

Overview: In this issue of showCASE, our experts take a closer look at the situation in the Czech Republic, where Miloš Zeman won presidential elections among rising Eurosceptic sentiments.

Miloš Zeman: Re-election

By: Sara Skejo, CASE Analyst

In the second round of the presidential elections, held on January 26th and 27th, Czech citizens re-elected the xenophobic populist Miloš Zeman over the liberal, pro-European academic Jiri Drahoš. Mr. Zeman's narrow victory, [51.37% to 48.63%](#), highlights deep divisions in the Czech society.

Prior to his re-election, Mr. Zeman held the post of Prime Minister (1998-2002) and was the first president of the Czech Republic to be directly elected by the voters (2013), as opposed to being

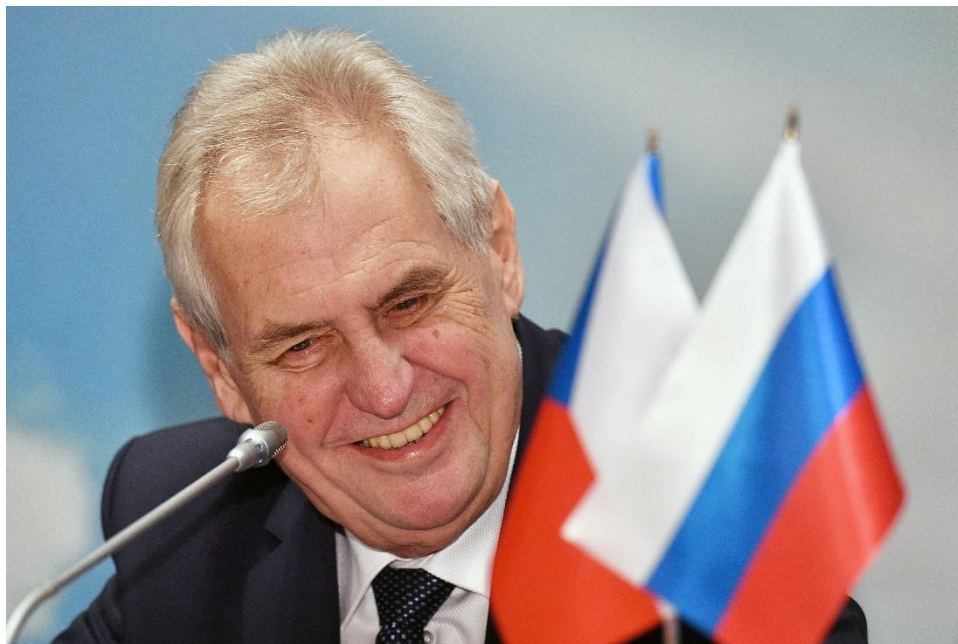


Photo: Miloš Zeman. Source: Reuters

nominated by the Czech Parliament. During his tenure, he advocated for closer relationship with Russia and China and called for [referendums](#) on the Czech Republic's membership in the European Union and NATO. His campaign focused on migration, a highly contentious issue in a country which has received only a handful of refugee families under the EU quota system and is facing [legal action](#) for refusing to take in more asylum seekers. Experts (including CASE Team) mostly agree that it is due to his hard anti-immigration stance that he managed to mobilize hardline voters – [25%](#) of those who did not go to polls in the first round casted their vote in the second one. Mr. Zeman's campaign was [helped by Russian propaganda](#), which portrayed his opponent as a “welcomer” of immigrants and a supporter of the German Chancellor Angela Merkel's liberal migration policy.

Mr. Zeman's strategy of sowing fear turned out to be more appealing than that of Mr. Drahoš, who focused on advocating reforms such as [improvement of the business environment](#) for small companies and start-ups and solving the problem of multinational corporations transferring up to 80% of their profits to parent companies domiciled abroad, as opposed to investing back in the Czech Republic.

Mr. Zeman's re-election was a victory not only for himself, but also for the country's anti-establishment Prime Minister Andrej Babiš, whose ANO party had won [29%](#) of the vote ([78 of the 200 seats](#)) in the lower house of the parliament in the October 2017 election. In spite of his victory, Mr. Babiš thus far has failed to form a coalition, as mainstream parties

refused to work with him following [allegations](#) of mishandling EU subsidies. The Czech Parliament rejected his minority government in a [no-confidence vote](#) and [denied](#) him the right to parliamentary immunity. However, a few days before the presidential elections Mr. Zeman [pledged](#) to reappoint Mr. Babiš, giving him a second chance to form a government and ample time to gather majority. Given the largely symbolic character of the Czech Presidency, Mr. Zeman's campaign promise to Mr. Babiš raised a number of questions regarding the nature of their future cooperation.

The fact that the Zeman–Babiš duo is in charge of the Czech politics has raised concerns about the country's future in the EU. Pessimists go as far as to talk about Czechxit. The fears are not groundless. According to the [Eurobarometer survey](#), the Czech Republic has one of the highest levels of Euroscepticism among the member countries (56% of the citizens do not trust the EU, compared to the EU average of 48%). Also, an April 2017 [Public Opinion Research Centre \(CVVM\)](#) poll showed that 72% oppose the introduction of the euro. Should the Czech farmers be affected by [proposed cuts](#) to spending on the Common Agricultural Policy (CAP), these numbers may very well go up.

The outcome of both the presidential and parliamentary elections suggests once again that populist leaders can win by basing their campaigns on one highly contentious and divisive issue such as migration and almost completely ignoring pragmatic economic issues. A debate on the latter could prove more challenging to the anti-EU leaders. Indeed, the Czech Republic is not only one of the most stable and affluent economies in Central Europe, but also one heavily linked with the European Union. 84% of the country's [export](#) goes to the EU countries, while only 2% goes to the United States and Russia. When it comes to [imports](#), 79% arrives from the EU, 7% from China, and 2% from South Korea. More crucially, according to the [European Commission](#), one in six jobs in the Czech Republic depends on the EU.

Leaving the EU would be harmful not only to the European project, but most painful to the Czech Republic itself. One should hope that both Mr. Zeman and Mr. Babiš do realize that and in the privacy of their offices discuss how to both eat the cake (win over the Eurosceptic voters) and have the cake (remain in the EU). More realistically, however, the Czechs should prepare for a more pro-Russia and pro-China, anti-EU and anti-immigration rhetoric in the upcoming four years. Hopefully, fed on such a diet, the liberal and centrist voters might finally get frustrated to the point of participating in the next elections in larger numbers. For ultimately it is mostly due to their apathy, not Mr. Zeman's extraordinary political skills, that the incumbent President managed to secure re-election.



This week: According to the CSO's preliminary estimates, Poland's GDP in 2017 grew by 4.6% (not seasonally-adjusted), a remarkable increase compared to 2.9% in 2016. The construction sector was especially prosperous – gross value added in this sector increased by 11.5%. Total consumption expenditure grew by 4.2%. Budgetary deficit in 2017 equalled PLN 25,4 billion, according to Ministry Finance's preliminary estimate. CASE's economists predict that the booming economy will slow down in 2018, with GDP growth reaching 3.4% in 2018 and 3.5% in 2019.

GDP (Q3 2017)

↑ **5.2% y/y (est.)**

Up from 4.2% in Q2

Inflation (Dec 2017)

↓ **2.1% y/y**

Down from 2.5% in Nov

Unemployment (Dec 2017)

↑ **6.6%**

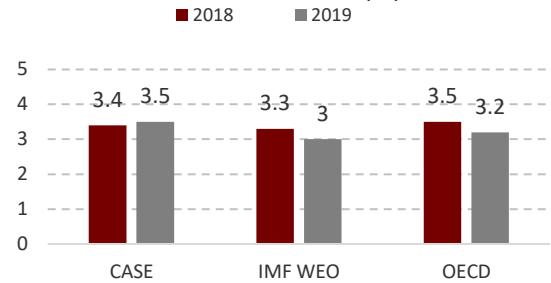
Up from 6.5% in Nov

NBP Base rate

1.5%

From 2% Mar 2015

Real GDP forecast (%)



This week: Russia's Ambassador to North Korea, Alexander Matsegora, warned that Russia cannot limit deliveries of oil and oil products any further because Pyongyang would see such move as a declaration of war. The warning came as the United Nations Security Council introduced a wave of sanctions aiming to strengthen the measures regarding the supply, sale or transfer of refined petroleum products to North Korea. The United States imposed further sanctions last week and tried to persuade Russia and China to do the same.

GDP (Q3 2017)

↓ **1.8% y/y**

Down from 2.5% in Q2

Inflation (Dec 2017)

■ **2.5% y/y**

Unchanged since Nov 2017

Unemployment (Nov 2017)

■ **5.1%**

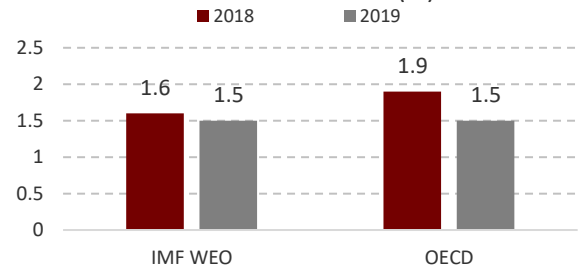
Unchanged since Oct 2017

CBR Base rate

7.75 %

From 8.25% in Nov 2017

Real GDP forecast (%)



This week: Despite the ongoing debate on diesel cars and cartel allegations, Daimler car sales rocketed in 2017, with the company increasing its turnover by 24% on the previous year. At the same time, however, a forecast of flat earnings in the upcoming year on account of high costs of new technologies and a strong euro sent Daimler's share price down by 2.6%.

GDP (Q3 2017)

↑ **2.8% y/y**

Up from 2.3% in Q2

Inflation (Jan 2018)

↓ **1.4% y/y (est.)**

Down from 1.6% in Dec

Unemployment (Dec 2017)

↑ **3.5%**

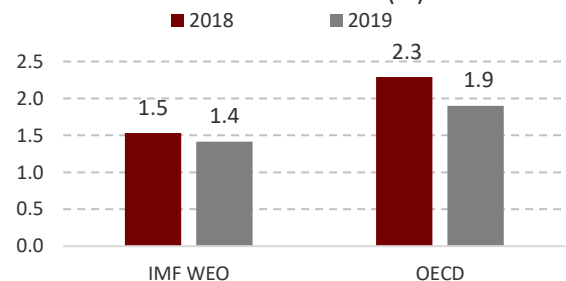
Up from 3.4% in Nov 2017

ECB Deposit rate

-0.4%

From -0.3% Dec 2015

Real GDP forecast (%)





This week: The National Bank of Ukraine (NBU) expressed concern over the country's migration dynamics. "Emigration processes can intensify in the upcoming years, particularly to Poland. Apart from increasing labor migration from Ukraine, worrying is also the increase in the number of students receiving education abroad," the NBU said. According to Eurostat data, 87% of the EU residence permits granted to Ukrainians were provided by Poland.

GDP (Q3 2017)

↓ 2.1% y/y

Down from 2.3% in Q2

Unemployment (Q3 2017)

↓ 8.9%

Down from 9.1% in Q2 2017

Inflation (Dec 2017)

↑ 13.7% y/y

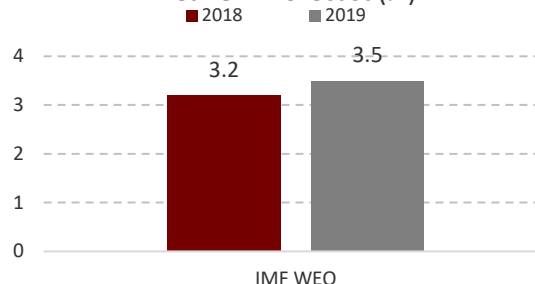
Up from 13.6% in Nov

NBU Base rate

14.5%

From 13.5% in Oct 2017

Real GDP forecast (%)



This week: The Czech National Bank increased the interest rate from 0.25% to 0.75%, making consumer loans more expensive. The increase of the interest rates is expected to cool down the Czech economy and act against potential macroeconomic imbalances and bubbles. Another probable result is a further strengthening of the Czech koruna.

GDP (Q3 2017)

↑ 5.0% y/y

Up from 4.7% in Q2 2017

Unemployment (Q3 2017)

↓ 2.8%

Up from 3.0% in Q2 2017

Inflation (Dec 2017)

↓ 2.4% y/y

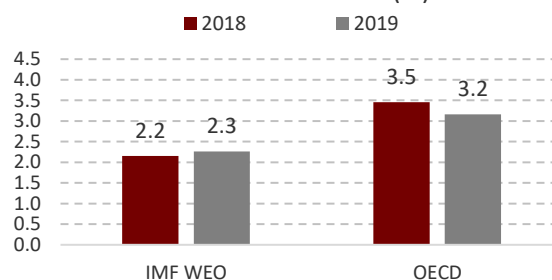
Down from 2.6% in November

CNB Base rate

0.75%

From 0.50% (2nd January 2018)

Real GDP forecast (%)



This Week: The Hungarian Tourism Agency (MTÜ) is going to spend EUR 32.3 million (HUF 10 billion) for the renovation of several regions in Hungary, including Esztergom and parks around the Balaton lake, among others. According to Zoltán Guller, CEO of MTÜ, the Agency received 580 applications until now, whose total value exceeded EUR 677.8 million (HUF 21 billion).

GDP (Q3 2017)

↑ 3.9% y/y (est.)

Up from 3.3% in Q2

Unemployment (Q3 2017)

↓ 3.8%

Down from 4.3% in Q2

Inflation (Nov 2017)

↑ 2.5% y/y

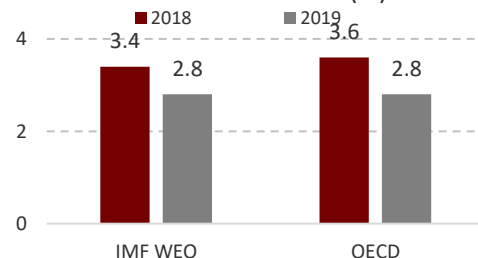
Up from 2.2% in October

MNB Base rate

0.9%

From 1.05% May 2016

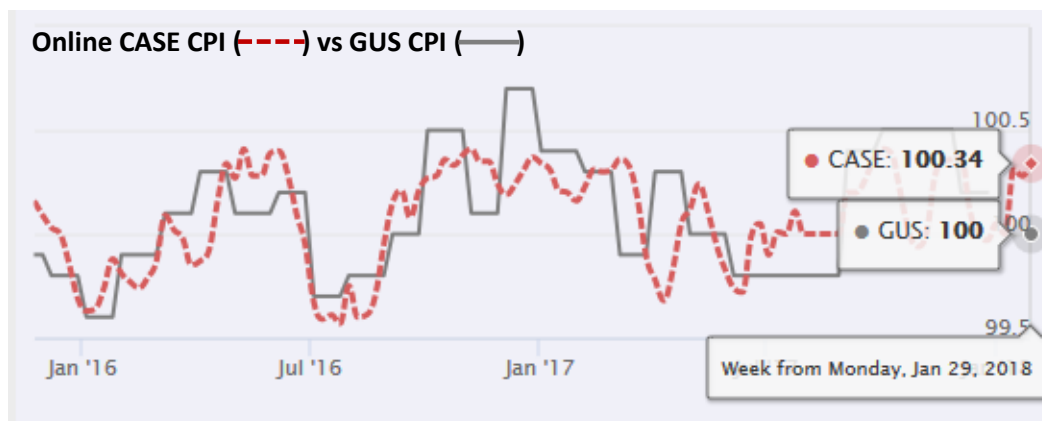
Real GDP forecast (%)



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
2018	3.4	3.5	3.1	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	Merchandise exports (USD, bn)	Merchandise imports (USD, bn)	Merchandise trade balance (USD, bn)	CA balance (USD, bn)
2018	3.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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