

Overview: In this week's showCASE, our experts discuss the failed attempt of the Polish government to reorganize the judiciary in the wake of mass civic protests that took place across the country.

Judicial Reform and the Summer of Poland's Discontent

By: [Jan Toczyński](#), CASE Analyst

Recent attempts by the ruling Law and Justice (PiS) government to push forward controversial judiciary reforms in Poland has attracted severe criticism both at home and abroad. The events have evolved rapidly with an unprecedented wave of protests followed by President Andrzej Duda's surprising veto, which appears to have taken his own political allies aback. Given the importance of the judiciary in a market economy, these developments are likely to have a major impact on Polish economic performance going forward.

PiS, led by Jarosław Kaczyński (with no formal role in the executive branch but widely seen as the mastermind of these latest policies), put forward three major regulations in July aimed at bringing the judiciary under greater executive control. The main provisions of the reforms included effectively dismantling the National Supreme Court by terminating all the terms of current sitting judges and replacing them with new nominees. In tandem with this removal of all current judges, it

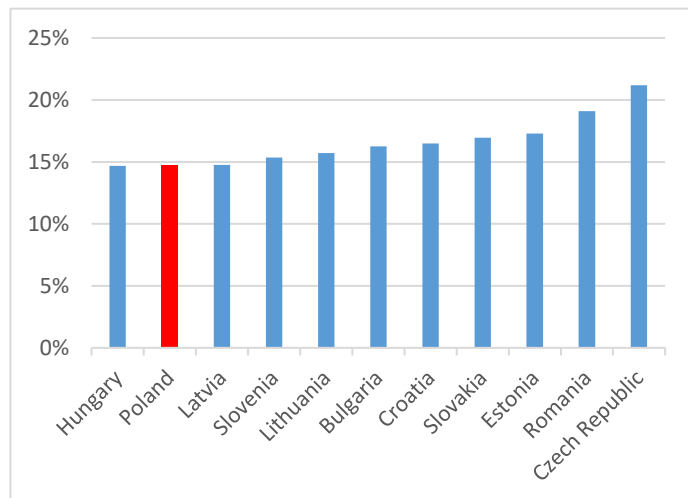


Demonstration against a new bill changing the judiciary system in Krakow, Poland on July 22, 2017. Source: Reuters

was proposed to introduce greater executive control over the National Council of the Judiciary; this move would allow PiS (or whomever is in power) to pick judges single-handedly by virtue of a simple parliamentary majority. The third reform, on "ordinary courts" (in EU parlance), would in practice allow Justice Minister Zbigniew Ziobro to replace court presidents or vice-presidents, the officials which supervise the work of judges and appoint them to specific functions within a court. Such a change would greatly increase the discretionary power of the Minister.

The provisions, widely considered an attempt to take political control over the judiciary, were justified as being a way to rectify late communist-era institutional deficiencies. In particular, the government claimed that reforming the selection of judges would make them [more accountable to the polity and not just to “elites.”](#) However, the reforms were rushed through with little public debate, sparking prolonged protests across the country and attracting criticism from the EU, [which threatened with disciplinary measures against Poland.](#) President of the European Council Donald Tusk, former Prime Minister of Poland and Kaczynski’s long-time political rival, called the government’s actions “a contradiction of European values and standards” in his letter to President Duda.

The proposed reforms may alter the rule of law in Poland, but they also may indirectly hit Poland’s already-sluggish investment. GDP growth of at 4.1% in Q1 was impressive compared to the rest of Europe, but [the](#)



Private sector investment rate (GFCF to GDP) in 2016 in CEE countries. *Source: Ameco.*

[investment rate fell by 5.5% in 2016 y/y.](#) This decline was partly associated with entrepreneurs being [reluctant to invest](#) due to the political and legal instability; another factor that likely played a role was [reduced access to EU funds](#) due to changes in the EU’s own budgetary framework. The judicial reforms, if enforced, would further erode the business climate in the country, threatening its long-term development and transition from a price-competitive to an innovation-driven economy. This transition would require boosting private investment, which has been persistently low compared to the peer group of CEE countries (see graph).

The takeover of the judiciary has been at least partially halted by President Duda, who vetoed two out of the three laws, including the provisions for the National Supreme Court and the National Council of the Judiciary (the provision on common courts, also [considered unconstitutional](#), has been approved and will substantially weaken the separation of powers). Nevertheless, the President’s move has been a surprise, both for the public and for Kaczynski, as Duda had been regarded as the government’s close ally and often criticised for alleged subservience. The President’s veto, coupled with the government’s confrontational response that followed, has the potential to dramatically reshape Poland’s politics. It is also widely regarded as a major blow to the ruling party, which, to the last moment, seemed confident about enacting the laws.

The story is not over, as the government has signalled its intent to continue to push for the reforms and will likely take up the issue again following the parliament’s summer break. As seen elsewhere in the world, prolonged political uncertainty feeds through into economic uncertainty, and without resolution of this issue, Poland’s investment climate is likely to be seen as much riskier. In this sense, Polish civil society may play a role. While the institutional framework developed in the post-communist transition period seems vulnerable at this point in time, the scale of the protests surrounding this issue shows that a large part of Polish society understands the role of independent institutions and is willing to defend them. Whether or not it can force a final victory remains to be seen.



This week: According to the Central Statistical Office, unemployment in June was 7.1%, a low not seen since 1991. Low unemployment may lead to wage pressures and a slowdown of the economy due to a shortage of workers, especially in sectors such as transport, logistics, commerce, hotels, and hospitality. However, the Polish numbers appear to show continued slack in the labor market, meaning there is still room for improvement.

GDP (Q1 2017)

↑ **4.2% y/y (est.)**

Up from 2.9% in Q4

Inflation (June 2017)

↓ **1.5% y/y**

Down from 1.9% in May

Unemployment (Jun 2017)

↓ **7.1%**

Down from 7.4% in May

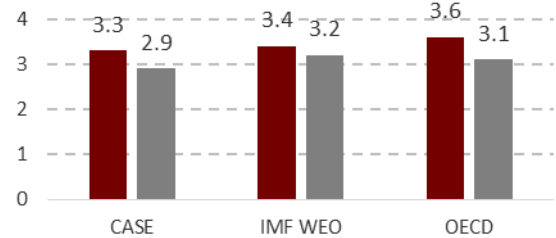
NBP Base rate

1.5%

From 2% Mar 2015

Real GDP forecast (%)

■ 2017 ■ 2018



This Week: Finance Minister Maxim Oreshkin announced that Russia's economy grew by 2.7% y-o-y in Q2, exceeding the 2% forecast set for 2017. The growth was attributed to the recovery of domestic consumption and cold weather, which helped the energy sector.

GDP (Q2 2017)

↑ **2.7% y/y (est.)**

Up from 0.5% in Q1

Inflation (June 2017)

↑ **4.4% y/y**

Up from 4.1% in May

Unemployment (Jun 2017)

↓ **5.1%**

Down from 5.2% in May 2017

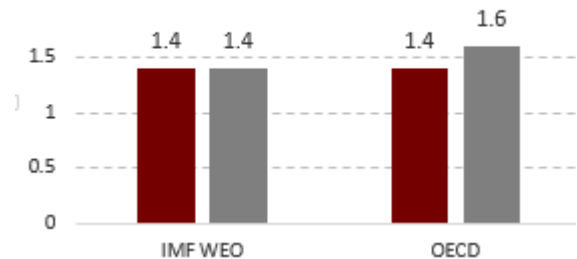
CBR Base rate

9%

Down from 9.25%

Real GDP forecast (%)

■ 2017 ■ 2018



This week: According to Bundesbank's estimates, German taxpayers saved EUR 240 billion over the past ten years from cuts in interest payments on government debt. Germany's Central Bank released this estimates to counter criticism of the European Central Bank's low interest rates, said to hurt German citizens: even though saving remains unprofitable, there is also a positive effect on the taxpayers.

GDP (Q1 2017)

↓ **1.7% y/y**

Down from 1.8% in Q4

Inflation (July 2017)

1.5% y/y (est.)

Unchanged from June

Unemployment (June 2017)

↓ **3.6%**

Down from 3.7% in May

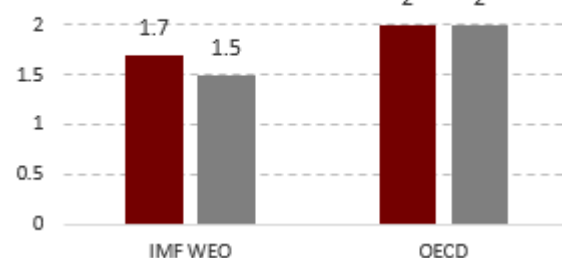
ECB Deposit rate

-0.4%

From -0.3% Dec 2015

Real GDP forecast (%)

■ 2017 ■ 2018





This week: The Ministry of Economy of Ukraine estimates that GDP grew by 2.5% y-o-y in the first half of 2017. Retail grew by 7.7% y-o-y in the period, while the construction sector expanded by 25% y-o-y. Consumer confidence is reported to be on the increase, and CASE economists expect that the economy will record 2.5% growth in the second quarter of the year as well.

GDP (H1 2017)

2.5% y/y (est.)

From 2.5% in Q1

Inflation (June 2017)

↑ 15.6% y/y

Up from 13.5% in May

Unemployment (Q1 2017)

↑ 10.5%

Up from 10.0% in Q4

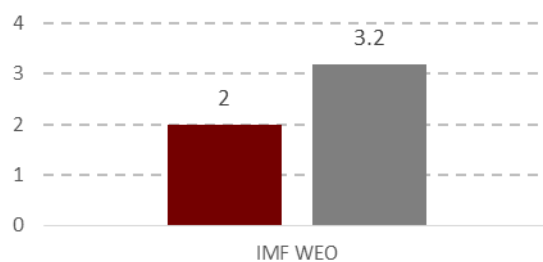
NBU Base rate

12.5%

From 13.0% in May

Real GDP forecast (%)

■ 2017 ■ 2018



This week: The Czech Bank Association updated its estimate of annual GDP growth for 2017 from 2.6% to 3.2%. The Association predicts that growth will be supported by an increase in exports and in household consumption. Moreover, the Czech economy will face strong pressure on wages due to the low unemployment rate, as demonstrated by the highest number of vacancies (183,500) in the modern history of the country.

GDP (Q1 2017)

↑ 3.0% y/y

Up from 1.9% in Q4 2016

Inflation (June 2017)

↓ 2.3% y/y

Down from 2.4% in May

Unemployment (Q1 2017)

↓ 3.4%

Down from 3.6% in Q4

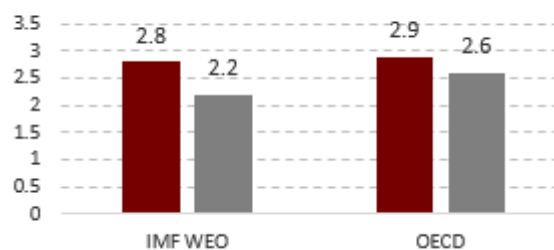
CNB Base rate

0.05%

Unchanged since Nov 2012

Real GDP forecast (%)

■ 2017 ■ 2018



This week: Last week, Ministers of Trade of Hungary and Russia, Péter Szijjártó and Denis Manturov, discussed economic relations between the two countries. These talks follow a 30% increase in bilateral trade flows in the first quarter of the year. The Hungarian Ministry has also said that the low-cost airline Wizz Air will soon launch a direct flight from Budapest to Saint Petersburg to help increase the number of Russian tourists to Hungary.

GDP (Q1 2017)

↑ 4.2% y/y (est.)

Up from 1.6% in Q4

Inflation (May 2017)

↓ 1.9% y/y

Down from 2.1% in Apr

Unemployment (Q1 2017)

↓ 4.3%

Down from 4.6% in Q4

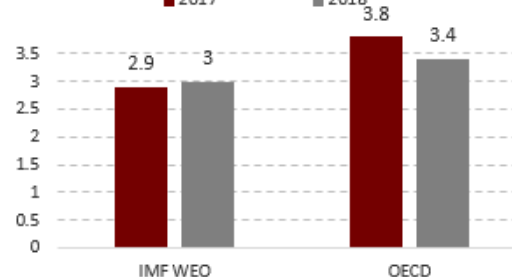
MNB Base rate

0.9%

From 1.05% May 2016

Real GDP forecast (%)

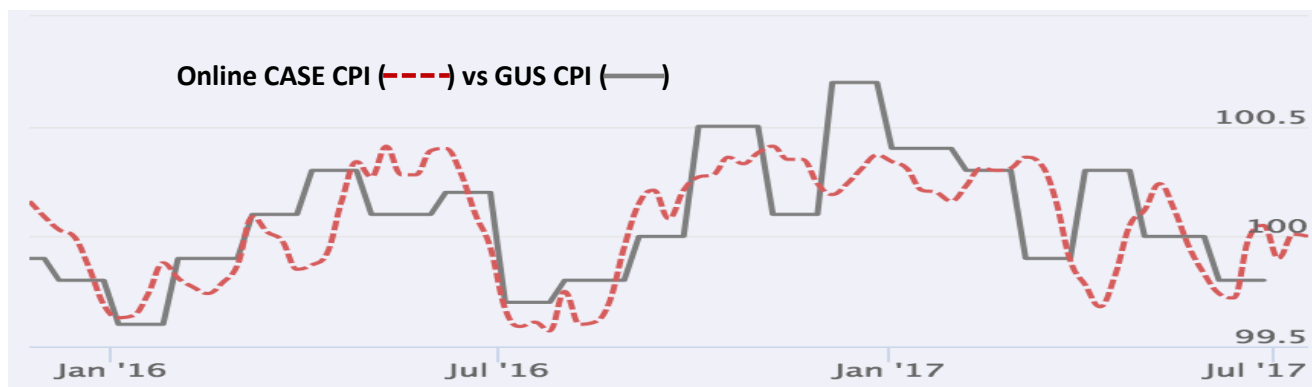
■ 2017 ■ 2018



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, and the CPI.

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	3.3	3.5	2.9	3.8	1.9
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	4.7	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

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