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 assess how EU-Turkey relations could be affected by a planned referendum vote in Turkey, one which could impact democracy and rule of law in the country. CASE also discusses the frustrations that have led to tens of thousands of Russians taking to the streets in an anti-corruption protest.

EU – Turkey relations, walking on thin diplomatic ice

By: Katarzyna Sidło, Political Economist, CASE

The current relationship between the EU and Turkey may be getting colder by the day, but the atmosphere surrounding a planned Turkish referendum is very heated indeed. Should the outcome of the referendum be a "yes", the president of the country would gain extensive powers, including dismissal of the parliament, choosing the majority of senior judges, and enacting a number of laws by decree. In other words, Turkey would turn from a parliamentary republic into a presidential one, something that prompted the EU to raise "serious concerns at the excessive concentration of powers in one office". The fact that the voting would take place under the state of emergency was mentioned as another major problem.

The referendum is scheduled to take place on April 14th. However, Turkish citizens living abroad have already started casting their ballots, and the process shows how deep the divisions between the "yes" and "no" camps run.

Indeed, last week several people were injured and hospitalized as a result of a fight that broke out between opponents and supporters of President Recep Tayyip Erdoğan waiting to vote outside of the Turkish embassy in Brussels. Mr. Erdoğan himself has not been staying on the sidelines, instead adding fuel to the fire. After calling Germany "Nazis" and Netherlands "fascists" for not allowing Turkish politicians to campaign in favor of the change in their respective countries, he announced he shall review all "political and administrative ties" with the EU.

Given Turkey's dependence on the EU, he has no such wish to review the economic ties between the two. Currently, the EU is Turkey's most important import (38%) and, more crucially, export (44.5%) partner as well as its number one source of FDI (75.9 € billions, or almost 70% in 2015). However, the EU is unlikely to be satisfied with a solution that attempts to separate economic and political reforms. Admittedly, the European Union did not freeze its pre-accession funding to Turkey and confirmed it will not do so as long as the accession negotiations themselves are not abrogated. However, it will most probably stop sending money to and investing in Turkey should the country turn its back on the EU's values of democracy and rule of law.

Therefore, we believe that neither side should aim to escalate the conflict. The inflammatory comments and threats carelessly and spuriously thrown by Mr. Erdoğan towards his NATO allies – such as his most recent comment that, should the EU “keep its attitude towards Turkey”, Europeans would not be able to “walk safely on the streets’ – are most definitely not helping to de-escalate the situation.


Source: Reuters

Like many a politician railing at foreign windmills, it is widely believed that Mr. Erdoğan’s animadversions are not aimed at the EU itself as much as they are at undecided Turkish voters, both home and abroad. Nonetheless, clearly Mr. Erdoğan believes not only that they would find such a brutish tone convincing, but also that antagonizing EU leaders is a price worth paying for their support. Even if this strategy works (and recent polls show that this is not necessarily the case), it is a highly risky one for Turkey. Mr. Erdoğan may find that isolation from the EU will hardly be compensated for by increased power at home.

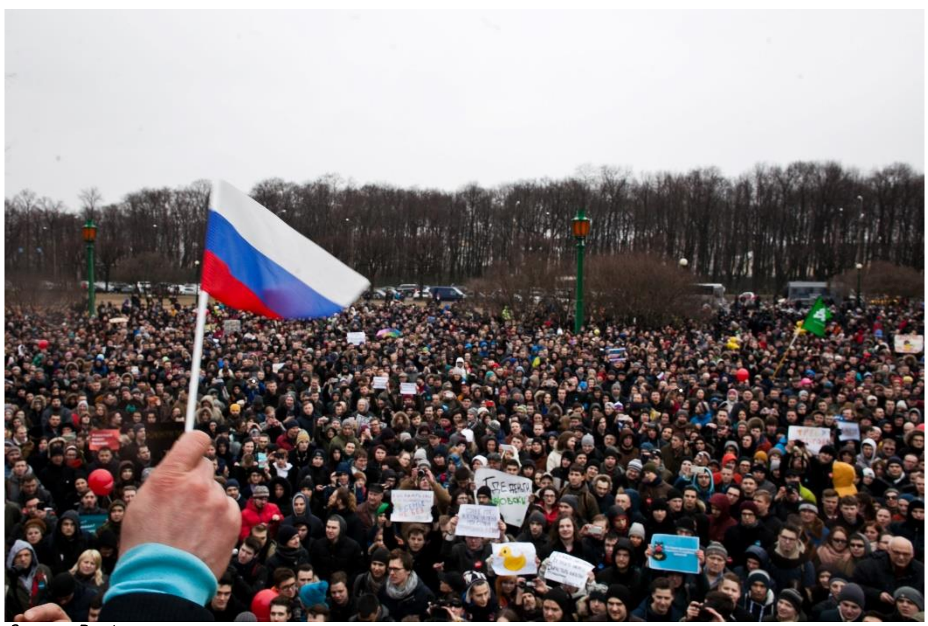
A Russian Swallow Taking Flight?

By: Krzysztof Głowacki, Economist

On March 26, tens of thousands of Russians protested against the country's corrupted political elites in cities throughout the country, from Kaliningrad to Vladivostok and from Murmansk to Makhachkala. The protests were never destined to bring any change in authoritarian Russia, nor were they designed for that purpose, but they are a nagging reminder for President Putin and for the world that there is a limit to what Russian society can tolerate.

The protests had their formation in the release by the Anti-Corruption Foundation, headed by opposition leader Alexey Navalny, of footage documenting the lavish and corrupt life of Prime Minister Dmitry Medvedev. Medvedev was reported to be in possession of several mansions, yachts and vineyards, all financed through a network of bogus charity foundations that receive money from government-controlled banks and enterprises. An estimated 90,000 protesters took to the streets, a number which surprised both the authorities and the organizers. The protests, which were facilitated by the growing use of the internet and social media, were an outcry of frustration over the grim economic reality in the country.

This grim reality shows little signs of abating. Russia's GDP contracted by 0.2% in 2016 and by 3.7% a year earlier, marking seven consecutive quarters of economic decline. In spite of the historic deal signed between Russia and OPEC last year, world oil prices hover around a meager USD 50, hurting an economy that relies on oil as its main export good. Moreover, Western sanctions imposed on Russia for its invasion of Ukraine and annexation of Crimea have hit the national economy hard, cutting the country off from investments in the energy sector. As a result, national energy giants such as Gazprom and Rosneft have had to postpone crucial exploration and infrastructure projects. Russia's counter-sanctions, a massive boycott of Western food products, have made the situation even worse for ordinary people by drastically limiting supplies in the import-dependent sector and temporarily giving rise to double-digit inflation. The sanctions war also caused the ruble to depreciate by over 50%, forcing the central bank to spend billions' worth of its foreign reserves to prop up the currency.



Source: Reuters

But the Russians are protesting more against rampant inequality than against poverty itself. In a country that suffered seventy years of Communism, a decade of painful (and unfinished) transition after the Soviet Union's collapse, and an even more acute crisis of 1998, the society is used to belt-tightening. It is the extreme social unfairness spawned by Putin's crony capitalism that is the outrageous novelty.

Like Belarus and unlike Ukraine, Russia is still very distant from committing itself towards a political and economic transformation. The recent protests, the largest in five years, were but a solitary swallow in the air – but one that might herald the arrival of spring one year.

This week: On March 28, Poland's Deputy Prime Minister and Minister of Development and Finance, Mateusz Morawiecki, said that the government is maintaining GDP forecasts at 3.6 % for 2017 in the latest budget. Morawiecki stated that Poland's economic growth could "be a positive surprise" this year. This forecast is relatively optimistic in comparison to CASE's GDP forecasts, pegged at 2.9% for 2017, due to an anticipated slowing in investment.

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)

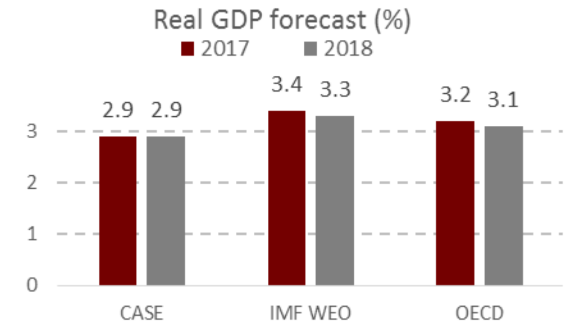
8.5%

Down from 8.6% in Jan

NPB Base rate

1.5%

From 2% March 2015



This week: The Central Bank of Iran announced that Tehran and Moscow intend to replace the dollar with national currencies (Rial and Ruble) when settling trade exchanges between the two countries. Gazprombank (Russia) and Melli (Iran) have already agreed to create a joint account using the two currencies, a move that is expected to facilitate and boost overall trade.

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 (Feb 2017)

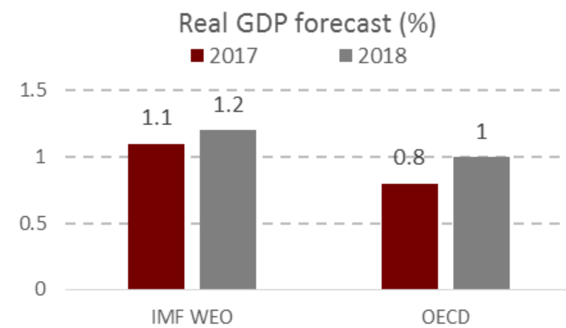
5.6%

No changes from Jan

CBR Base rate

9.75 %

Down from 10%



This week: The Ifo Business Climate Index remained in line with the ZEW March report, recording improvement in economic sentiment across Germany. In March, the index rose to 112.3 (highest since July 2011), from 111.1 in February. Additionally, this past month the business situation improved for manufacturing, retailing, and construction, while wholesale dropped below February figures.

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 (Q4 2016)

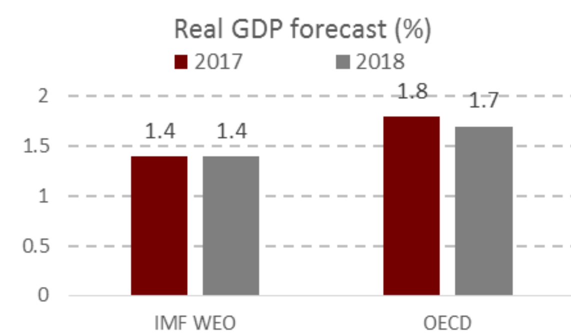
3.87%

Down from 4.15% in Q3

ECB Deposit rate

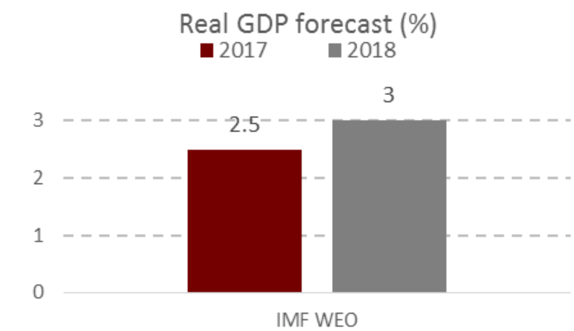
-0.4%

From -0.3% Dec 2015



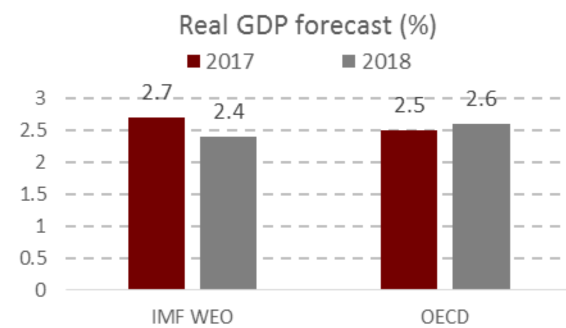
This week: In a hearing last Wednesday, a London court found Ukraine not to have defensible justification for its non-repayment of a USD 3 billion debt to Russia and refused to send the case for trial. The loan, governed under British law, was extended by Gazprom to Naftogaz, Ukraine's energy potentate and distributor of Russian gas into Europe, back in 2013. A financial setback, the ruling may weaken Ukraine's case in other, similar disputes with Russia.

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



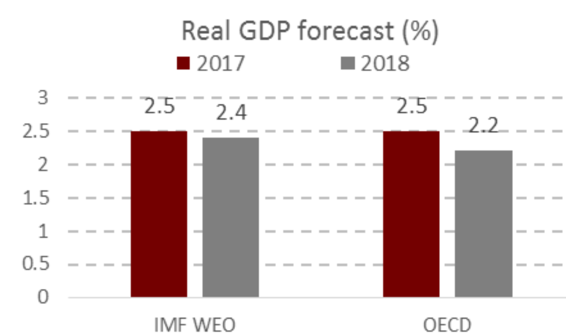
This week: The Czech National Bank (CNB) kept interest rates unchanged last week, with the two-week repo rate held at 0.05%, the discount rate at – 0.05% and the Lombard rate at 0.25%. It was also decided, despite expectations, not to remove the upper cap on the EUR/CZK exchange rate. The Czech Government, for its part, announced it will not set a target date for the adoption of euro (yet), nor will the Czech Republic enter ERM II this year.

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%	**0.05%**
Down from 4.0% in Q3	Unchanged since Nov 2012



This week: According to the European Commission's 2017 report on Hungary, one of the biggest challenges for the economy moving forward will be to attract investment and to increase high-added-value research and development. Also, while public debt has been on a steady decline (proportional to GDP) over the past year, EC experts stress that this trend needs to continue.

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



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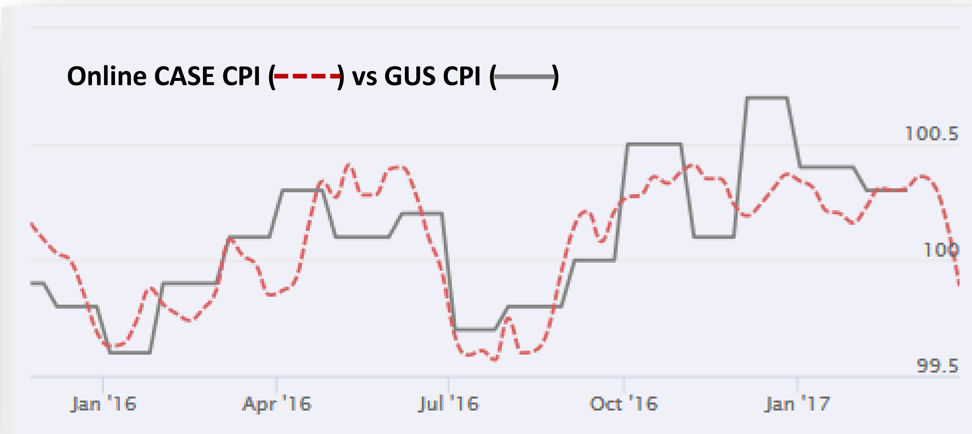
Center for Social and Economic Research

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
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