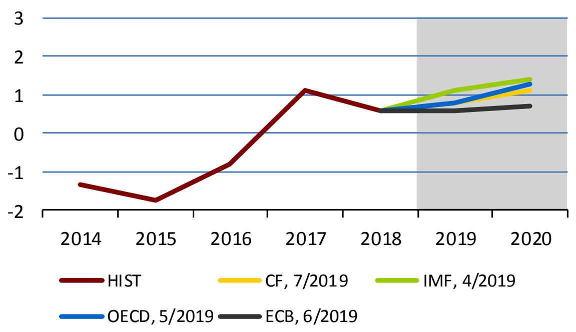
Greece

GDP growth, %



	CF	IMF	OECD	ECB
2019	1.7	2.4	2.1	1.9
2020	1.8	2.2	2.0	2.1

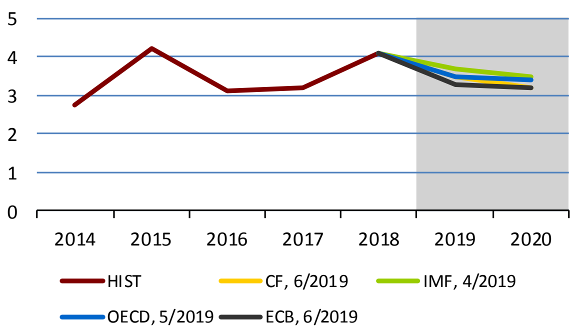
Inflation, %



	CF	IMF	OECD	ECB
2019	0.8	1.1	0.8	0.6
2020	1.1	1.4	1.3	0.7

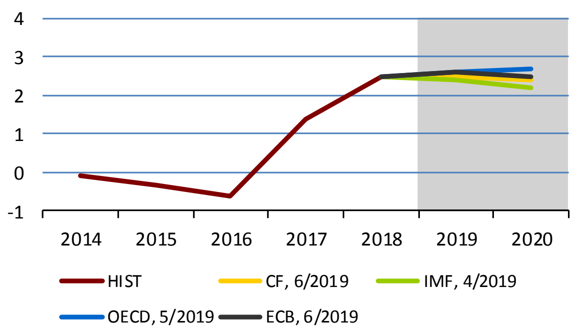
Slovakia

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.5	3.7	3.5	3.3
2020	3.2	3.5	3.4	3.2

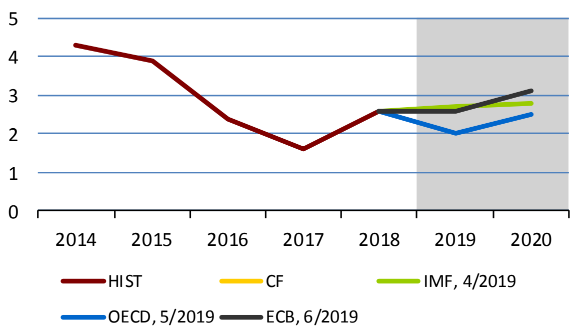
Inflation, %



	CF	IMF	OECD	ECB
2019	2.5	2.4	2.6	2.6
2020	2.4	2.2	2.7	2.5

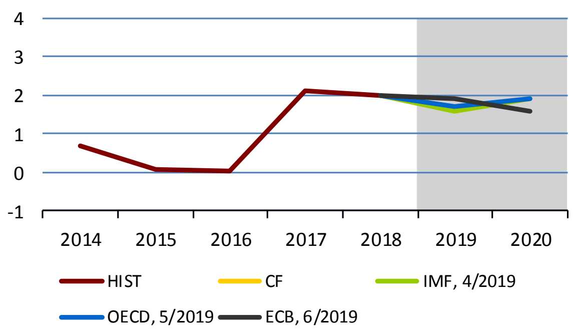
Luxembourg

GDP growth, %



	CF	IMF	OECD	ECB
2019	n. a.	2.7	2.0	2.6
2020	n. a.	2.8	2.5	3.1

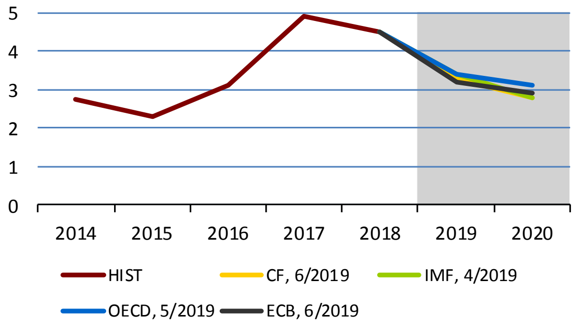
Inflation, %



	CF	IMF	OECD	ECB
2019	n. a.	1.6	1.7	1.9
2020	n. a.	1.9	1.9	1.6

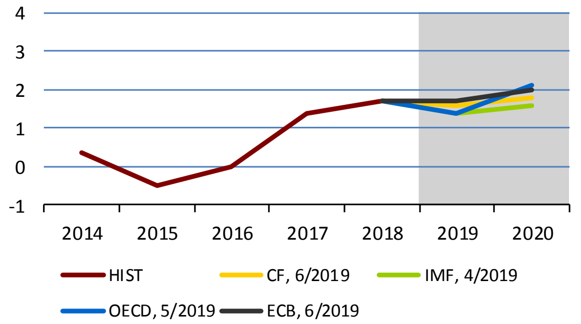
Slovenia

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.3 →	3.4	3.4	3.2 ↘
2020	2.8 →	2.8	3.1	2.9 ↘

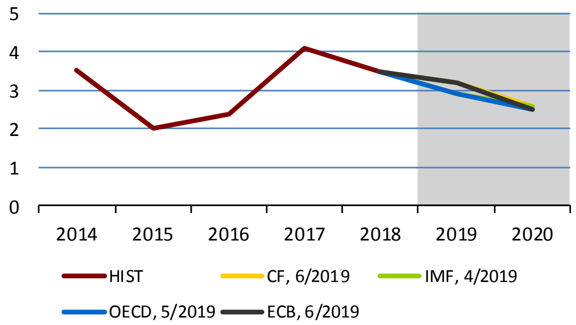
Inflation, %



	CF	IMF	OECD	ECB
2019	1.6 →	1.4	1.4	1.7 ↘
2020	1.8 →	1.6	2.1	2.0 ↘

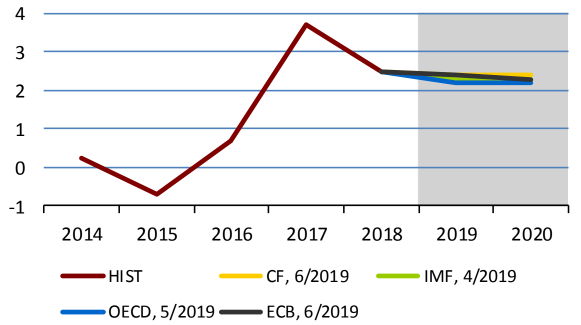
Lithuania

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.2 ↗	2.9	2.9	3.2 ↗
2020	2.6 ↗	2.6	2.5	2.5 ↘

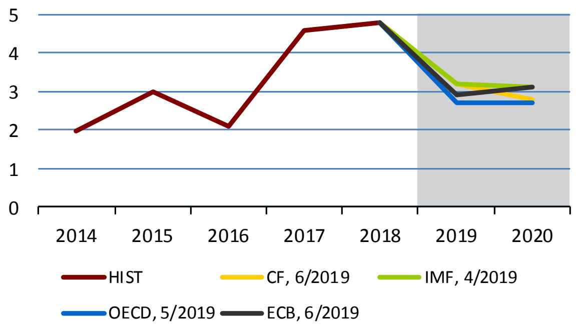
Inflation, %



	CF	IMF	OECD	ECB
2019	2.4 →	2.3	2.2	2.4 →
2020	2.4 →	2.3	2.2	2.3 →

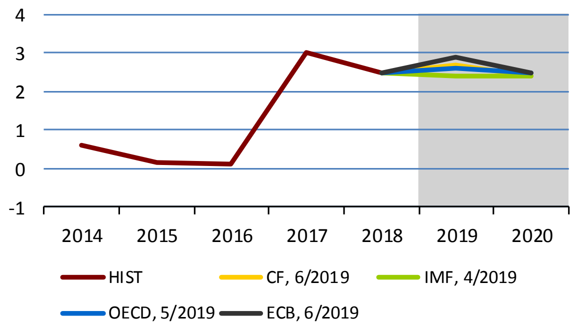
Latvia

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.2 ↘	3.2	2.7	2.9 ↘
2020	2.8 →	3.1	2.7	3.1 →

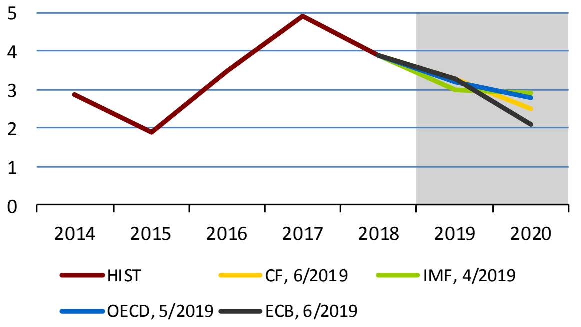
Inflation, %



	CF	IMF	OECD	ECB
2019	2.7 ↗	2.4	2.6	2.9 →
2020	2.4 →	2.4	2.5	2.5 →

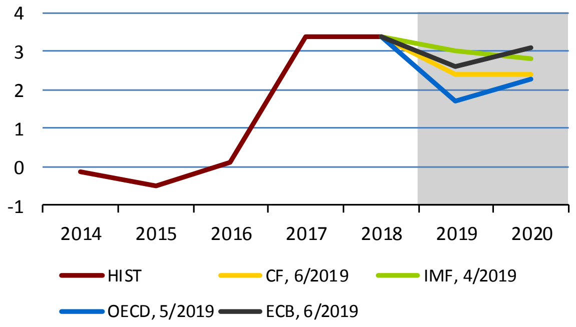
Estonia

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.3	3.0	3.2	3.3
2020	2.5	2.9	2.8	2.1

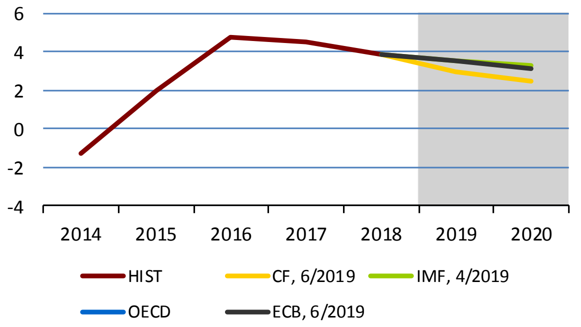
Inflation, %



	CF	IMF	OECD	ECB
2019	2.4	3.0	1.7	2.6
2020	2.4	2.8	2.3	3.1

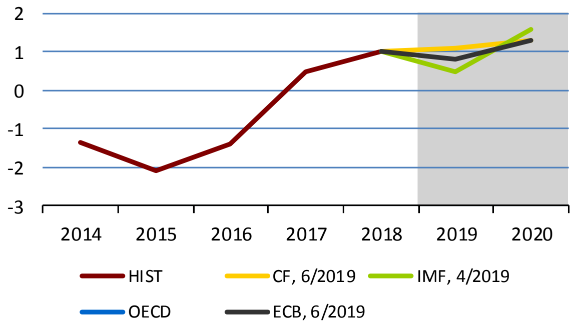
Cyprus

GDP growth, %



	CF	IMF	OECD	ECB
2019	3.0	3.5	n. a.	3.5
2020	2.5	3.3	n. a.	3.1

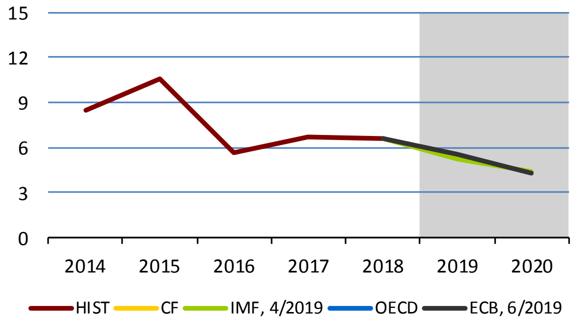
Inflation, %



	CF	IMF	OECD	ECB
2019	1.1	0.5	n. a.	0.8
2020	1.3	1.6	n. a.	1.3

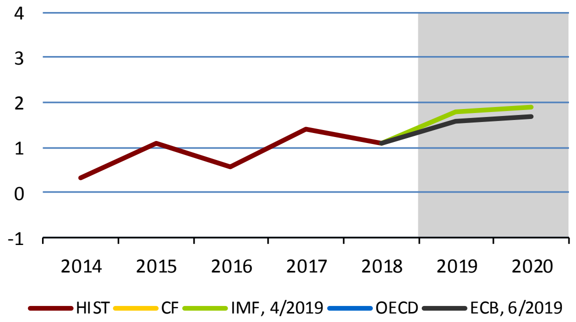
Malta

GDP growth, %



	CF	IMF	OECD	ECB
2019	n. a.	5.2	n. a.	5.5
2020	n. a.	4.4	n. a.	4.3

Inflation, %



	CF	IMF	OECD	ECB
2019	n. a.	1.8	n. a.	1.6
2020	n. a.	1.9	n. a.	1.7

A5. List of abbreviations

AT	Austria
bbl	barrel
BE	Belgium
BoE	Bank of England (the UK central bank)
BoJ	Bank of Japan (the central bank of Japan)
bp	basis point (one hundredth of a percentage point)
CB	central bank
CBR	Central Bank of Russia
CF	Consensus Forecasts
CN	China
CNB	Czech National Bank
CNY	Chinese renminbi
ConfB	Conference Board Consumer Confidence Index
CXN	Caixin
CY	Cyprus
DBB	Deutsche Bundesbank (the central bank of Germany)
DE	Germany
EA	euro area
ECB	European Central Bank
EE	Estonia
EIA	Energy Information Administration
EIU	Economist Intelligence Unit
ES	Spain
ESI	Economic Sentiment Indicator of the European Commission
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
Fed	Federal Reserve System (the US central bank)
FI	Finland
FOMC	Federal Open Market Committee
FR	France
FRA	forward rate agreement
FY	fiscal year
GBP	pound sterling
GDP	gross domestic product
GR	Greece
ICE	Intercontinental Exchange
IE	Ireland
IEA	International Energy Agency
IFO	Leibniz Institute for Economic Research at the University of Munich
IMF	International Monetary Fund
IRS	Interest Rate swap
ISM	Institute for Supply Management
IT	Italy
JP	Japan
JPY	Japanese yen
LIBOR	London Interbank Offered Rate
LME	London Metal Exchange
LT	Lithuania
LU	Luxembourg
LV	Latvia
MKT	Markit
MT	Malta
NIESR	National Institute of Economic and Social Research (UK)
NKI	Nikkei
NL	Netherlands
OECD	Organisation for Economic Co-operation and Development
OECD-CLI	OECD Composite Leading Indicator
OPEC+	member countries of OPEC oil cartel and 10 other oil-exporting countries (the most important of which are Russia, Mexico and Kazakhstan)
PMI	Purchasing Managers' Index
pp	percentage point
PT	Portugal
QE	quantitative easing
RU	Russia
RUB	Russian rouble
SI	Slovenia
SK	Slovakia
UK	United Kingdom
UoM	University of Michigan Consumer Sentiment Index - present situation
US	United States
USD	US dollar
USDA	United States Department of Agriculture
WEO	World Economic Outlook
WTI	West Texas Intermediate (crude oil used as a benchmark in oil pricing)
ZEW	Centre for European Economic Research