

Overview: In this issue of showCASE, our analysts summarize the main take-aways from the G7 Summit, in particular American uneasiness with the German trade surplus and withdrawal of the US from the Paris Agreement. Our experts then analyze the EU decision to grant visa-free travel to Ukrainian citizens, and the impact that it may have on the Polish labor market.

G7 summit in Italy: six versus one?

By: Givi Gigitashvili, CASE Analyst

The G7 summit on May 26-27 saw relations between the United States and Europe hit their lowest point since 2003, when the US-led military campaign in Iraq evoked [criticism](#) from the vast majority of Western European countries. Yet again, the recent G7 summit in Italy revealed a number of issues driving a wedge between the



Source: Reuters

United States and European countries. Of particular importance are the differing views on the trade balance between the US and Germany, as well as the Trump administration's withdrawal of the US from the Paris Accord on Climate Change.

In conversation with the EU officials, Trump reportedly expressed his uneasiness with the buildup of the German trade surplus with the United States, and he subsequently vowed to [change](#) it somehow. Indeed, last year, Germany exported to the US \$114 billion worth of goods, [\\$66 billion](#) more than it [imported](#) (the United States had the [third largest](#) negative balance of trade with Germany, after China and Japan). This performance was part of a general trend of Germany's foreign [trade surplus](#), which broke a new record last year and reached €253 billion (\$272 billion), 8.7 percent of the country's GDP. However, [allegations](#) conveyed by Trump's chief trade adviser Peter Navarro about Germany's deliberate manipulation of the Euro exchange rate to sell its goods competitively are ill-founded, simply because the European currency is managed by the independent European Central Bank, which the Germans exert influence in but have no unilateral powers at. Furthermore, Chancellor Merkel sees trade with the US as a [non-zero-sum](#) game, and points to, *inter alia*, German foreign investments in the US.

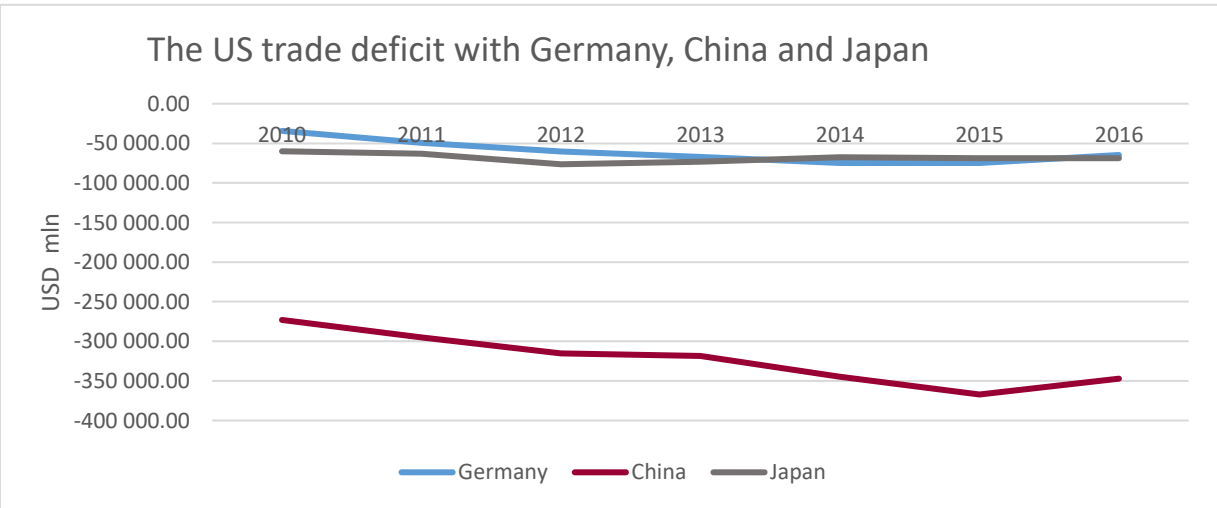
Nevertheless, available evidences seem to suggest that the United States is likely to adopt certain measures to offset the trade balance. On March 31, Donald Trump signed the [Presidential Executive Order Regarding the Omnibus Report on Significant Trade Deficits](#), which aims to investigate and address challenges created by what it calls “unfair and discriminatory trade practices.” The report will be submitted to the President by the end of June, and it might be followed by protectionist actions,



Source: [Federal Statistical Office of Germany](#)

including tariff increases on import, imposition of non-tariff barriers, or other measures. Ostensibly, these isolationist policies can trigger legal battles within the frames of the World Trade Organizations, as well as force American companies to buy machinery parts elsewhere at a higher price. What is more, European countries might see the need to forge economic ties with China ever more pressing.

During the G7 summit, controversies also mounted around the US stance towards the Paris climate accord, which Trump refused to endorse and later decided to entirely withdraw from. [The Paris agreement](#) represents the first-ever universal international climate pact (adopted by 195 countries), which entered into force in 2016 and which deals with effects of climate change. The United States under President Obama did not submit the treaty to Senate approval, as required by the Constitution, and instead acceded to it as a matter of executive power. In President Trump’s account, the Paris Agreement is [very unfair](#) to the United States, and it puts the country at economic disadvantage. Losing [the second largest](#) greenhouse gases emitter country can undermine the credibility of the Paris Agreement, but it will not disband the pact. The White House apparently believes that last week’s decision will boost economic growth in the United States in a short-term perspective.



Source: [United States Census Bureau](#)

The German trade surplus is not the result of unfair trade deals, but it is largely a [consequence](#) of a combination of several factors, mainly the competitiveness of German goods worldwide and a relatively low demand for imported products in Germany. Therefore, protectionist measures anticipated by the United States can be seen as a wrong remedy, which will inflict severe damage to the liberal trade order. The withdrawal from the Paris Agreement may be an additional attempt to protect American workers, although the logic behind it may be sounder than the trade spat with Germany; indeed, if Germany adopts strict emissions targets while the US does not, it is possible that Trump will have succeeded.

Could Ukrainians save the shrinking Polish labor market?

By: [Aleksandra Polak](#), Communications Officer

On May 11, the European Union approved visa-free travel for Ukrainian citizens. The new measures will allow Ukrainians with biometric passports to travel to the EU for up to 90 days in a 180-day period without a visa. However, the long-awaited visa-waiver has raised some concerns in Poland, as Polish employers fear an outflow of Ukrainian employees to Western Europe once the new regime comes into force.

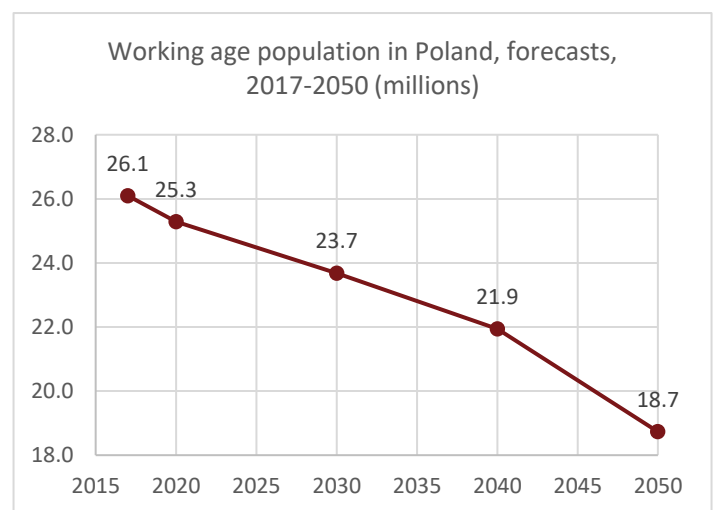


Source: Reuters

Currently, Ukrainian citizens can access the Polish labor market on special terms. For a period of six months within a subsequent twelve month span, they can legally work [without a work permit](#), provided that they have a written statement of the employer and a written contract. Last year, [almost 1.3 million](#) Ukrainians received temporary work registration and 116,000 more obtained long-term work permits.

The situation is advantageous for both sides. Ukrainians can earn even five times more in Poland than at home (partly due to the sharp devaluation of the Ukrainian currency), while at the same time filling Poland's widening labor force shortages. The labor supply in Poland has been shrinking due to demographic changes (an aging society) and the mass economic migration of Poles to Western European countries such as the UK and Norway. The lowering of the retirement age by the current government will only exacerbate the problem.

[Polish employers fear](#) that with the visa-waiver, Ukrainians will follow their Polish colleagues and head further west, where they could earn even four times more than in Poland. In theory, this will not be possible: visa-free travel only applies to tourism, family and business reasons and the new measures do not automatically grant an EU-wide work permit. However, some experts suggest that the visa-waiver could be a way for Ukrainian economic migrants to look for a job in the shadow economy in Western Europe.



Source: [Central Statistical Office of Poland](#)



Source: [Trading Economics](#)

On the other hand, many note that Ukrainians undertake mainly seasonal jobs, and therefore value the geographical proximity of Poland. Economic migrants also appreciate linguistic and cultural similarities. Last but not least, working in the insecure shadow economy may not be attractive for many Ukrainians, who can legally enter the Polish labor market.

According to the research conducted by the [Centre for Eastern Studies \(OSW\)](#), the visa waiver is not going to significantly influence the influx of Ukrainian workers to Poland. Moreover, the analogous introduction of the visa-free regime in Moldova in 2014 [has not caused a substantial increase](#) in the number of Moldovan economic migrants to the EU.

Nevertheless, [research shows](#) that even the constant inflow of economic migrants to Poland will not be able to even out the labor shortages which stem from the society's aging. Policymakers need to address this issue with social and labor policies which will increase the labor market participation rate, and economic migration is not going to save Polish labor market for long.



This week: The Central Statistical Office published an update of its GDP estimate, which has been revised upward from 4.1% to 4.2% q/q (seasonally adjusted). The robust growth was driven mainly by consumption, while investments still remain at a lower level than in 2016 Q1, although higher than in Q4 2016. The economy benefits from the recovery that its trade partners are experiencing and the current favorable situation in the labor market.

GDP (Q1 2017)

↑ **4.2% y/y (est.)**

Up from 2.9% in Q4

Inflation (Apr 2017)

2.0% y/y

Unchanged from Mar 2017

Unemployment (Apr 2017)

↓ **7.7%**

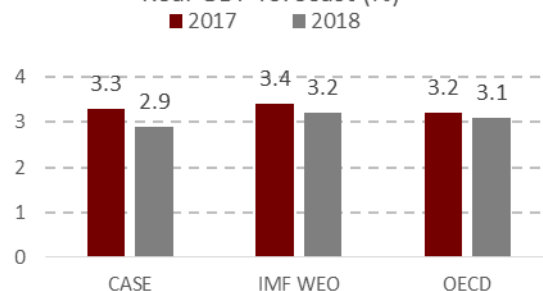
Down from 8.1% in Mar

NPB Base rate

1.5%

From 2% Mar 2015

Real GDP forecast (%)



This week: The 21st St. Petersburg International Economic Forum (SPIEF 2017) took place last week under the theme “In Search of New Balance in the Global Economy”. The three-day meeting brought together around 40 ministers from 26 countries along with business leaders and experts. Founded in 1997, the SPIEF is an international platform to discuss key economic issues facing Russia, developing countries and the world at large.

GDP (Q4 2016)

↑ **0.3% y/y**

Up from -0.4 in Q3

Inflation (Apr 2017)

↓ **4.1% y/y**

Down from 4.3% in Mar

Unemployment (Mar 2017)

5.4%

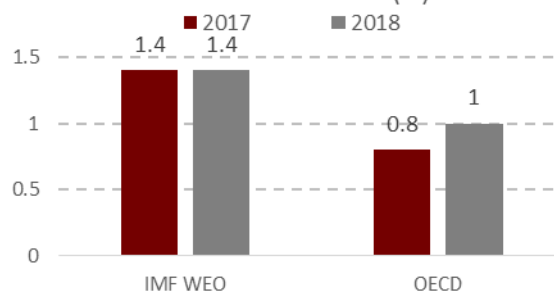
Down from 5.6% in Feb 2017

CBR Base rate

9.25 %

Down from 9.75%

Real GDP forecast (%)



This week: Early price readings highlight subdued inflation pressures in Germany. Preliminary HICP estimates place inflation at 1.40% y/y in May – down from 2% y/y in April and 2.2% y/y in February (4-year high). An important cause of subdued inflation appears to be oil prices, as sluggish energy inflation offsets rising food prices in the country. Less pronounced growth in leisure activities also contributed to the lower inflation rate, as the Eastern (April) upswing wears off.

GDP (Q1 2017)

↓ **1.7% y/y**

Down from 1.8% in Q4

Unemployment (Q4 2016)

↓ **3.9%**

Down from 4.15% in Q3

Inflation (Apr 2017)

↓ **1.4% y/y (est.)**

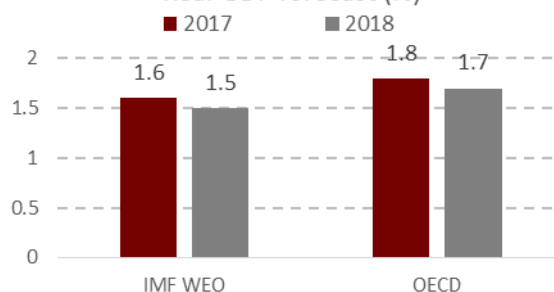
Down from 2% in Apr

ECB Deposit rate

-0.4%

From -0.3% Dec 2015

Real GDP forecast (%)





This week: Ukraine has achieved a major if unexpected victory as a Stockholm-based arbitration tribunal ruled in its favor in a dispute between Natfogaz and Gazprom. The tribunal has challenged numerous contract clauses stipulated by Gazprom in its 2009 deal with Naftogaz (the take-or-pay clause, the ban on re-exporting excess gas, and the tying of the gas price to the oil price), severely undercutting Gazprom's monopolistic position.

GDP (Q1 2017)

↓ **2.4% y/y (est.)**

Down from 4.7% in Q4

Inflation (Apr 2017)

↓ **12.2% y/y**

Down from 15.1% in Mar

Unemployment (Q4 2016)

↑ **10.0%**

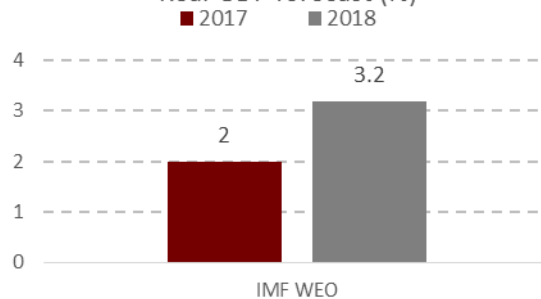
Up from 9.2% in Q3

NBU Base rate

12.5%

From 13.0% in May

Real GDP forecast (%)



This week: Czech Republic dropped one position in the World Competitiveness Ranking compiled by the Swiss International Institute for Management Development, and it ranked 28th out of 63 countries. The country has defended its leading position among the countries of Central and Eastern Europe. The factors reducing Czech Republic's competitiveness include tax policy and the current situation in the labor market.

GDP (Q1 2017)

↑ **2.9% y/y**

1.9% in Q4 2016

Inflation (Apr 2017)

↓ **2.0% y/y**

Down from 2.6% in Mar

Unemployment (Q1 2017)

↓ **3.4%**

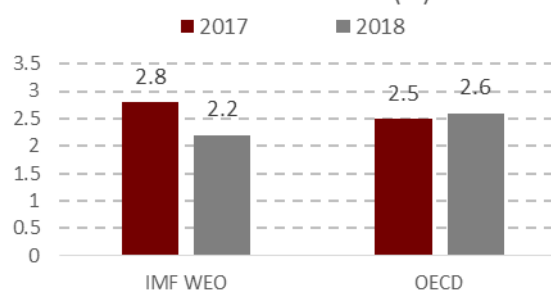
Down from 3.6% in Q4

CNB Base rate

0.05%

Unchanged since Nov 2012

Real GDP forecast (%)



This week: Hungary continues its so-called "southern opening strategy" to strengthen economic relations with African countries. Hungary and Kenya signed an agreement on economic and technical cooperation in Budapest on Monday. Hungary's Eximbank opened an EUR 85 million credit limit to support Hungarian companies investing in Kenya.

GDP (Q1 2016)

↑ **3.7% y/y (est.)**

Up from 1.6% in Q4

Inflation (May 2017)

↑ **3% y/y**

Up from 2.2% in Apr

Unemployment (Q1 2017)

↑ **4.7%**

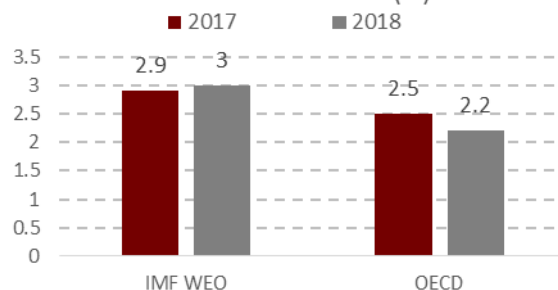
Up from 4.5% in Q4

MNB Base rate

0.9%

From 1.05% May 2016

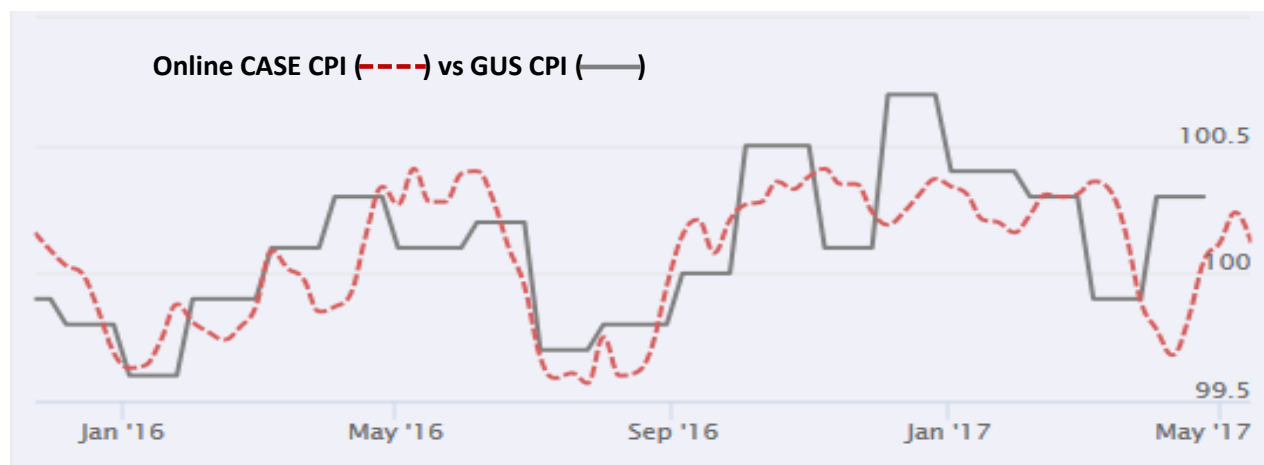
Real GDP forecast (%)



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



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, CPI, among others.

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
2017	3.3	3.5	2.9	3.8	1.9
2018	2.9	3.0	2.7	3.7	2.0
	Nominal monthly wages	Merchandise exports (USD, bn)	Merchandise imports (USD, bn)	Merchandise trade balance (USD, bn)	CA balance (USD, bn)
2017	4.7	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

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