

**Overview:** In this week's showCASE, our experts analyze the latest World Economic Outlook report from the IMF and unpack its results for the Central and Eastern European region. CASE also discusses the unexpected announcement from British Prime Minister, Theresa May, to hold a snap general election and how it could affect the Brexit agenda.

## Policymakers may find it difficult to hang their hat on expected global economic growth

By: [Paul Lirette](#), Senior Economist, CASE

After more than half a decade of downbeat expectations, the International Monetary Fund (IMF) finally predicts a rosier outcome for the global economy in 2017. In their most recent flagship report on the global economy, the World Economic Outlook (WEO), the IMF marginally upgraded their forecasts for global economic growth to 3.5 per cent for 2017 (0.1 p.p. over their January forecasts and 0.4 p.p. higher than overall growth in 2016).

The main forces driving this uptick in economic activity can be traced back to the second half of 2016, where a highly anticipated recovery in investment, manufacturing, and trade began taking place. This was particularly evident in advanced economies. For instance, a projected [expansion in fiscal policy](#) has increased future demand expectations in the United States, [consumer spending remained solid](#) in the United Kingdom following the Brexit referendum (although this trend may be [reversing](#)), robust growth in both [Germany](#) and [Spain](#) persisted, and Japan surpassed expectations by recording [strong growth in net exports](#).



Source: Reuters

For Central and Eastern Europe (CEE)<sup>1</sup>, the IMF's forecasts were less optimistic. Overall, expected economic growth in 2017 for the CEE region has been downgraded from an average of 2.92 per cent to 2.77 per cent (relative to the October 2016 WEO). The most notable economic slowdowns are expected in Turkey and Ukraine. For Turkey, heightened [political uncertainty](#), security concerns, and a depreciating lira, which increases the burdens caused by [foreign-denominated debt](#), has resulted in a 0.53 p.p. downgrade to 2.45 per cent for 2017. Ukraine, who received a similar

<sup>1</sup> Central and Eastern Europe includes: Belarus, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Turkey and Ukraine.

**Table 1: IMF GDP projections (% change)**

GDP projections (% change)	April 2017 WEO			Difference from the Oct 2016 WEO	
	2016	2017	2018	2017	2018
World output	3.1	3.5	3.6	0.1	0.0
United States	1.6	2.3	2.5	0.1	0.4
United Kingdom	1.8	2.0	1.5	0.9	-0.2
Germany	1.8	1.6	1.5	0.2	0.1
Spain	3.2	2.6	2.1	0.4	0.2
Japan	1.0	1.2	0.6	0.6	0.1

Source: the International Monetary Fund

global economy remain, particularly over the medium term. Among other risks, the rise in income inequality that has affected many economies since the 2008-09 crisis, particularly in Europe and the United States, could trigger increased protectionist policy action against trade, immigration, and multilateral engagement.

Moving forward, it is vital that policymakers focus on safeguarding global economic integration and cooperation, as without these key factors, the global economy will lose an important source of productivity growth and overall economic resilience.

downgrade as Turkey (by 0.52 p.p. to 2.02 per cent in 2017), saw the adverse effects of a [trade blockade in the country's rebel-held east](#) offset overall improved confidence and rising incomes.

Nonetheless, while the overall increase in global economic momentum is a welcome development, policymakers can hardly call it a day. IMF staff caution that risks to the

**Table 2: IMF GDP projections (% change)**

	April 2017 WEO			Difference from the Oct 2016 WEO	
	2016	2017	2018	2017	2018
CEE output	2.75	2.77	3.09	-0.15	0.08
Belarus	-3.00	-0.76	0.65	-0.26	0.15
Bulgaria	3.44	2.90	2.70	0.10	0.20
Croatia	2.93	2.93	2.61	0.83	0.41
Czech Republic	2.41	2.84	2.15	0.17	-0.25
Hungary	2.00	2.90	3.00	0.45	0.60
Poland	2.83	3.41	3.23	0.04	-0.08
Romania	4.79	4.20	3.40	0.44	0.14
Slovak Republic	3.29	3.29	3.70	0.00	0.00
Turkey	2.88	2.45	3.31	-0.53	0.09
Ukraine	2.31	2.02	3.17	-0.52	0.13

Source: the International Monetary Fund

## UK snap election: paving the way for a hard Brexit?

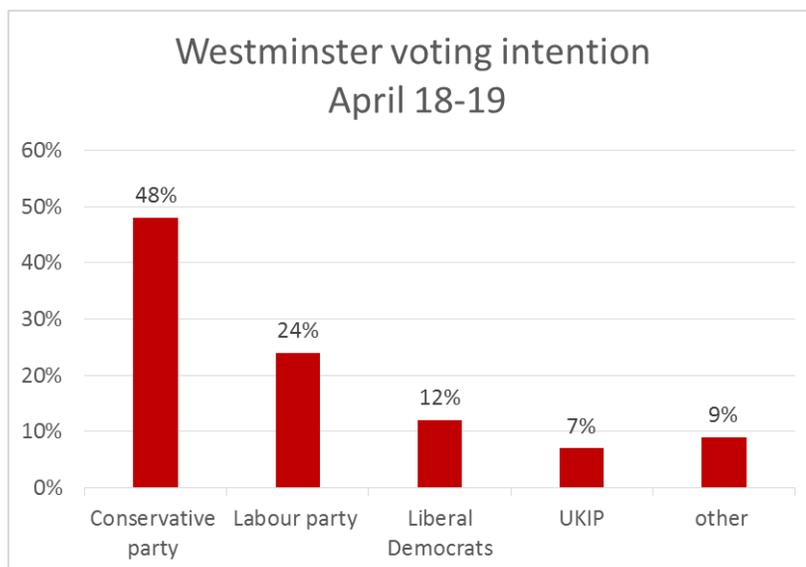
By: Givi Gigitashvili, CASE economist

On April 18, British Prime Minister Theresa May unexpectedly announced that – despite her earlier assertions – she will hold a snap general election on June 8. Ostensibly, May seeks to secure a large parliamentary majority to diminish the power of opposition parties during Brexit negotiations. However, she also may be trying to neutralize (or at least quiet) hardline Brexiters within her own Conservative party, who have been advocating for a [‘train-crash’](#) Brexit.



Ms. May is understandably confident of the *Source: Reuters* results of the election; according to the recent [YouGov poll](#), Tories are far ahead of any coalition of the opposition. However, the opposition has welcomed the decision to hold the elections as well, and both pro-Remain parties (Liberal Democrats and the Greens) hope they will prove an opportunity to overturn the Brexit referendum results. Labour, on the other hand, hopes it will manage to cement its position and obtain a mandate to carry out its own agenda on Brexit.

Should the polls be correct and the Conservatives win, it is Ms. May who will continue to lead the Brexit talks. With a direct mandate from British people she could comfortably execute her ‘hard Brexit’ agenda, i.e. leaving the single market and restricting immigration, while simultaneously seeking a [“deep and special partnership”](#) with the EU. Ms.



*Source: YouGov*

May could also be hoping that victory in the elections would enable her to [prove to the European leaders](#) that her Brexit plans have the strong support of the British public.

Her confidence must have been boosted by the latest surge in the value of British pound, which peaked at \$1.276 immediately after she made her announcement. In a similar vein, the [IMF has revised its forecast](#) and now expects Britain’s GDP to expand by 2% this year, up from 1.5% forecasted in January. Indeed, despite the

widely anticipated economic turmoil after Brexit referendum, this year the UK continues to grow faster than Germany, France, or any other G7 states apart from the US; moreover, the [confidence of the markets](#) in the British economy is growing as well.

As Ms. May's predecessor in Downing Street, David Cameron, might tell her from his [own experience](#), in British politics counting the votes before they are cast is not only reckless, but also very risky. UK polls have been [notoriously error-prone](#) and the electorate is more capricious than ever. The EU leadership is not missing its chance to chime in, either, with the president of the European Parliament [already alluding](#) that if the UK wishes to reverse Article 50 after elections, the EU will be more than happy to welcome it back to the family. As with most recent (and upcoming) elections in Europe, then, no one – even Ms. May – can be overly confident of the result.



**This week:** According to the latest World Bank forecasts, Polish GDP should increase by 3.3% in 2017 (compared to 2.8% in 2016). The main driver for this acceleration is an anticipated increased investment and consumption. However, World Bank experts emphasize that Poland needs to introduce the reforms contained in the Strategy for Sustainable Development, especially those related to business conditions and fostering innovation.

**GDP (Q4 2016)**

↑ 2.7% y/y

Up from 2.5% in Q3

**Inflation (Feb 2017)**

↑ 2.2% y/y

Up from 1.8% in Jan

**Unemployment (Feb 2017)**

↑ 8.5%

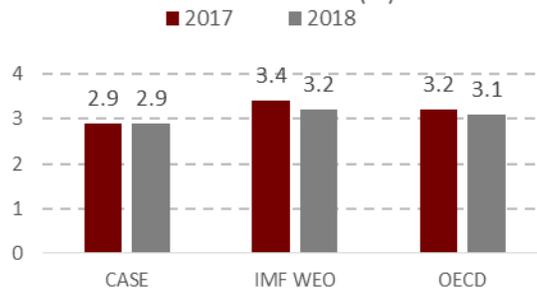
Down from 8.6% in Jan

**NPB Base rate**

1.5%

From 2% March 2015

Real GDP forecast (%)



**This week:** On Tuesday April 18<sup>th</sup>, Russia's Federal Service for State Statistics (ROSSTAT) issued a report noting that Russia's informal economy grew substantially in 2016 as compared to 2015. The report also indicated that, for March 2017, consumer demand was down by 0.4% and real wages increased by 1.5% (y/y), both coming in below expectations.

**GDP (Q4 2016)**

↑ 0.3% y/y

Up from -0.4 in Q3

**Inflation (Mar 2017)**

↑ 4.3% y/y

Down from 4.6% in Feb

**Unemployment (Feb 2017)**

↑ 5.6%

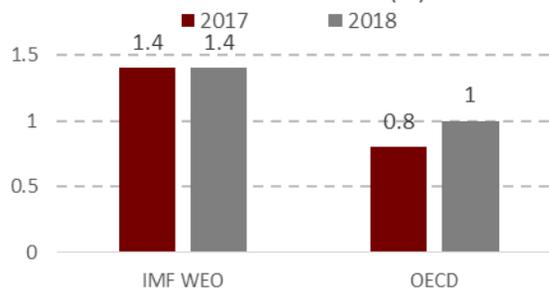
No changes from Jan

**CBR Base rate**

9.75 %

Down from 10%

Real GDP forecast (%)



**This week:** Despite a level of uncertainty associated with the French elections, the German PMI remains above the 50 point threshold, signalling a persistence of economic expansion in both the manufacturing and the services sector. The manufacturing PMI recorded a marginal drop from 58.30 in March to 58.20 in April, while the services PMI shrank from 55.60 to 54.70.

**GDP (Q4 2016)**

↑ 1.2% y/y

Down from 1.5% in Q3

**Inflation (Mar 2017)**

↑ 1.5% y/y

Down from 2.2% in Feb

**Unemployment (Q4 2016)**

↑ 3.9%

Down from 4.15% in Q3

**ECB Deposit rate**

-0.4%

From -0.3% Dec 2015

Real GDP forecast (%)





**This week:** The Central Bank of Ukraine cut its base interest rate from 14% to 13% as of April 14<sup>th</sup>. The Bank noted in a press release that the easing is in line with its inflation targets and that it will help stimulate the economy. The decision has been made while the Bank's outgoing head, Ms. Gontareva, is still in the office (her resignation is effective as of May 10<sup>th</sup>). The next Bank Board meeting on monetary policy will be held on May 25<sup>th</sup>.

**GDP (Q4 2016)**

↑ **4.7% y/y**

Up from 2.1% in Q3

**Inflation (Mar 2017)**

↑ **15.1% y/y**

Up from 14.2% in Feb

**Unemployment (Q4 2016)**

↑ **10.0%**

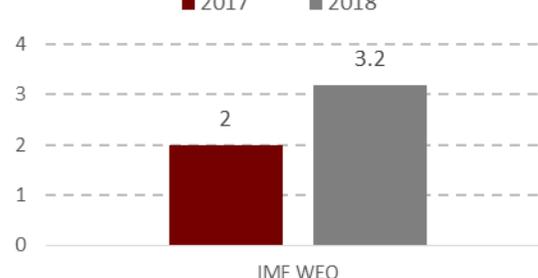
Up from 9.2% in Q3

**NBU Base rate**

**13.0%**

From 14.0% in Apr

Real GDP forecast (%)



**This week:** Growth forecasts for the Czech economy were upgraded by both the IMF and the Czech Ministry of Finance last week. However, while the IMF predicts that growth in the Czech economy will accelerate to 2.8% in 2017 and decrease to 2.2% in 2018, the Ministry expects the economic growth to amount to 2.5% in both years.

**GDP (Q4 2016)**

↑ **1.9% y/y**

1.9% in Q3

**Inflation (Mar 2017)**

↑ **2.6% y/y**

Up from 2.5% in Feb

**Unemployment (Q4 2016)**

↑ **3.6%**

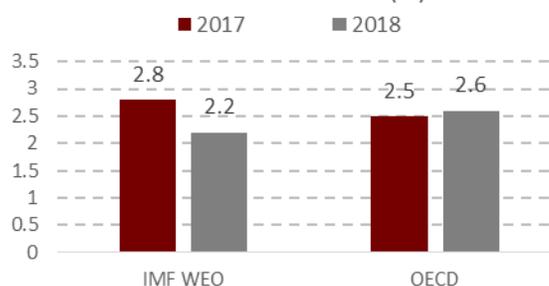
Down from 4.0% in Q3

**CNB Base rate**

**0.05%**

Unchanged since Nov 2012

Real GDP forecast (%)



**This week:** According to a recent study by KPMG and GKI, nearly 1.8% of Hungarian GDP growth between 2006 and 2015 can be attributed to EU funds sent to the country during the framework of the 2007-2013 funding cycle. Meanwhile, the IMF raised its GDP growth forecast for Hungary, from 2% in 2016 to 2.9% in 2017 (0.4 p.p. higher than previously forecasted).

**GDP (Q4 2016)**

↑ **1.6% y/y**

Down from 2.2% in Q3

**Inflation (Mar 2017)**

↑ **2.7% y/y**

Down from 2.9% in Feb

**Unemployment (Q4 2016)**

↑ **4.4%**

Down from 4.9% in Q3

**MNB Base rate**

**0.9%**

From 1.05% May 2016

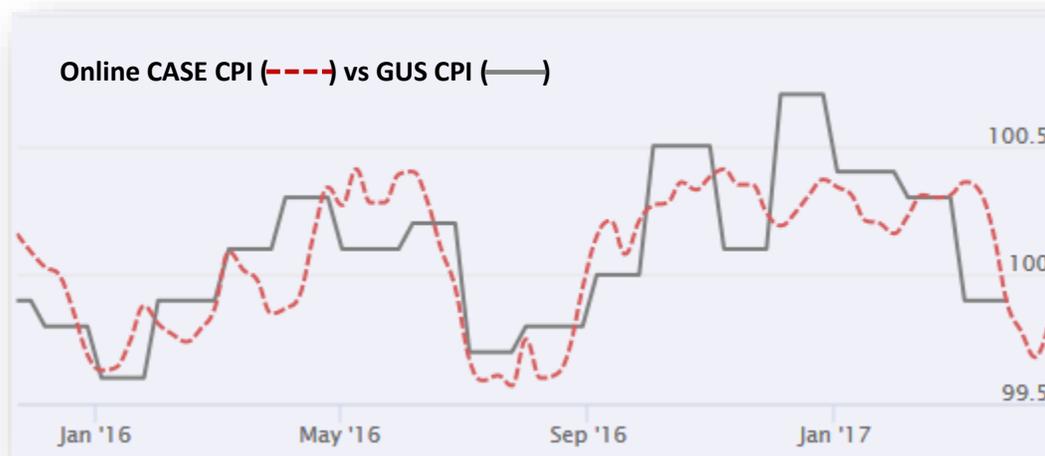
Real GDP forecast (%)



### 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)*

	<b>GDP</b>	<b>Private consumption</b>	<b>Gross fixed investment</b>	<b>Industrial production</b>	<b>Consumer prices</b>
<b>2017</b>	2.9	3.2	2.0	3.5	1.2
<b>2018</b>	2.9	3.0	2.7	3.7	2.0
	<b>Nominal monthly wages</b>	<b>Merchandise exports (USD, bn)</b>	<b>Merchandise imports (USD, bn)</b>	<b>Merchandise trade balance (USD, bn)</b>	<b>CA balance (USD, bn)</b>
<b>2017</b>	4.1	201.6	201.8	-0.2	-4.7
<b>2018</b>	3.5	211.3	213.1	-1.8	-5.9

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