

Overview: In this week’s showCASE, our experts investigate the Finnish experiment of introducing a universal basic income (UBI) and analyze its economic rationale. CASE also examines the ambitious attempts of the European Union to deepen Economic and Monetary Union by forging a Capital Markets Union.

A universal basic income: panaceum or placebo?

By: [Katarzyna Mirecka](#), *Economist, CASE*

A “universal basic income” (UBI) is an idea that is [over two hundred years old](#), but only recently has a European country taken steps towards introducing it at the national level. As an experiment, the Finnish government recently awarded an income of EUR 560 per month for a period of two years to a group of 2,000 randomly chosen unemployed people between 25 and 58 years old. The benefit replaces the usual unemployment scheme, but with the twist that the payments will not be withheld should the person find a job. The experiment’s overall goal is to check whether it is possible to redesign the country’s social security system, and its success will indicate whether or not the solution should be expanded to the whole population.



Source: [Stefan Bohrer](#), CC

The idea of distributing money to the majority of the adult population is surprising at first, but its supporters all over the world place [big hopes](#) that an UBI will [create employment](#). Advocates claim that the prevalence of [precarious job security](#), coupled with perceived social inequalities, can be addressed by a UBI, helping to [reduce poverty](#), encourage potential self-employers to start new activities, and, given its universal character, [simplify the entire welfare system](#). Last but not least, a basic income is theorized to be [an incentive to work](#) in low-paying or part-time jobs, which normally might be refused by job-seekers out of fear of losing unemployment benefits.

Critics of the UBI, on the other hand, note the incentive effects of the scheme, pointing out that “free money” is a [disincentive](#) to undertake less attractive activities, which one would accept in absence of a government payment. Other arguments claimed by its opponents include the belief that the UBI will increase passivity, [encourage “benefit tourism”](#) in Finland, as well as possibly harden attitudes towards [migration](#). Surprisingly, a critical statement was also made by the Chief economist of SAK, the largest Finnish trade union, who called the UBI [“uneconomical” and “unworkable.”](#) He also claimed that the currently tested model would increase the government deficit by 5 percentage points. The [trade unions have also raised concerns](#) that the benefit would create a labor market with less employment protection, but SAK denied that the real reason for their opposition to the UBI would be the risk of losing bargaining power.

For all its novelty, Finland’s experiment is the second attempt to introduce a UBI, as Switzerland gave its citizens a chance to vote on such an income in 2016; the results were overwhelmingly [negative](#). Moreover, the topic is also being [vividly discussed or under experiment in other countries](#), although often at a regional, not national level. Therefore, the data and conclusions from the Finnish experiment could be a valuable argument in the debate in many European countries.

Dark clouds hang over the Capital Markets Union

By: [Aleksandra Polak](#), Communications Officer, CASE

In the beginning of 2015, the European Commission launched an ambitious initiative aimed at integrating capital markets in the EU in order to remove barriers to investment and boost growth and jobs in Europe. The Capital Markets Union (CMU) has been a flagship project of the EC's Investment Plan for Europe.

Capital markets in Europe are relatively underdeveloped and fragmented along national borders, with stock market capitalization in the EU at [64.5% of GDP in 2013, compared to 138% in the U.S.](#) Even though the share of bank financing in total corporation financing [declined from 70% between 2002 and 2008 to 50% between 2002 and early-2016](#), this decrease was attributable to changes in financing by large companies. Small and medium enterprises (SMEs), without the luxury of internal funds, continue to heavily rely on bank financing; indeed, debt financing was relevant for [85% of European SMEs](#) in 2016, while only 13% used or considered using equity capital as a source of financing. By contrast, U.S. SMEs obtain five times more funding from capital markets than EU-based companies.

Through the CMU, the Juncker Commission hopes to unlock capital around Europe and allow it to move freely across the Single Market, harmonizing regulatory frameworks and cutting down barriers to cross-border investments.



Source: [Charles Clegg](#), CC

Enhancing non-banking financing to European firms would not only promote investment, but could also play an important role in the resilience of the corporate sector to shocks by diversifying sources of funding, [reducing the risk and impact of problems in the banking sector being transmitted to the real economy and widening the distribution of risk.](#)

Despite the CMU's large potential for supporting investment, especially for [Europe's 22 million small and medium enterprises](#), the safety of non-banking sources of financing is problematic. Banks need to adhere to certain regulatory and supervisory frameworks such as Basel III, meant to improve banking sector's risk management, governance and transparency. Capital markets are significantly less regulated and less secure. They also generate [the risk of asset bubbles and rapid capital outflow in times of uncertainty](#), which could have a destabilizing impact on economies.

So far, the implementation of the project is not going smoothly. First and foremost, EU's biggest financial center, London, will no longer be a part of the Single Market and will not join the CMU. Moreover, in the wake of Brexit, the CMU project lost its founding commissioner, Jonathan Hill, who resigned in June 2016. On the top of that, the initiative has encountered [difficulties in the European Parliament](#). MEPs are skeptical of some of the EC's proposals such as reviving the securitization market, which supposedly played a triggering role in the global financial crisis in 2008. Nevertheless, Valdis Dombrovskis, the European commissioner in charge of financial services policy, has remained optimistic and declared that Brexit makes the project of completing the CMU "[even more urgent](#)" and that the CMU is an opportunity to show a true value-added of the European integration.



This week: Central Statistical Office of Poland (GUS) announced its preliminary estimates of the GDP dynamics in Q4 2016. The rate of growth was 2.7% y/y, falling well short of 4.6% in the corresponding period of the previous year. Gross fixed capital formation decreased by 5.8% y/y.

GDP (Q4 2016)

↑ 2.7% y/y

Down from 2.5% in Q3

Unemployment (Jan 2017)

↑ 8.6%

Up from 8.3% Dec 2016

Inflation (Dec 2016)

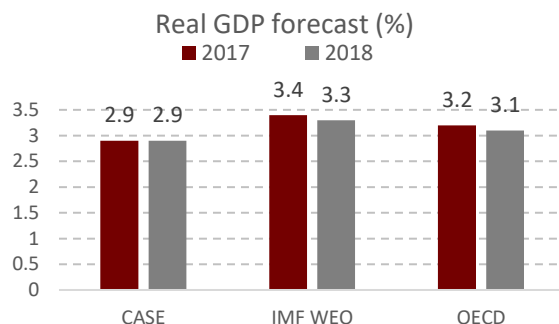
↑ 0.8% y/y

Up from 0.2% in Nov

NPB Base rate

↓ 1.5%

From 2% March 2015



This week: According to the Ministry of Energy, Russia decreased its oil extraction by 140,000 bpd in Jan and Feb relative to the reference period (Oct 2016). This would suggest that Russia is making effort to comply with the deal struck with OPEC in Dec 2016, which obliged the country to limit oil output by 200,000 bpd in Q1 2017 and by 300,000 bpd later in the year. In the meantime, higher oil prices contributed to the appreciation of the ruble.

GDP (Q3 2016)

↑ -0.4% y/y

Up from -0.6 in Q2

Unemployment (Jan 2017)

↑ 5.6%

Up from 5.3% in Dec

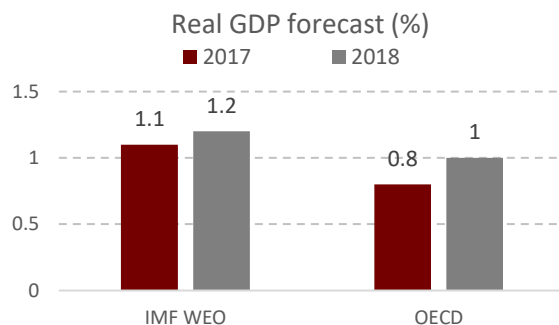
Inflation (Jan 2017)

↓ 5% y/y

Down from 5.4% in Dec

CBR Base rate

▬ 10%



This week: Inflation is expected to continue its upward trend, as preliminary estimates set February's HICP to reach 2.2% (y/y). This week also saw the publication of February's PMI index. In line with expectations set by last week's Ifo business climate index, overall sentiment remained positive. PMI in manufacturing recorded a 0.2-point drop from January's 57.0, while services PMI remained stable at 54.4 points.

GDP (Q4 2016)

↓ 2.5% y/y

Down from 2.8% in Q3

Unemployment (Q3 2016)

↓ 4.2%

Down from 4.28% in Q2

Inflation (Jan 2017)

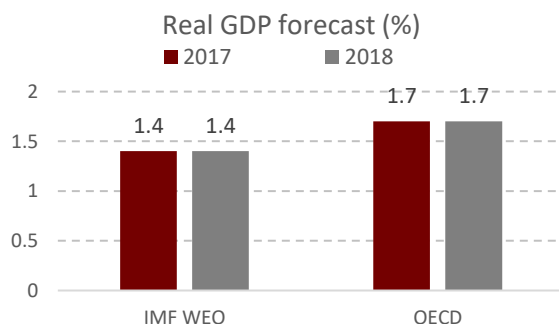
↑ 1.9% y/y

Up from 1.7% in Dec

ECB Deposit rate

↓ -0.4%

From -0.3% Dec 2015





This week: On March 2, 2017, the Board of the National Bank of Ukraine decided to maintain its base rate unchanged at 14%. The decision signifies the commitment of the NBU to contain inflation, which remains at double-digit levels due to the global commodity prices, the recent introduction of a minimum wage in the country, and strong labor demand.

GDP (Q4 2016)

↓ 4.5-4.8% y/y

Preliminary data

Unemployment (Q3 2016)

↓ 9.2%

Down from 9.3% in Q2

Inflation (Jan 2017)

↑ 12.6% y/y

Up from 12.4% in Dec

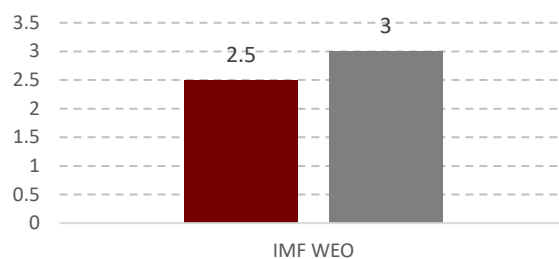
NBU Base rate

■ 14%

Unchanged from Jan 2016

Real GDP forecast (%)

■ 2017 ■ 2018



This week: The Czech National Bank published its financial market inflation expectations report for February. Analysts surveyed attribute a more optimistic outlook for Czech GDP growth to the persistence of robust household demand, reinforced by wage growth and recent fiscal easing. Meanwhile, exchange rate volatility is viewed as the single biggest risk to domestic economic growth.

GDP (Q4 2016)

↓ 1.7% y/y

Down from 1.9% in Q3

Unemployment (Q4 2016)

↓ 3.6%

Down from 4.0% in Q3

Inflation (Jan 2017)

↑ 2.2% y/y

Up from 2.0% in Dec

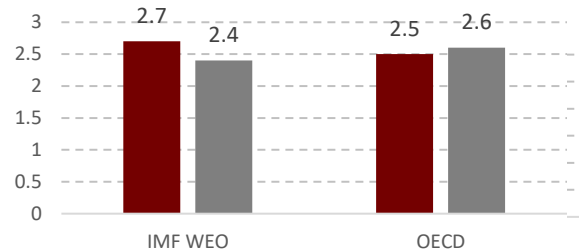
CNB Base rate

■ 0.5%

Unchanged since Nov 2012

Real GDP forecast (%)

■ 2017 ■ 2018



This week: The Hungarian Central Statistics Office reported a 24% drop (y/y) in the volume of investment in Q4 2016. This decline was reported as “consistent with the change of EU budget cycles”. Meanwhile, Hungarian GDP grew by 1.6% (y/y) in Q4 2016 and internal/external balances have strengthened (budget deficit remains below 3% and 2016 trade surplus amounting to EUR 10bn).

GDP (Q4 2016)

↓ 1.6% y/y

Down from 2.2% in Q3

Unemployment (Q4 2016)

↓ 4.4%

Down from 4.9% in Q3

Inflation (Jan 2017)

↑ 2.3% y/y

Up from 1.8% in Dec

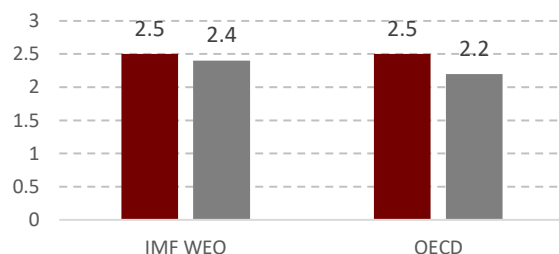
MNB Base rate

↓ 0.9%

From 1.05% May 2016

Real GDP forecast (%)

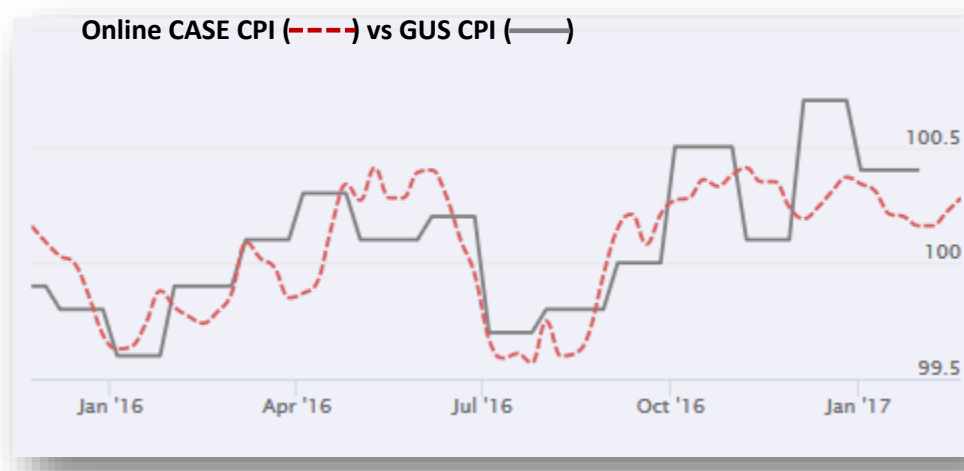
■ 2017 ■ 2018



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, 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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