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

Overview: In this week's showCASE, we discuss Hungary's biggest anti-government protest in years and assess Prime Minister Orbán's recent education law amendment. CASE then underscores the importance of finding the right Central Bank governor in Ukraine, in order to maintain progress towards macroeconomic stability moving forward.

Was Orbán's uni ouster a step too far?

By: Paul Lirette, Senior Economist, CASE

Tens of thousands of Hungarians took to the streets on April 9 in a protest that lasted six days, Hungary's biggest anti-government protest in years. The impetus was Viktor Orbán's controversial targeting of Central European University (CEU), seen as a general government crackdown on liberal education and NGOs in the country.

Prime Minister Viktor Orbán, a strong proponent of "illiberal democracy", is no stranger to controversy and criticism, both in Hungary and abroad. As Hungary's third-longest standing Prime Minister, and having held office or leading the opposition since 1998, Orbán's social conservatism and soft Euroscepticism is seemingly past its expiry date. His more recent controversial acts include muting leading opposition newspapers, vocal opposition against allowing any Muslim refugees to enter the country, describing migrants as "poison", and bringing back the death penalty – all of which faced strong pushback from Hungarians and the Western world. But these individual moves only build on his overall pursuit of anti-democratic reforms, protectionist constitutional amendments, as well as accusations of cronyism and nepotism. Further, while Orbán may claim his approach is superior to the Western model, given Hungary's relatively strong economic growth and declining unemployment rate, it is important to keep in mind that much of this growth can be attributed to aid from the European Union, a Union that Orbán appears to trying to destroy from the inside.

Source: Reuters

However, it is his most recent piece of legislation that seems to have sparked the biggest fire under the opposition. The government's recent amendment to existing higher education law, which was ratified on April 10, requires all foreign-linked universities (i.e. those attempting to avoid coming under control of the Hungarian state) to open a campus in their home country or be barred from issuing degrees in Hungary. Viewed by many as a move against academic freedom, this naturally resulted in the rallying of thousands to protest in the capital city of Budapest (support for which was also shown in neighboring Balkan countries).

If successful, this new law could result in the loss of an institution that has been a proud part of Hungarian life for a quarter of a century, the CEU. CEU was established in 1991 to support the region's transition from communist dictatorship to democracy. It was founded by Hungarian-born billionaire and philanthropist, George Soros, who seemingly opposes Orbán's tough migration policies and places cosmopolitan values over national interests. In fact, the new law has been viewed by many as aimed directly at Soros' CEU in an attempt to crackdown on free expression and liberal values.

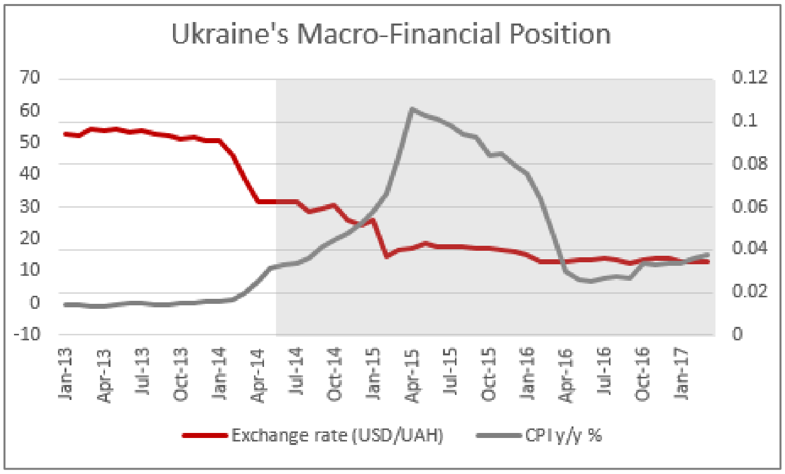
Whether or not Orbán will successfully push the CEU out of Hungary remains to be seen. On April 11, Hungary's Minister for state education, Laszlo Palkovics, alluded to a possible loophole that would allow the CEU to circumvent the new law. Nonetheless, while the protests seem to have calmed for now, the take-away message remains well intact – Hungarians may have finally grown tired of Orbán's protectionist ways.

Moving backwards: the price of waning central bank independence for Ukraine

By: Iakov Frizis, CASE Economist, and Christopher Hartwell, President of CASE

Over the coming weeks, Ukraine will be looking for someone to fill the shoes of Valeria Gontareva, the head of the National Bank of Ukraine (NBU) since June 2014. This is a crucial moment for the country's still-fragile reforms: if the government decides to claw back some of the NBU's independence, it will undermine the current tentative macro-financial stability, risking a significant impact on Ukraine's economic growth.

The reforms put in place by Petro Poroshenko's post-Maidan government have been necessary, but uncertainty and a continuing Russian invasion in the east of the country have challenged Ukraine's macroeconomic fundamentals. Between February 2014 and April 2015, inflation skyrocketed from 1.2% y/y to 60.9%, with soaring energy prices and a significant deterioration of the country's trade balance. Over this period, the country's consumer price Index (CPI) including housing prices jumped from 0.4% y/y to 188.2%, while the Ukrainian hryvnia (UAH) currency collapsed from 0.08 UAH per US Dollar to 0.041.

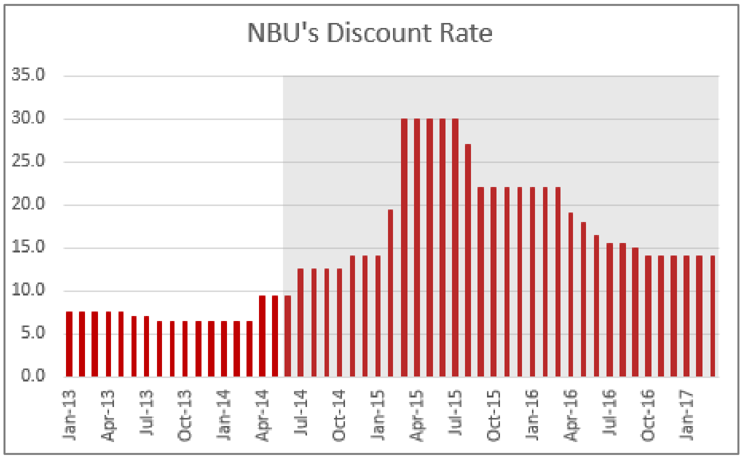


Source: National Bank of Ukraine

Fast-forward two years filled with extreme macroeconomic volatility, and Ukraine emerges today from a period of unprecedented contraction in consumer spending and investment and is looking to the future. In order to restore macro-financial stability in the country, the NBU embarked on an ambitious plan of inflation targeting, while also eventually allowing the UAH to float. Consistent hikes in the deposit rate, in coordination with other channels of monetary policy, brought inflation down to 15.1% y/y by March 2017.

Source: Reuters

Through the use of inflation targeting, the NBU has so far been able to identify and communicate effectively a visible target of monetary policy, namely price level stability. Notably, for the coming years the Bank aims at (year to year) inflation rates of 8% (2017), 6% (2018) and 5% (2019). However, effective communication of targets is not enough to stabilize inflation and economic activity. Of equal, if not greater, importance towards taming inflation is consistency in delivering on the promise of achieving the communicated targets.



Source: National Bank of Ukraine

With inflation expectations trailing actual inflation, maintaining an explicit target inflation rate over the medium term, while effectively communicating to the market the envisioned path towards reaching this target, is the key factor in anchoring inflation expectations. However, the appointment of a Central Bank chief in Ukraine with sympathy to the policy preferences of the government (rather than a single-minded determination to keep inflation low) undermines just that. Undue political influence on the bank could lead to inflation surprises according to the political cycle, vitiating the power of the NBU and increasing uncertainty around inflation expectations. In particular, any uptick in price volatility risks derailing Ukraine from the recovery path the NBU has helped to maintain, with inflationary surprises highly detrimental to investment (as well as having significant distributional consequences). Heightened inflation could also usher in further depreciations in the currency, which will consequently cause the real burden of sovereign debt to increase (70% of public debt in Ukraine is foreign currency denominated).

As far as inflation is a self-determined process contingent on expectations, the appointment of the wrong person to replace Ms. Gontareva has the potential to undo the recent achievements of the NBU. Ukraine's still tentative macro-financial stability further underlines how dependent the country is on personalities in order to help guide its still-nascent institutions.

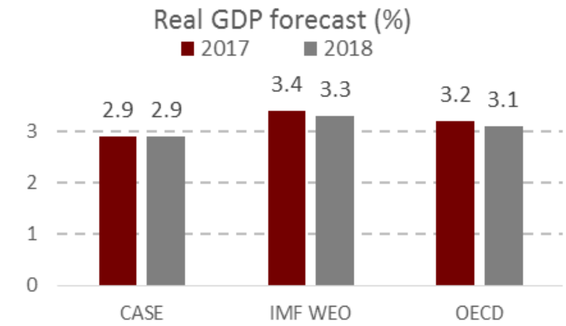
This week: The Polish Foreign Ministry recognized the result of Turkey's April 16 referendum, a 51.4% victory that could give President Erdogan more power in office. In its April 18 statement, the ministry said it looks forward "to continuing developing its traditionally good bilateral relations" with Turkey.

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



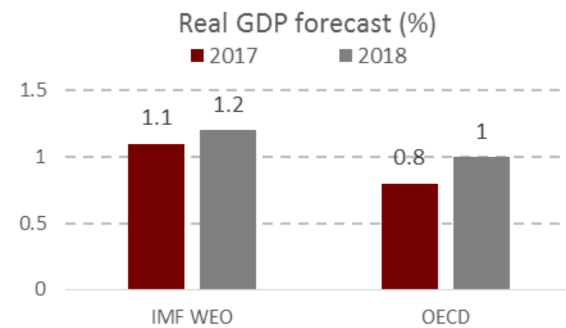
This week: On April 14, President Vladimir Putin joined other heads of state for the Eurasian Economic Union (EaEU) council summit in Bishkek, where Putin continued his pursuit to tighten economic and security relations in Central Asia. Meanwhile, during a G7 meeting in Italy, foreign ministers discussed ways of exerting pressure on Russia following its alleged role in a recent chemical attack in Syria.

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%



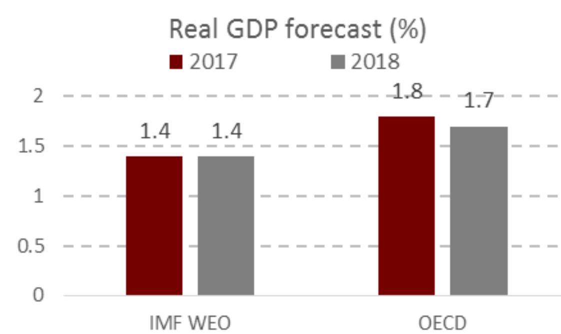
This week: The German economy continues along its path of robust growth. April's ZEW Indicator of Economic Sentiment saw a 6.7 point m/m increase, reaching its highest level since August 2015. According to the same survey, the current economic situation indicator also rose by 2.8 points, its highest level since July 2011.

GDP (Q4 2016)
1.2% y/y
Down from 1.5% in Q3

Inflation (Mar 2017)
1.5% y/y
Up from 2.2% in Feb

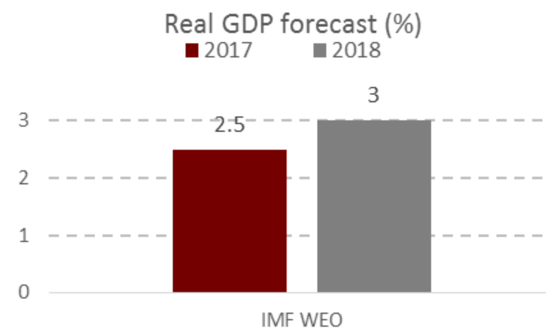
Unemployment (Q4 2016)
3.9%
Down from 4.15% in Q3

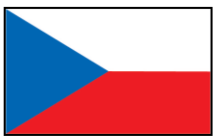
ECB Deposit rate
-0.4%
From -0.3% Dec 2015



This week: The head of Ukraine's Central Bank, Ms. Valeria Gontareva, stepped down on May 10, saying that her "mission was complete." Ms. Gontareva, whose policy stance has been described by the IMF as skilful despite the challenges she faced, helped shift the Ukrainian hryvnia from a pegged to a free-floating currency and substantially reformed Ukraine's financial sector. It is currently unclear who will fill Ms. Gontareva's position.

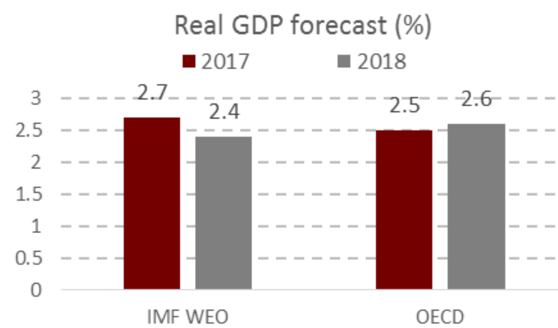
GDP (Q4 2016)	Inflation (Mar 2017)
4.7% y/y	15.1% y/y
Up from 2.1% in Q3	Up from 14.2% in Feb
Unemployment (Q4 2016)	**NBU Base rate**
10.0%	14.0%
Up from 9.2% in Q3	Unchanged from Jan 2016





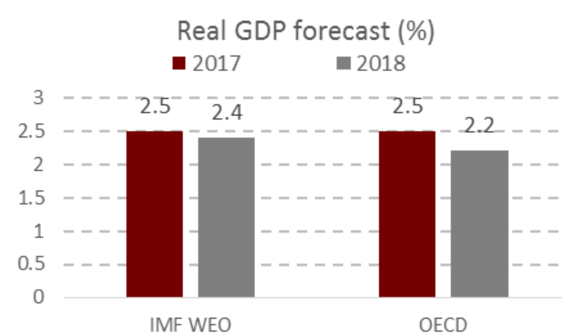
This week: Consumer price levels in the Czech Republic reached 2.6% in March (y-o-y), a 0.1 pp increase. The uptick was predominantly due to an increase in food and non-alcoholic beverage prices. This also led to an increase in the country's average inflation rate forecasts, from 2.0% to 2.4% for 2017 (from 1.6% to 1.7% for 2018). The Czech Ministry of Finance have upgraded their economic growth forecasts, currently expecting growth to amount to 2.5% both in 2017 and 2018.

GDP (Q4 2016)	Inflation (Mar 2017)
1.9% y/y	2.6% y/y
1.9% in Q3	Up from 2.5% in Feb
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 Hungarian Central Bank's Macroeconomic and Financial Market Developments report, released in March, employment increased by 3.8% in January (y-o-y). Further, gross average wages in the private sector have significantly increased, recording growth of 9.15% (y-o-y), for the same period.

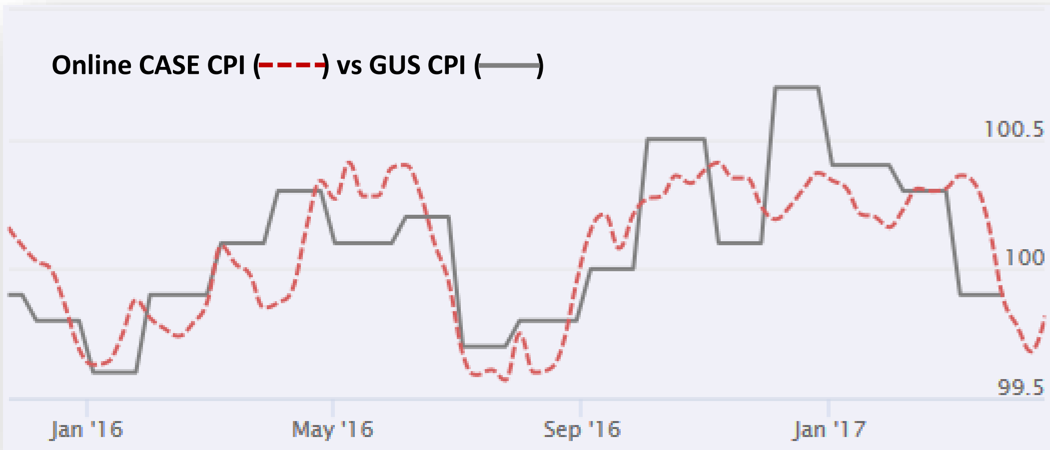
GDP (Q4 2016)	Inflation (Mar 2017)
1.6% y/y	2.7% y/y
Down from 2.2% in Q3	Down from 2.9% in Feb
Unemployment (Q4 2016)	**MNB Base rate**
4.4%	0.9%
Down from 4.9% in Q3	From 1.05% May 2016



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	1.2
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	4.1	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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