showCASE
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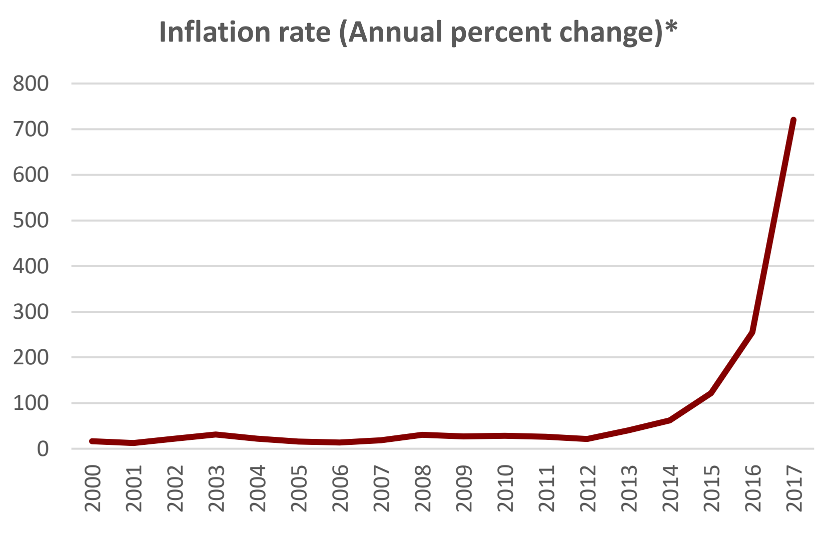
Overview: In this week's showCASE, our experts take a closer look at Venezuela crisis and debate whether President Maduro still has a chance to restore stability in the country that by all accounts is on the verge of collapsing.

Venezuela on the brink

By: *Katarzyna Sidło, Political Economist; Anne-Christin Winkler, CASE Analyst*

The past four months have not been easy for Venezuela, but last fortnight has proved to be particularly arduous. President Nicolas Maduro's gamble to defuse tensions by holding elections for the Venezuelan Constituent Assembly on 30 July 2017 has only exacerbated the collapse of a once-vibrant economy. Results of the election, as well as the manner in which they were conducted, have been contested not only by the opposition and Venezuelans themselves, but also by the international community. On August 5th, Venezuela saw itself indeterminately suspended (again) from the South American trade and customs union Mercosur. Then, on Friday August 11th, President of the United States Donald Trump announced he "does not rule out a military option" in Venezuela.

The controversy over the Constituent Assembly stems first of all from the scope of its powers – to change the constitution, dismiss authorities, and control the democratically-elected opposition-held National Assembly and other government bodies. Secondly, there is unanimity that the election was fraudulent; the CEO of Smartmatic, a company working on Venezuelan voting systems for the past 13 years confirmed that "without any doubt, (...) the turnout of the recent election for a National Constituent Assembly was manipulated". Mr. Maduro's claims of popular support for his move (official turnout figures stand at 41.5%) yet again turns out to be just wishful thinking.



Source: IMF. *Estimations for 2016 and 2017.

Venezuelans have been holding mass, and more often than not, violent protests, since April 2017, when the country's increasingly oil-dependent economy started to drastically deteriorate. As CASE has argued before, this is a result not only of drastic drop in oil prices (around 50 percent since 2012) but also wasteful state policies, such as extravagant social programs and subsidies. With little cash to spare, buying people's support and acquiescence became significantly more difficult.

Mr. Maduro's response to the crisis was to a certain extent predictable and in line with his ruinous economic philosophy. Over 1,500 private businesses were expropriated, profit margins for private firms were limited, and – perhaps most crucially – food, personal hygiene products, and other daily necessities had their prices tightly controlled. The results were also predictable, as drastic price increases occurred and the inflation rate skyrocketed to an estimated 720%. As with all socialist paradises, Venezuelans found themselves unable to afford even the most basic products: not only is there is an 85% shortage of drugs but 93% of citizens report that they cannot buy enough food.

Venezuela is indeed on the verge of collapsing, and more pessimistic voices war of a civil war. The already-struggling oil industry "sits on a volcano," international companies are evacuating their staff and fleeing the country, and the country's debt reached a breaking point. Solution to the crisis is needed badly and it is needed now. However, any viable solution needs to come from the inside of the country and represent a radical break with the Chavez/Castro-inspired socialism of the past. Parts of the military, enjoying broad subsidies and traditionally loyally supporting the socialist party represented by Mr. Maduro, have joined the population in their protests, giving some hope to opponents of the regime. Perhaps with their involvement and refusal to shoot protesters, the humanitarian cost of the crisis could be limited (thus far, at least 125 people died and 2,000 have been injured in confrontations with state security services).

Mr. Maduro can still redeem himself, but it would involve a repudiation of the Bolivarian socialism which has brought Venezuela to this point. What Venezuelans want is not *panem et circenses* (bread and circuses) anymore, but *panem at democratiam.* In this particular case, it would be prudent to start with the bread, and then start restoring democracy with a full stomach. But given the events of the year thus far, it appears that Venezuela's shelves will remain bare of both.

This week: The Ministry of Finance announced that VAT revenues in 2017 are forecasted at PLN 150 billion, an increase of PLN 23 billion more than in 2016. CASE experts estimate that PLN 8 billion of this increase is due to favorable macroeconomic conditions and higher consumption. This means that the Ministry of Finance assumes that as much as 15.5 billion will come from improved tax compliance (i.e. narrowing the VAT gap).

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)

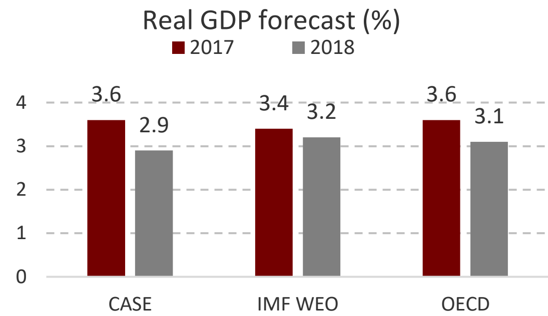
7.1%

Down from 7.4% in May

NBP Base rate

1.5%

From 2% Mar 2015



This week: The Inter-agency Commission on Security in the Economic Sphere, a part of Russia's Security Council, recommended that the government speed up the process of liberalizing gas exports. The recommendation came out of a meeting on July 6 but was only recently reported in the Russian press. Such a move could signal an end to the monopoly power that state-owned Gazprom has over natural gas pipelines.

GDP (Q2 2017)

2.7% y/y (est.)

Up from 0.5% in Q1

Inflation (July 2017)

3.9% y/y

Down from 4.4% in June

Unemployment (Jun 2017)

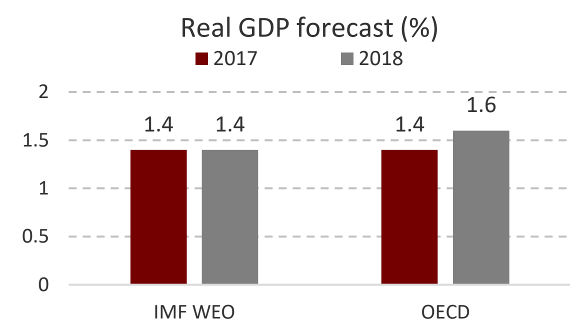
5.1%

Down from 5.2% in May 2017

CBR Base rate

9 %

Down from 9.25%



This week: According to the Research Institute of the Federal Employment Agency, the number of job vacancies in Germany reached a new peak of 1.1 million in the second quarter of 2017, mainly in the manufacturing sector. Although vacancies have remained unfilled for a longer duration than historically, there is currently no evidence of a large-scale deficit of qualified employees.

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)

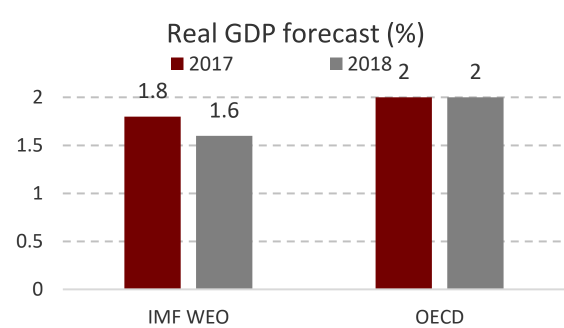
3.6%

Down from 3.7% in May

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: Inflation in July rose from 15.6% in June to 15.9% y-o-y, exceeding the National Bank of Ukraine's (NBU) forecast. The change reflects a faster growth in raw food prices than anticipated. Although the NBU projects that some factors are of a short-term nature and will moderate in the second half of the year, the bank expects that year-end inflation will be more volatile than expected.

GDP (Q1 2017)

2.5% y/y (est.)

From 2.5% in Q1

Inflation (July 2017)

15.9% y/y

Up from 15.6% in June

Unemployment (Q1 2017)

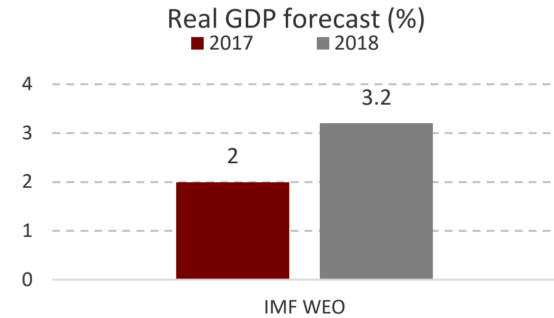
10.5%

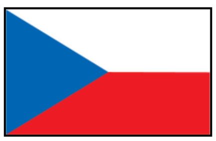
Up from 10.0% in Q4

NBU Base rate

12.5%

From 13.0% in May





This week: Inflation in July increased to 2.5% from 2.3% in June y-o-y. The increase was mainly caused by the growth of prices in the sectors of "recreation and culture," "food and non-alcoholic beverages," and "alcoholic beverages and tobacco" (perhaps showing increased demand for the summer holidays). The Czech National Bank forecasts that inflation will remain slightly about its 2% target for the future.

GDP (Q1 2017)

3.0% y/y

Up from 1.9% in Q4 2016

Inflation (July 2017)

2.5% y/y

Up from 2.3% in June

Unemployment (Q2 2017)

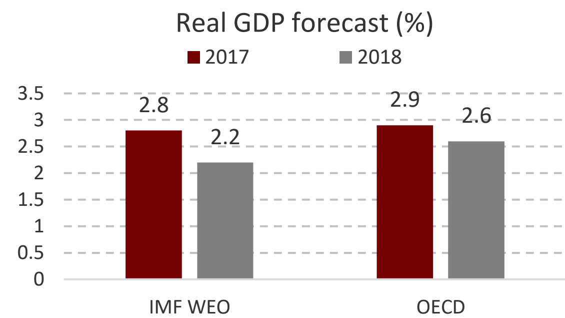
3.0% (est.)

Down from 3.4% in Q1

CNB Base rate

0.25%

From 0.05% (4 August 2017)



This week: Construction output has increased in June by a whopping 27.2% on a year on year basis, according to the Central Statistical Office (KSH), in line with similar increases in previous months. The boom in construction can be attributed to the construction of industrial and warehouse buildings, coupled with the development of sports and educational facilities.

GDP (Q1 2017)

4.2% y/y (est.)

Up from 1.6% in Q4

Inflation (July 2017)

2.1% y/y

Up from 1.9% in June

Unemployment (Q1 2017)

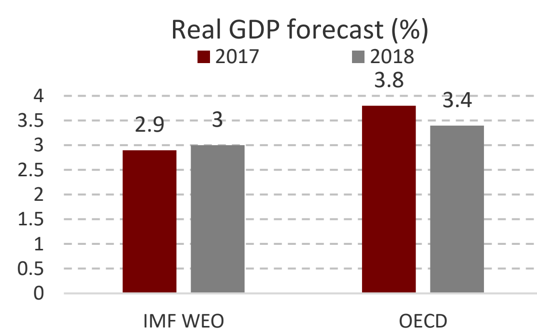
4.3%

Down from 4.6% in Q4

MNB Base rate

0.9%

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, 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	3.6	3.9	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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