showCASE

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CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

Overview: In this week's showCASE, our experts take a closer look at the recent actions taken by Belarus's President, Alexander Lukashenko. Could the country's political course be changing? CASE experts also discuss the importance of the recent US corporate tax reform proposal and how it could affect both the economy and trade.

Not All Quiet on the Eastern Front

By: Krzysztof Głowacki, Economist, CASE

While Belarus will not have its Euromaidan any time soon, recent developments at home and abroad suggest that the country's political course is not set in stone.

Source: Reuters

Last Thursday, Belarus's President Alexander Lukashenko announced that he would suspend his decree introducing the so-called "parasite tax", a fee charged on the unemployed. Lukashenko, who has been dubbed "Europe's last dictator", is not used to making concessions, but unfavorable circumstances have left him with no choice. The recent wave of popular protests on an unprecedented scale (which, in the Belarussian standards, means 2-3 thousand) is only one of them.

In 2016, the Belarussian economy regressed for the third consecutive year, with GDP estimated to shrink by 2.6% following a drop of 3.8% in 2015. Unemployment doubled between 2015 and 2014, and persistent inflation necessitated a four-digit denomination of the currency in July 2016. The economic bust is largely caused by an analogical situation in Russia, to which Belarus is systemically connected by a network of energy and trade linkages. Around 20% of Russian gas exports and around 40% of its oil exports used to pass through the territory of Belarus, and Russia accounted for nearly half of its foreign trade in 2014. Moreover, Russia readily used loans and subsidies to keep Belarus in its political orbit. But more recently, Russia's economic allure was tarnished by low oil prices, the sanctions war with the West in the wake of the Ukrainian crisis, and Russia's own incapability of organic growth.

In fact, Russia not only no longer *can*, but also no longer *wants* to be the ally that Belarus has known in the past, and the reason is simple. Lukashenko's reluctance to embrace the Russian intervention in Ukraine in 2014, motivated by fear for own position, was perceived as disloyalty by a distrustful Moscow. Ever since, Russia distanced itself from its partner in the Union State, and it started to penetrate Belarus with its own propaganda. Given the economic difficulties and vulnerability to external pressure, Lukashenko must brace himself against unrest at home and act with particular caution. This explains the suspension of the "parasite tax", as well as a number of other recent concessions, including the admission of two opposition members (Belarussian standards, again) to the lower chamber of the parliament.

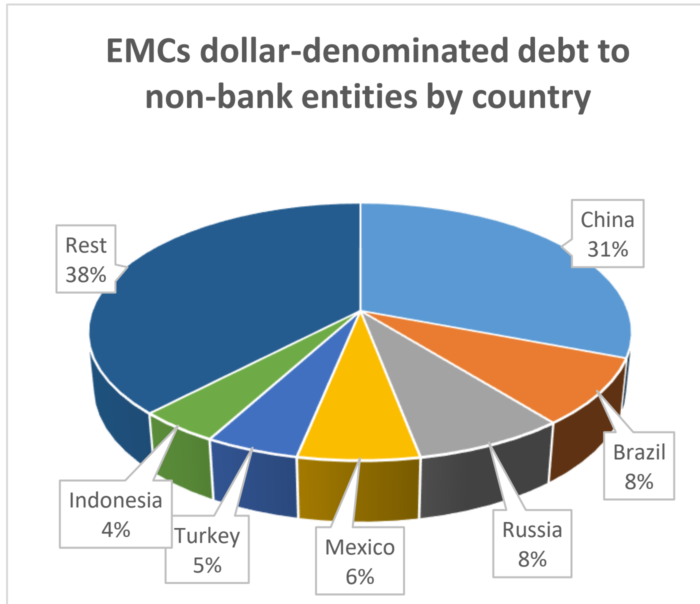
Those who know the local moods best, like the Belarussian literature Nobel laurate Svetlana Alexievich, admit that the society is still relatively dormant and unwilling to follow Ukraine's revolutionary path. But the Ukrainian revolution has already set in motion a series of externalities, which are slowly changing Belarus's course.

Adjusting to Trumps' Policy on Trade

By: Jan Toczyński, Economist, CASE

The comprehensive US corporate tax reform proposed by Republicans in the House of Representatives, including a new "border-adjustment tax," has been a hotly debated issue over the past few months. Its fate has been uncertain, as the proposal divides the Republican party. While Trump has referred to the border adjustment tax as "too complicated" in the past, his recent comments, though not specific, could suggest that some kind of border-tax could find support moving forward.

The reform plan is widely expected to have significant effects on both the US economy and its trade relations with the rest of the world. The proposal, pushed forward by the House Speaker Paul Ryan, intends to comprehensively reshape the US corporate tax system, which is currently considered to be inefficient. The proposal would introduce a VAT-resembling destination-based taxation scheme, where companies are taxed based on their domestic sales, rather than global sales, and the tax rate would be lowered to 20% from today's 35% (the US has the highest corporate income tax in the OECD). Also, exports would not be taxable, while imports would no longer be deductible, which effectively means that they would be taxed at 20%.



Dollar denominated debt by country in Q2 2015 (total 3824 bln. $ for EMCs). Source: "Dollar credit to emerging market economies" by Robert Neil McCauley, Patrick McGuire and Vladyslav Sushko, Bank for International Settlements.

The effects of the reform on the US economy may be significant. Taxation of imports would result in higher costs for imported goods, potentially hurting end-consumers and sectors reliant on imported products, such as retailers or energy producers. On the other hand, untaxed exports such as US-manufactured products could see increased demand, feeding through to exchange rates. Coupled with seemingly-certain interest rate increases by the Fed, this is expected to result in the USD appreciating by as much as 25%. Such an appreciation would increase consumers' purchasing power, potentially offsetting higher import costs.

However, the implementation of the tax reform, and especially of its border-adjustment mechanism, may have serious consequences for US trade partners as well. If a surge in the dollar's value will be on par with the more dramatic predictions, it will have a strong negative impact on countries with high debt exposures denominated in USD. The concern is that this may result in potential retaliatory actions, adding up to further uncertainty about international trade. In addition, some argue that border-adjustment in the proposed form is unlikely to be deemed compliant with WTO rules, due to its wage-deduction scheme that distinguishes it from more traditional VAT-based systems used in other developed countries.

While the ultimate fate of the proposal is still unknown, and relies heavily on Donald Trump's willingness to mediate between opposing views among Republicans, the reform will be one of the most important economic developments to watch in the coming months.

This week: March 1st marked the launch of KAS (Krajowa Administracja Skarbowa), a new national tax administration that consolidates tax and customs authorities. The government claims that the reform will help fight against tax fraud and, as a consequence, diminish the country's VAT gap. However, concerns arise over the increased powers of the new authority.

GDP (Q4 2016)

2.7% y/y

Down from 2.5% in Q3

Inflation (Jan2017)

1.8% y/y

Up from 0.8% in Dec

Unemployment (Jan 2017)

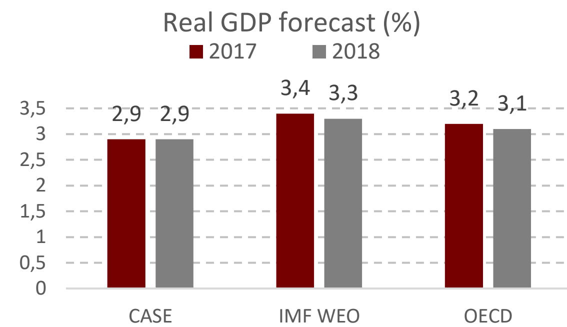
8.6%

Up from 8.3% Dec 2016

NPB Base rate

1.5%

From 2% March 2015



This week: Russia seems to be attempting to tighten its economic relations with its Asian partners, given the recent increase in meetings with Armenian, Chinese, Mongolian and Bangladesh representatives. Meanwhile, [according to PWC](), in 2050, Russia is expected to remain among the top 10 economies in the World in terms of overall GDP growth.

GDP (Q3 2016)

-0.4% y/y

Up from -0.6 in Q2

Inflation (Feb 2017)

4.6% y/y

Down from 5.0% in Jan

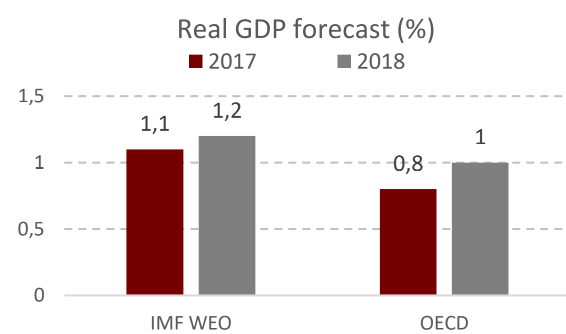
Unemployment (Jan 2017)

5.6%

Up from 5.3% in Dec

CBR Base rate

10%



This week: February's contraction in unemployment exceeded expectations as joblessness fell by 14,000, furthering a 19-month trend. This week, ahead of the German Chancellor's, Mrs. Merkel, meeting with US. President Trump, there was a strong resurgence in the debate over the country's fiscal surplus. Its sustained persistence is largely attributed to a high savings rate, reflected in the country's level of net exports (EUR 57,983m up from EUR 52,656m in Q3).

GDP (Q4 2016)

1.2% y/y

Down from 1.5% in Q3

Inflation (Jan 2017)

1.9% y/y

Up from 1.7% in Dec

Unemployment (Q3 2016)

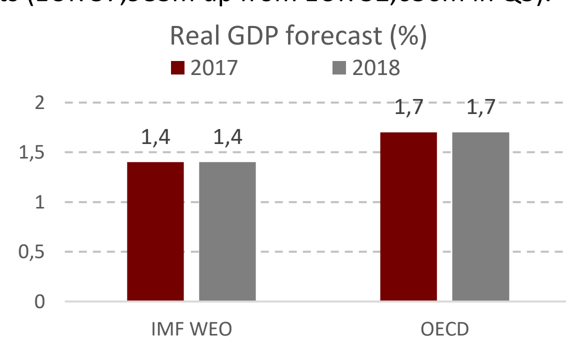
4.2%

Down from 4.28% in Q2

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: Ukraine's international reserves totaled USD 15.5 billion as of March 1, 2017. This amount, which has remained roughly unchanged since the beginning of the year, is sufficient to finance 3.3 months' worth of imports, as estimated by the National Bank of Ukraine.

GDP (Q4 2016)

4.5-4.8% y/y

Preliminary data

Inflation (Feb 2017)

14.2% y/y

Up from 12.6% in Jan

Unemployment (Q3 2016)

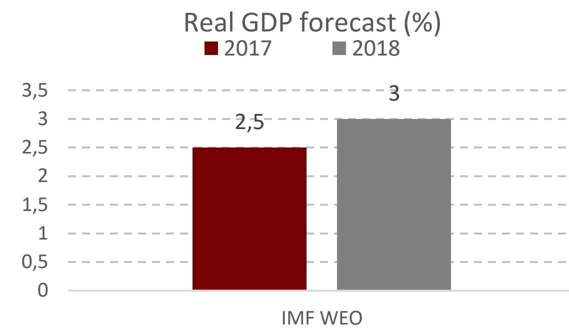
9.2%

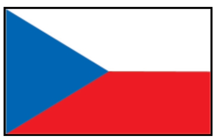
Down from 9.3% in Q2

NBU Base rate

14%

Unchanged from Jan 2016





This week: The latest figures on inflation indicate that, in February, price levels increased 2.5% y-o-y, exceeding the 2% target. Data published by the Czech National Bank this week shows another surge in its official reserves (by 8.8 billion EUR in February). As a result, questions regarding the timing of the CNB's decision to scrap the currency exchange limit have become more audible.

GDP (Q4 2016)

1.9% y/y

1.9% in Q3

Inflation (Feb 2017)

2.5% y/y

Up from 2.2% in Jan

Unemployment (Q4 2016)

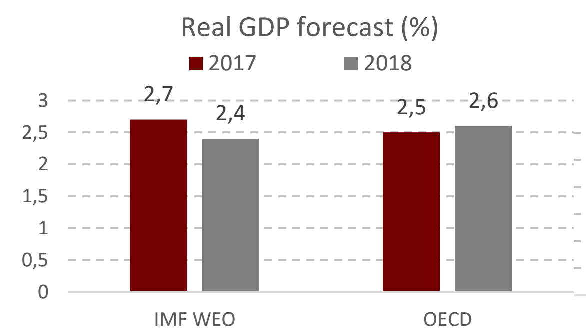
3.6%

Down from 4.0% in Q3

CNB Base rate

0.5%

Unchanged since Nov 2012



This week: On March 6, Moddy's left Hungary's sovereign credit rating unchanged at Baa3 with a stable outlook. This review follows an upgrade from Ba1 to Baa3 in November 2016, placing the country back in investment grade territory. The next review for Hungary is schedule for July 7.

GDP (Q4 2016)

1.6% y/y

Down from 2.2% in Q3

Inflation (Feb 2017)

2.9% y/y

Up from 2.3% in Jan

Unemployment (Q4 2016)

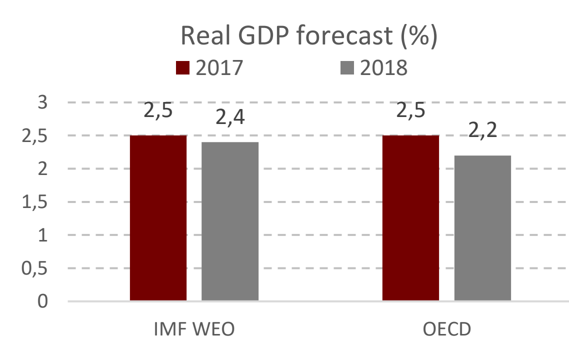
4.4%

Down from 4.9% in Q3

MNB Base rate

0.9%

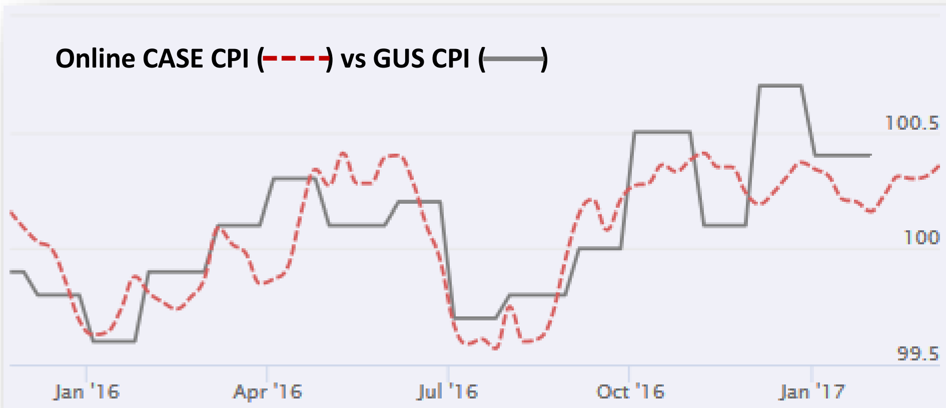
From 1.05% May 2016



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	2.9	3.2	2.0	3.5	0.5
2018	2.9	3.0	2.7	3.7	1.0
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	4.1	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi
To subscribe to our weekly showCASE newsletter, please visit: http://case-research.eu/en/showcase

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