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 discuss the results of the recent Dutch elections and assess what it could mean for the country. CASE also looks at latest developments in world oil markets to gain a sense of what the market structure could look like moving forward, particularly with respect to volatility.

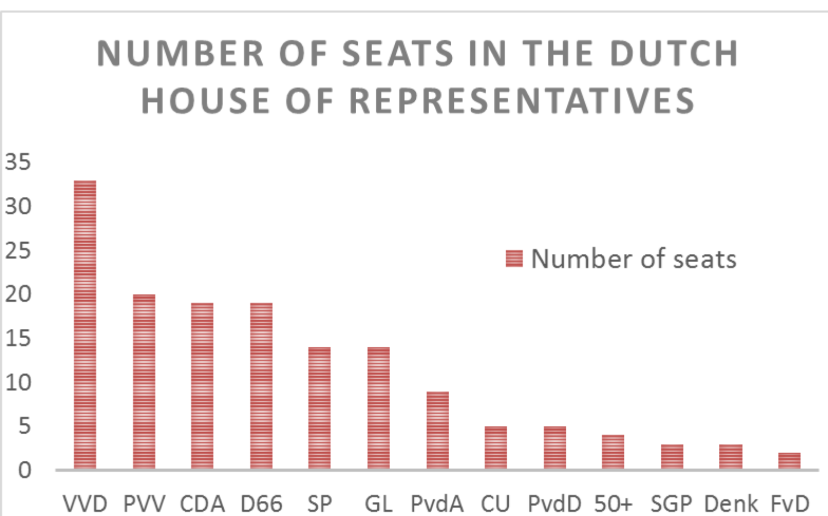
The Dutch dam against populism

By: Krzysztof Głowacki, Economist, CASE

The Dutch parliamentary elections were widely perceived as a litmus test for the populist sentiment in Europe ahead of similar ballots in France and Germany later this year. If this perception is correct, the anti-establishment trend may just have reversed itself.

In the election on March 15, the ruling conservative-liberal People's Party for Freedom and Democracy, VVD, won (21%) ahead of Geert Wilders's populist Party for Freedom, PVV (13%). As many as eleven other parties also made it into parliament, including Christian democrats, social liberals, socialists, and the greens. The elections had a turnout rate of 81%, an impressive result even for the Netherlands, where civic engagement is traditionally high.

Media in the Netherlands and in Europe stress the symbolism of the victory of the incumbent Prime Minister Mark Rutte over PVV's populist Geert Wilders, who had long led in the polls. In anticipation of the election, Rutte was able to skillfully handle popular concerns without falling into the populist trap. For example, he reaffirmed his commitment to advocating "Dutch values" in an open letter published in the country's major newspapers, and resolutely managed the recent diplomatic conflict with Turkey. While Rutte faced charges of lapsing into populism himself, his rhetorical concessions were matched by an emphasis on the party's traditional conservative liberal agenda. Nowhere was this more visible than in the successful defense of the ratification of the EU Association Agreement with Ukraine, which required much political maneuvering as well as some compromises in the wording of the document.



Source: http://www.ad.nl/verkiezingen/bekijk-hier-de-uitslagen-landelijk-of-per-gemeente~aa11d305/

A former Unilever employee, Rutte has served as the nation's Prime Minister for two consecutive terms since 2010. Both cabinets were committed to pulling the country from crisis (which caused GDP shrinkage of 3.8% in 2009, 1.1% in 2012 and 0.2% in 2013) and consolidating public finances in line with EU recommendations. Rutte's political affiliation, sustained tenure, and self-proclaimed commitment to "gradual improvement" in lieu of a violent change bear semblance to other dynastic rules of the European right-centrists, such as Germany's Merkel (since 2005) and Poland's Tusk (from 2007 to 2014). As in their previous terms, VVD will now have to find coalition parties to form a cabinet with, and the list of potential partners does not include PVV. In fact, prior to the election, all the major parties pledged not to form any kind of coalition with PVV because of Wilders's extremist leanings.

In the coming term, VVD plans to ease tax and social contributions burdens for households, especially middle-income earners, introduce cuts in social security, and bring down the CIT rate for small enterprises from 20% to 17%. These changes are expected to increase employability and encourage consumption, providing a much-needed stimulus to the economy after years of belt-tightening. At the same time, fiscal policy will remain prudent, with cuts in social security (2.7 billion euro) and

Source: Reuters

international cooperation (the same amount) outweighing extra expenditure in defense (1 billion euro) and state security (0.7 billion euro). All in all, VVD's program appears to be the most sound economically compared to the other parties they defeated, not least of all PVV's 18-word long dissertation.

As a vast alluvial plain, the Netherlands are always vulnerable to flooding. Over the centuries, the Dutch have developed ways to ensure that their country is not swept away by the tides, and it appears they may have just utilized these techniques politically to resist the populist wave covering much of Europe.

The World Oil Market: Towards Persistent yet Small-scale Volatility?

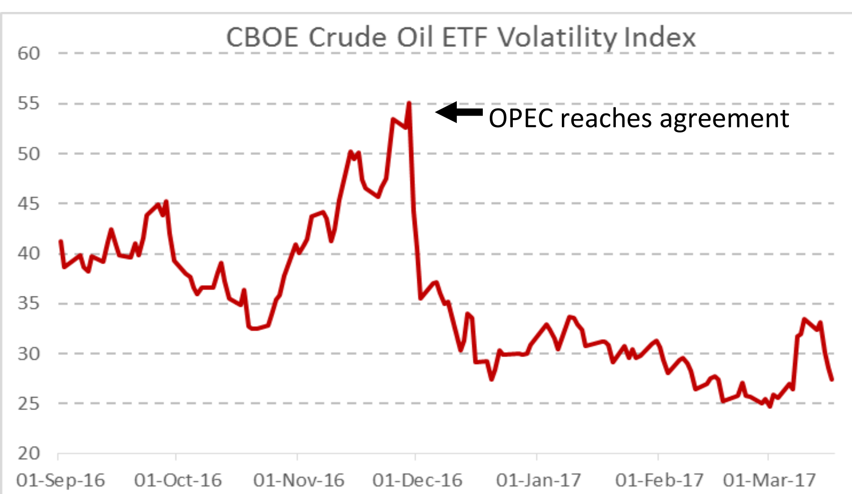
By: Iakov Frizis, Economist, CASE

Last week, oil prices fell by 10% as news regarding stronger-than-expected North American production echoed across international markets. This news only added to the recent uptick in oil price volatility.

Source: Reuters

Between September 2016 and January 2017, the international oil market experienced a brief period of reduced volatility. Expectations of output cuts by OPEC countries (and Russia) led to reduced expected supply of crude. A future outlook of higher prices coupled with relatively higher demand (as the world economy recovers from a period of sluggish growth) pushed the price of crude above $50 per barrel and flattened the market's contango structure. However, that proved to be a short-lived equilibrium. Increasing doubts to whether or not OPEC will be able to sufficiently curb world output, given higher than expected US-based production, motivated an upward revision of future output expectations.

The rise of the US as the world's top oil producing country, according to estimates of existing fields and future discoveries, coupled with the country's positioning as the greatest oil consumer and the sector's output transparency (in terms of data), lends an outsized influence over the market. This is showcased by the ripple effects caused on the world oil market by the US Information Administration's upward revision of output expectations for the near future – an increase of 300,000 barrels a day (b/d) for 2017 (reaching a total of 9.2 m b/d), followed by a further increase of 500,000 b/d in 2018.



Source: Yahoo Finance

That is not to say that the US shale sector has the capacity to set the price of crude by determining world supply (given current demand) as the Saudi Arabia used to do, in the period following the demise of the 7 sisters. Although, by assuming a leading role in determining the upper cap of the price of crude, it limits OPEC's price setting capacity to only determining the lower cap (through

OPEC's capacity to flood the market). This outcome is the result of the recent price wars between the US shale producers and OPEC. Consolidation in the US shale industry led to significant efficiency gains, resulting in a current output level that is less responsive to price changes. This divorces the commodity from OPEC's monopolistic control, introducing a new normal of heightened price volatility.

However, extreme uncertainty involving the oil price surging up to $100 per barrel and then plummeting down to $50 per barrel is not in the cards for the near future. Saudi Arabia appears determined enough to protect the OPEC agreement, if not extend it, in anticipation of ARAMCO's IPO. Moreover, demand for oil is not to peak before mid-2020s to late-2030s, according to estimates of Royal Dutch and Statoil (the International Energy Agency sets peak oil in 2040s). This suggests that the international oil market is moving towards a less constricted structure of supply determination, meaning small-scale price volatility instead of wild swings.

This week: Polish media has started discussion of a potential 10,000+ program: pay bonuses of around PLN 10,000 for 2 year retirement delays. However, Minister Morawiecki indicates that these are only rumors, claiming there is no official program yet. According to data released by the Central Statistics Office, January goods exports increased by 9.4% y/y and imports by 10.7% y/y (at current prices).

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 (Jan 2017)

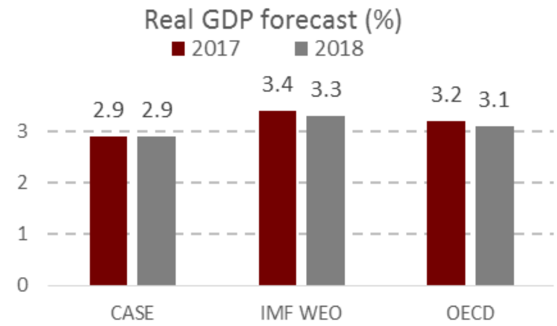
8.6%

Up from 8.3% Dec 2016

NPB Base rate

1.5%

From 2% March 2015



This week: Russia remains active in engaging its Asian partners. First, according to the Russian Energy Minister, an FTA between the EEU and Iran is expected to be signed before the end of the month. Moreover, Russia appointed a special representative to negotiate an economic cooperation proposal with Japan and a joint fund of US$1 bn is being negotiated with India to attract investment.

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

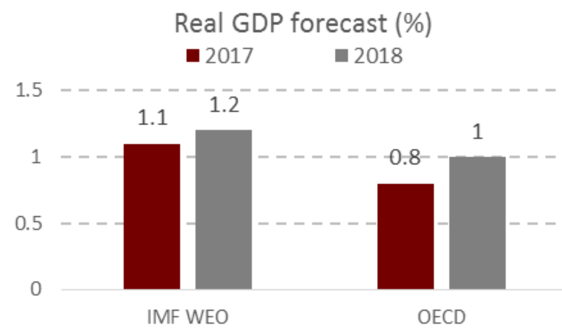
Unemployment (Jan 2017)

5.6%

Up from 5.3% in Dec

CBR Base rate

10%



This week: According to the OECD's Interim Economic Outlook, released on March 7, 2017, growth is set to remain solid in Germany over the coming year. In the publication, OECD experts upgrade their 2017 GDP forecast by 0.1 p.p over their November forecasts, which leaves overall 2017 GDP growth expectations at 1.8% y/y.

GDP (Q4 2016)

1.2% y/y

Down from 1.5% in Q3

Inflation (Jan 2017)

2.2% y/y

Up from 1.9% in Jan

Unemployment (Q3 2016)

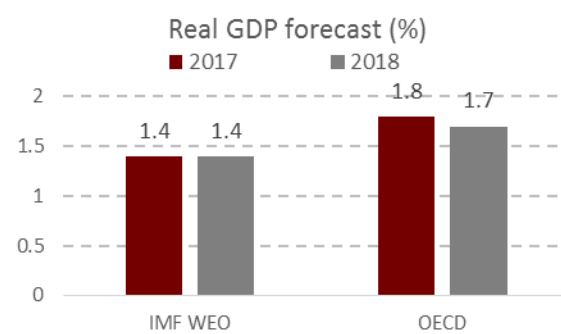
4.2%

Down from 4.28% in Q2

ECB Deposit rate

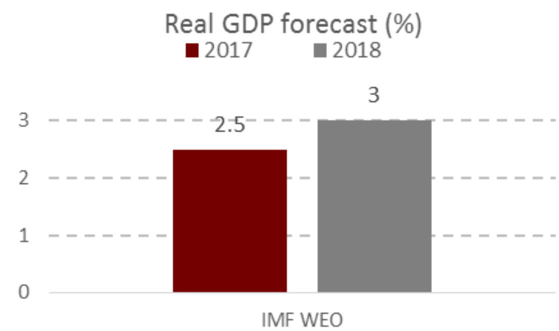
-0.4%

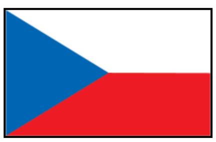
From -0.3% Dec 2015



This week: On March 16, Ukraine's President, Petro Poroshenko, signed a decree to prohibit the Ukrainian branches of a number of Russian banks from transferring capital abroad: BM Bank, Prominvestbank, Sberbank, VTB Bank, and VS Bank. The restriction is motivated on the grounds of customer protection, but has been linked to Sberbank's recognition of identity documents issued by the separatists in the Donbas region of Ukraine.

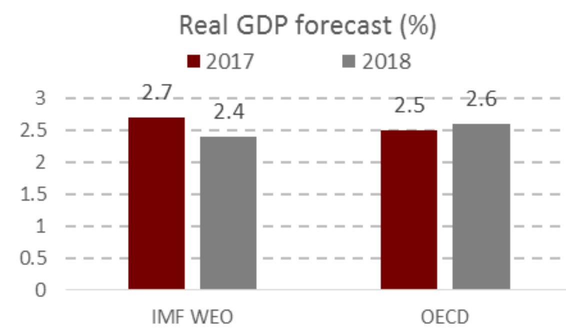
GDP (Q4 2016)	**Inflation (Feb 2017)**
4.7% y/y	**14.2% y/y**
Up from 2.1% in Q3	Up from 12.6% in Jan
Unemployment (Q3 2016)	**NBU Base rate**
9.2%	**14%**
Down from 9.3% in Q2	Unchanged from Jan 2016





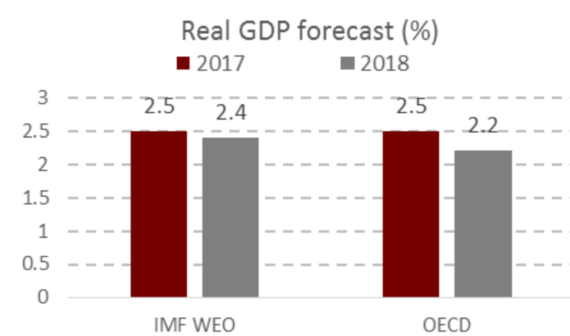
This week: In 2016, principally driven by the country's primary income deficit, current account surplus in Czech Republic dropped to 1.1% of GDP, while surplus of goods and services rose to 7.5% of GDP. Moreover, this week the Czech Central bank hinted that over the coming months (April/May) it intends to remove its upper cap on the currency in response to rising inflation.

GDP (Q4 2016)	**Inflation (Feb 2017)**
1.9% y/y	**2.5% y/y**
1.9% in Q3	Up from 2.2% in Jan
Unemployment (Q4 2016)	**CNB Base rate**
3.6%	**0.5%**
Down from 4.0% in Q3	Unchanged since Nov 2012



This week: In their most recent Article IV consultation, released on March 9th, IMF Staff highlight Hungary's "high economic growth" over past years and point towards a favorable medium-term outlook. However, Staff conclude that additional fiscal measures, such as leveraging high economic growth to advance growth-friendly consolidation, will be needed.

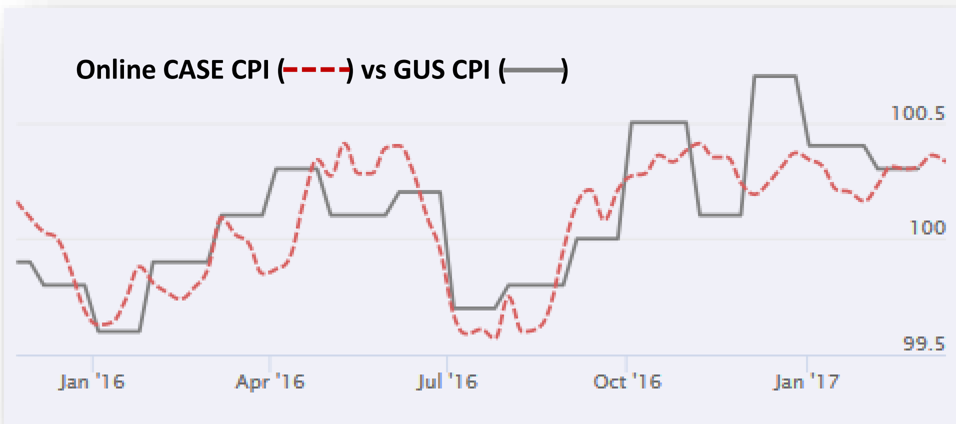
GDP (Q4 2016)	**Inflation (Feb 2017)**
1.6% y/y	**2.9% y/y**
Down from 2.2% in Q3	Up from 2.3% in Jan
Unemployment (Q4 2016)	**MNB Base rate**
4.4%	**0.9%**
Down from 4.9% in Q3	From 1.05% May 2016



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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