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

Overview: In this week's showCASE, our experts share their views on the state of play in the Scottish independence vote. CASE also discusses the recent G-20 Finance Minister and Central Bank Governor's meeting in Baden-Baden and explores how its outcomes could set the tone for the G-20 Leader's Summit in Hamburg this July.

Holyrood, we might have a wee problem

By: Katarzyna Sidło, Political Economist, CASE

The results of the Scottish parliament debate on whether to hold a second independence referendum were meant to be known by now. However, due to a terrorist attack in London last week, the discussion has understandably been postponed. This deferment, or indeed the horrific attack itself, are however not likely to diffuse the tensions surrounding the independence vote.

Like the tartan that adorns a kilt, the referendum has a colorful past. In 2014, when the first referendum was held, one of the main arguments used to persuade the Scots to vote "naw" instead of "aye" to leaving the UK was that pulling out of the Kingdom would mean pulling out of the EU. Fast forward two years, and Brexit has already occurred despite almost two-thirds (62%) of Scots voting to remain in the EU (with the English and the Welsh tipping the balance to the Leavers). Unsurprisingly, the whole affair appeared to Scots like a cruel joke.

Of course, the issue of EU membership was not the primary reason for holding the Scottish independence referendum (at least not at first). What Scots have always been arguing for is more autonomy, principally fiscal, from Westminster. It is hardly surprising then that the third option of "devolution max" ("independence lite"), entailing the transfer of all powers to Holyrood from Westminster, apart from foreign policy and defense, was the most popular one among the Scots. Even less surprisingly, knowing the results of the polls,

Source: Reuters

the Westminster government refused to include this question on the referendum. When asked a straightforward yes/no question – and constantly reminded about EU-related consequences of their vote – Scottish people ultimately decided to remain in the UK.

The "more powers" option has not, however, been forgotten; most recently, even the former British Prime Minister Gordon Brown started campaigning in favour of the "third way" to independence. Whether Westminster will allow the "more powers" questions to be included on the ballot this time around is unknown, and it remains to be seen whether the referendum will be held at all. Although PM Theresa May "refused to rule it out" she seems determined to postpone any decisions on the matter until after the Brexit negotiations end. The logic underlying this position is that only then will the Scottish people be able to make an informed decision on the future of their country.

How will this strategy play out remains to be seen. Should the referendum be held tomorrow, Scotland would most likely remain in the U, although, with polls showing that anywhere between 5% and 16% of voters are undecided (and with differences between "yes" and "no" camps oscillating between 0 and 12 percentage points), the results are far from certain.

Equally unclear are the chances of Scotland joining the EU should it split from the UK. Not all Member States seem to be thrilled about the idea. Spain, for one, has already indicated that Scotland "would have to join the queue (…) and the end result will be whatever those negotiations produce," a message directed not so much at the Scottish people but its own separatist region of Catalonia. At this point, the issue of what happens to Scotland raises more questions than answers. As the old Scottish saying goes, whit's fur ye'll no go past ye (what is meant to happen will happen).

The quest for economic resilience in uncertain times

By: Mateusz Urban, Economist

G20 Finance Ministers and Central Bank Governors met last week in the spa town of Baden-Baden to discuss the global economy and the challenges it faces. However, they struggled to find consensus on trade and climate-related issues. Could the outcome of this meeting set the tone for the upcoming G-20 Summit in Hamburg this July?

As usual, issues concerning international trade and capital flows prevailed in the communique, a traditional resolution accepted at the end of the symposium. Not surprisingly, financial leaders claimed that even though a recovery was already underway, the pace of economic growth was not entirely satisfactory. As a response, participants called for continued accommodative monetary policies and stressed the importance of flexible and growth-friendly fiscal policy, structural reforms, and greater efforts to balance debt-to-GDP ratios.

But it is what was not included in the communique that was perhaps more telling. Despite the wide common ground (which can be safely judged as “traditional” in light of former communiques), there was some disagreement between the US delegation and other G-20 members. Two issues formed the bone of contention, namely, international trade and climate change.

Source: Reuters

As far as trade is concerned, the unambiguous commitment to free trade principles in the communique were omitted, a clear mark of the US delegation's influence and the potential warning sign of a new wave of protectionism making its way up to the body meant to promote the exact opposite. For some, the US refusal to clearly commit itself to free trade was a defeat for host nation Germany, as well as the global economy.

Pledges to fund measures against climate change (first agreed upon in 2015), on the other hand, were dropped entirely following a veto cast by the US delegation (President Trump not sharing his predecessor's single-minded obsession with climate change), this time supported by Saudi Arabia.

In the words of Germany's finance Minister Wolfgang Schauble, the Baden-Baden meeting "does not take us a great deal further." The outcome of the meeting also seems to have created a tremendous amount of uncertainty as to whether or not common ground will be found between all G-20 members on these issues during the upcoming Summit in Hamburg, particularly with Trump's influence dominating the floor.

Overall, it may seem vital that G20 Finance Ministers and Central Bank Governors agreed on several key measures to take, which, apart from the aforementioned, included regulatory (e.g. final implementation of the *Basel III* framework) and development (*Compact with Africa*) programs. However, it is the stark contrast of views on trade and climate change policies that are bound to determine both the public debate and preparations for the July Summit in the months to come.

Countries at a glance

Center for Social and Economic Research

This week: In the recent World Bank Report, “Lessons from Poland, Insights for Poland”, experts comment that “Poland is an outstanding economic and development success story, moving from middle-income to high-income status in record time.” However, for this trend to continue, they advise officials to build on reform successes, particularly by adopting a more prudent fiscal policy stance, innovation promotion, and progressive labour market regulations.

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 (Jan 2017)

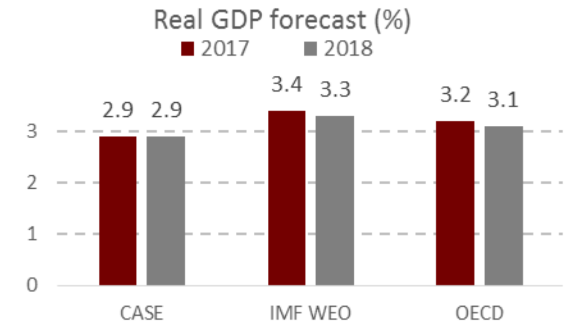
8.6%

Up from 8.3% Dec 2016

NPB Base rate

1.5%

From 2% March 2015



This week: On March 22nd Vladimir Putin reappointed the current head of the Bank of Russia, Elvira Nabiullina, for a new 5-year term (as opposed to the usual 4-year term). In the announcement, the Russian president highlighted his appreciation for her work in stabilizing the country’s banking and financial sector during a very deep economic crisis.

GDP (Q3 2016)

-0.4% y/y

Up from -0.6 in Q2

Inflation (Feb 2017)

4.6% y/y

Down from 5.0% in Jan

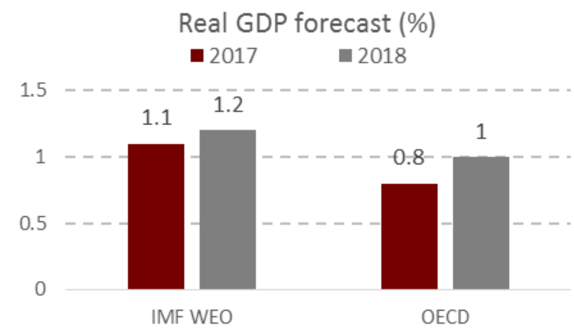
Unemployment (Feb 2017)

5.6%

No changes from Jan

CBR Base rate

10%



This week: Economic sentiment remains stable in Germany, recording a marginal uptick as economic dynamism has overcome uncertainty somewhat. According to the latest ZEW Report, the economic sentiment indicator recorded a 2.4-point improvement in March, reaching 12.8 points, still below the country’s long term average of 23.9 points. The “current economic situation” indicator remains high, climbing by 0.9 points to 77.3.

GDP (Q4 2016)

1.2% y/y

Down from 1.5% in Q3

Inflation (Jan 2017)

2.2% y/y

Up from 1.9% in Jan

Unemployment (Q3 2016)

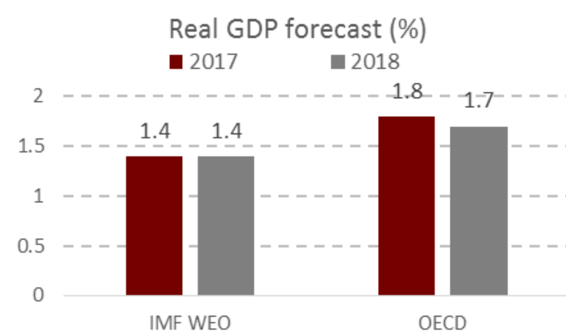
4.2%

Down from 4.28% in Q2

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: Revised data for Q4 2016 show a GDP increase of 4.7% y/y, bringing GDP growth for the entirety of 2016 to an estimated 2.0-2.3%. Last year, agriculture was an important driver of growth, with grain production up by 30% and an intensification in food exports to the EU. The doubling of the minimum wage in January increased the incomes of four million workers, giving a boost to consumption, although at the cost of higher inflation.

GDP (Q4 2016)

4.7% y/y

Up from 2.1% in Q3

Inflation (Feb 2017)

14.2% y/y

Up from 12.6% in Jan

Unemployment (Q3 2016)

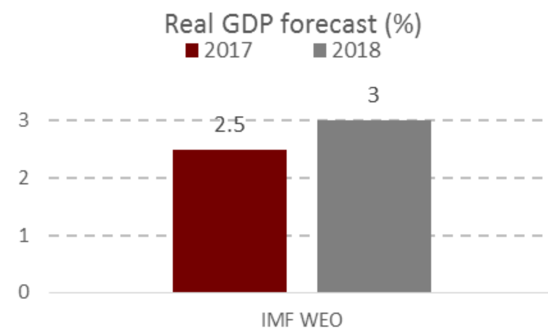
9.2%

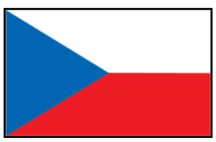
Down from 9.3% in Q2

NBU Base rate

14%

Unchanged from Jan 2016





This week: According to the latest data released by Eurostat, the Czech Republic had the lowest rate of unemployment (3.4%) in the EU for a second consecutive month, a result of a the country's growing economy. In other news, a removal of the upper cap on the EUR/CZK exchange rate is expected to be announced by the Czech National Bank as soon as April.

GDP (Q4 2016)

1.9% y/y

1.9% in Q3

Inflation (Feb 2017)

2.5% y/y

Up from 2.2% in Jan

Unemployment (Q4 2016)

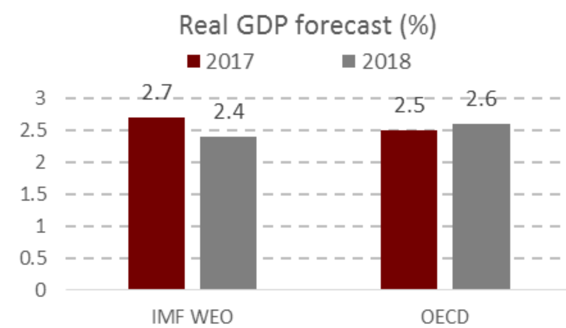
3.6%

Down from 4.0% in Q3

CNB Base rate

0.5%

Unchanged since Nov 2012



This week: Hungary ranked 21st on the World Economic Forum's global Energy Architecture Performance index (EAPI), ahead of many advanced economies, such as the Netherlands (33), South Korea (43), Japan (45), the United States (52), Australia (53), and China (95). The country scored highest in the electrification rate (perfect score of 100) and also fared well in terms of energy efficiency in the transportation sector.

GDP (Q4 2016)

1.6% y/y

Down from 2.2% in Q3

Inflation (Feb 2017)

2.9% y/y

Up from 2.3% in Jan

Unemployment (Q4 2016)

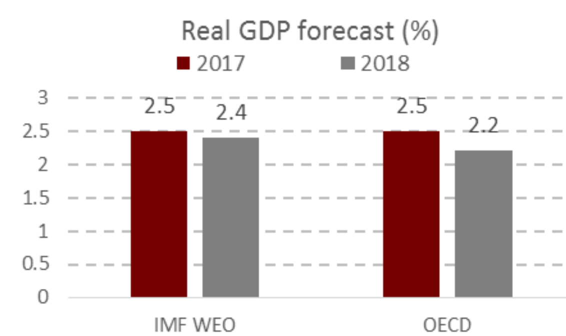
4.4%

Down from 4.9% in Q3

MNB Base rate

0.9%

From 1.05% May 2016



Other CASE products

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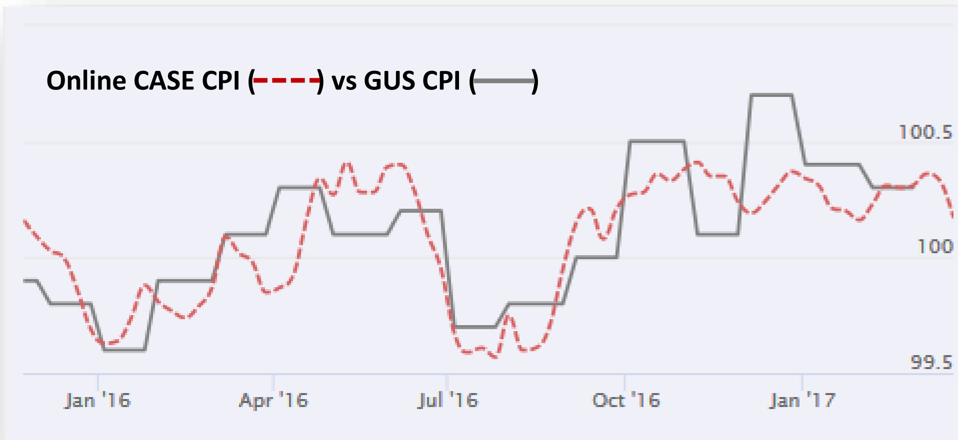
The weekly online CASE CPI

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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