showCASE
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Overview: In this week's edition of showCASE, our guest writer Matthias Luecke debates the future of the EU's asylum policy in view of the upcoming German elections. We are also taking a closer look at Uzbekistan's recent decision to float its exchange rate and the possible implications of this move for the country's economy.

EU Asylum Policy after the German Election: The Case for Flexible Solidarity among EU Member States

By: *Matthias Luecke, CASE Fellow; Academic Co-Director, Mercator Dialogue on Asylum and Migration in Europe (MEDAM)*

Source: Reuters

In the campaign for the German federal election, schedule to take place on September 24, asylum policy has only recently entered the public debate. The turning point may have been the televised debate on September 3 between Chancellor Angela Merkel and her main contender, Martin Schulz, the former President of the European Parliament. The pair spent a large portion of their air time discussing asylum policy and the economic and social integration of refugees. However, and notably, they did not disagree on anything substantial.

This seems remarkable because the German government's approach has shifted radically from (almost) inviting Syrian refugees to Germany in the autumn of 2015 to helping to shut down the Eastern Mediterranean and Western Balkan refugee routes in the spring of 2016 (and, more recently, the Central Mediterranean route as well). Yet, this shift in policy was neither acknowledged by the Chancellor nor challenged by the contender; indeed, this issue has not been raised by any other mainstream party. Voters critical of prevailing asylum policy would have to turn to the radical left (Linke) who would invite to Germany anyone that wants to live there (although one parliamentary leader, Sahra Wagenknecht, now says this is a "vision" rather than a policy proposal); or to the radical right (Alternative for Germany) who, given their way, would eliminate right to protection for asylum-seekers.

The absence of serious debate on the merits of Germany's asylum policy is unfortunate because all is not well. It is true that far fewer migrants are now dying in the Mediterranean, but this is mostly because fewer are getting on boats in the first place. However, migrants in Libya are still stuck in deplorable conditions; they need external support, including from the EU, to return to their countries of origin. Moreover, EU assistance to three million Syrian refugees hosted by Turkey, following the controversial 2015 EU-Turkey deal, helped to improve substantially the living conditions of many refugees by virtue of providing cash assistance for subsistence needs, better access to health care and education, and gradually expanding employment and business opportunities (all of which made many refugees remain in Turkey rather than move on to Europe). Nevertheless, both Angela Merkel and Martin Schulz took a dire view of future EU-Turkey relations, raising the question of how cooperation for the benefit of refugees will be organized.

Going forward, the EU therefore needs a three-pronged strategy for its refugee policy: First, robust agreements with the countries of origin of migrants and transit from the Middle East all the way to West Africa are required to curb irregular migration to the EU, while also ensuring that displaced individuals are effectively protected close to their countries of origin. More funding for the UN High Commission on Refugees (UNHCR) to ensure that refugees can lead decent lives in their countries of first asylum might further help to achieve this objective.

Second, there is always a steady stream of asylum-seekers to the EU, and their number may well surge again at short notice. Therefore, the EU Member States of first arrival (mainly Greece and Italy) need the logistic and administrative resources in place to accommodate a large number of asylum-seekers when necessary, process asylum applications quickly, return unsuccessful applicants to their countries of origin or other safe countries, and offer secure livelihoods to those who are allowed to stay. Most of these services need to be provided in EU Member States of first arrival for reasons of practicality and efficiency, but it would be unfair if these Member States had to bear all the cost for these services themselves. The benefits of free travel are enjoyed by all EU Member States that participate in the Schengen area. Therefore, responsibility for managing the external border and receiving asylum-seekers should also be shared.

More support for non-EU countries that host refugees and for EU Member States that receive asylum-seekers would go a long way towards equitable burden-sharing. However, when small countries receive a huge number of asylum-seekers in a short time, such support may not go far enough. Therefore, the third component of a comprehensive EU asylum strategy must be opportunities for resettling recognized refugees directly from third countries to the EU (particularly through UNHCR) and a commitment to fairly distributing recognized asylum-seekers among EU Member States (rather than expecting Member States of first arrival to host them all, as the present Dublin system would have it).

Given the diverse tasks implied by this comprehensive refugee policy, it seems clear that not all Member States will (or even should) participate equally in each and every task. Also, while it would be desirable to allocate many responsibilities to the EU-level for efficiency reasons, relevant institutions would take time to develop and Member States contributions to the EU budget would need to be raised significantly; this would require a consensus among Member States that may be difficult to achieve. Furthermore, individual Member States may already be addressing potential refugee situations in ways that are difficult to categorize but are still important, such as Poland granting work permits to many Ukrainian refugees who might otherwise apply for asylum in Western Europe.

Under these circumstances, the "optimal" task allocation to Member States requires that they should be able to specialize in line with their political preferences, geography, income level, history, and immigration experience. The tasks involved are as diverse as hosting recognized refugees, funding UNHCR for the upkeep of refugees in third countries, securing and managing the EU's external borders, seconding administrative staff and border guards to Greece and Italy, and offering legal employment opportunities to medium- and low-skilled immigrants to establish legal migration as an alternative to irregular migration.

Many problems exist, of course. A rigid quota system for allocating refugees to Member States may not be workable if it obliges some Member States to receive refugees that do not want to live there in the first place (even though the European Court of Justice has recently confirmed that a quota system could be established by qualified majority rather than consensus). Portugal with its very welcoming approach towards refugees, within its limited financial means, provides a warning: many asylum-seekers who went there from Italy or Greece found it difficult to make a living and moved on to other EU Member States, where they found diasporas to connect with and more favorable employment prospects and social support systems.

When the German election is over, the European Commission and the Member States should put the concept of flexible solidarity center-stage as they develop a comprehensive refugee policy and asylum system. However, while the notion of flexibility is easy to accept – Member States contribute in line with their preferences and capacities – there must also be effective solidarity: All elements of the policy must be implemented and the financial burden equitably shared. A useful starting point would be a formal monitoring system for members' contributions and an associated peer review process, similar to the Trade Policy Review Mechanism of the WTO. This would give all parties a better understanding of both what needs doing and what is already being done by whom. Beyond monitoring, the best way of sharing the financial burden equitably is to have the EU budget pay for as many expenses as possible and increase Member States contributions accordingly.

****This piece is based on a 2017 MEDAM Assessment Report available for here*.

An Uzbekistan Spring

By: *Ellam Kulat, CASE Analyst*

Late President Islam Karimov, who passed away last year, left Uzbekistan in a precarious economic state, including heavy governmental interference in the economy, human rights abuses, and a weak currency inexplicably pegged to the US dollar. However, new President Mirziyoyev has initiated a number of reforms, the latest one being floating the Uzbek som as of September 5, 2017.

The enactment of the presidential order saw the som finally becoming subject to market forces, consequently seeing its value plummet by 50% , down to 8,100 soms per dollar – below the 7,700/dollar black market rate – which made it the most devalued currency globally in 2017. The new exchange rules introduced free currency exchange by individuals and limitless purchase by legal entities for trade and non-trade payments, and abolished the rule that required all foreign currency profits to be sold.

Such a change is welcome and long overdue. Pegging of the som was part of a strategy to close and isolate the country, focusing on stability over the messy benefits of the market. Such an approach offered little, if any, incentive for foreign investors, in spite of the country's abundant natural resources and its potentially significant domestic market of over 31 million people. Due to Soviet-style regulations requiring businesses to sell and buy foreign currency at unfavorable official rates, few foreign companies operated within Uzbekistan's borders. These rules, bundled with high state of corruption in the country (ranked 156th of 176 countries on the Transparency International's Corruption Perception Index of 2016), as usual benefitted only a few politically-connected individuals, some of whom are also suspected of being the masterminds behind the black market foreign exchange. Employment levels were also harmed, with millions of Uzbeks becoming migrant workers in Russia.

Despite the threat of inflation after such a drastic currency devaluation, Julius Yusupov, an economist and Director of the Centre for Economic Development in Uzbekistan, predicts that consumer prices in the country should be relatively stable. Much of this is due to the market having already substantially discounted the government's unrealistic rates, informally applying the black-market rates on the prices of majority of the goods and services. While this assessment is contentious, in our opinion this may very well be true: Uzbekistan has experience in dealing with devaluations (having executed several of them under its pegged system over the years), maintains a reasonable (13%) debt to GDP ratio, has sufficient foreign exchange reserves, and a budget that is projected to reach a 0.2% surplus. Moreover, in order to prevent double digit inflation, in June this year the Central Bank of Uzbekistan (CBU) increased the refinancing rate by 5% after years of keeping it unchanged.

The undeniably positive side of the change in the currency regime is the potential to make Uzbekistan more attractive in the eyes of prospective investors and consequently boost the influx of Foreign Direct Investment (FDI). Uzbekistan was among Central Asia's main FDI destinations in the late 20th century, with FDI flows increasing from USD 25 million in 1995 to USD 167 million in 1997 (as reported by the Asian Development Bank). Some foreign companies already operating in the country, such as telecommunication operator VEON, have also already welcomed liberation of the exchange rate, despite resulting reductions in the dollar-denominated value of the business.

The move was also commended by the International Monetary Fund (IMF), which discussed the then-planned changes with Uzbek authorities during a visit to Tashkent in July this year. Mr. Jaeger, the head of the IMF delegation, said the reform plans were economically significant in creating jobs and promoting growth in the country, on the condition that they were timely and effectively implemented. The foreign exchange rate reforms, were "especially welcomed" and expected to increase the country's external competitiveness, attract FDI flows, and enhance the capabilities of the CBU to control inflation through stability-oriented monetary policy. In order for the reform to be successful, though – IMF warned – it needs to be accompanied by the reorganization of state controlled banks and state owned enterprises.

President Mirziyoyev's increased efforts to attract foreign investment and open the economy are already bringing results. In March, the European Bank for Reconstruction and Development resumed lending to the country. But political will needs to be sustained to enact further, broader-ranging reforms. The signs from Tashkent are encouraging, as Mr. Mirziyoyev has invited Human Rights Watch back to the country after years of absence, suggesting that an early spring has indeed already started in the country.

This week: The Polish government announced it plans to increase the minimum wage in 2018 from PLN 2000 to PLN 2100 (approximately EUR 490). The minimum wage will amount to 47% of the average wage (currently PLN 4500), with the long-term target level being 50% of the average wage. Since 2000, the minimum wage has grown by almost 300%, far outpacing inflation and productivity gains.

GDP (Q2 2017)

4.4% y/y (est.)

Up from 4.2% in Q1

Inflation (Aug 2017)

1.8% y/y

Up from 1.7% in July

Unemployment (July 2017)

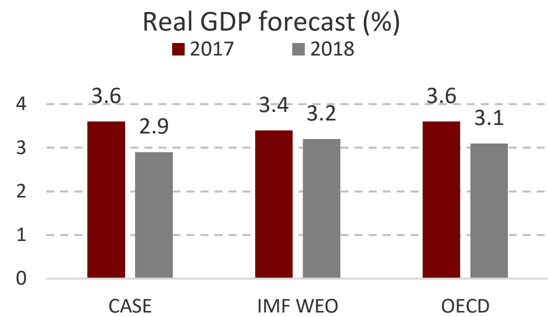
7.1%

Unchanged from June

NBP Base rate

1.5%

From 2% in Mar 2015



This week: The Russian Ministry of Finance announced on September 13th that it will be trading 2018 and 2030 bonds for bonds maturing in 2027 and 2047 respectively. Bids are expected to close on the 19th of September. The 2018 bonds will be charged at 107.8% of its nominal value, while the 2030 bonds will be at 117.5% of their value.

GDP (Q2 2017)

2.5% y/y

Up from 0.5% in Q1

Inflation (Aug 2017)

3.3% y/y

Down from 3.9% in July

Unemployment (July 2017)

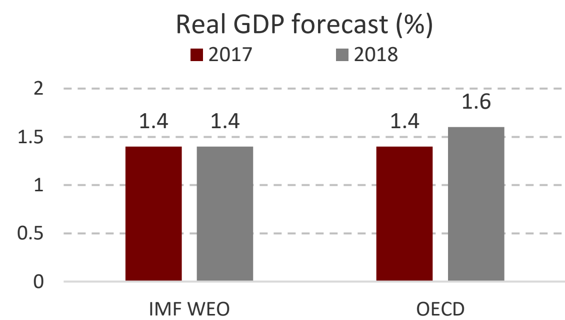
5.1%

Unchanged from June 2017

CBR Base rate

9 %

From 9.25%



This week: Vodafone said in a statement that it is to invest as much as 2 billion EUR to set up fibre-optic business connections in Germany. Slow internet connections in the country have threatened to reduce the competitiveness of its export sector. The move is expected to lead to a 1-2% rise in service revenue growth.

GDP (Q2 2017)

2.1% y/y

Up from 2.0% in Q1

Inflation (Aug 2017)

1.8% y/y (est.)

Up from 1.5% in July

Unemployment (July 2017)

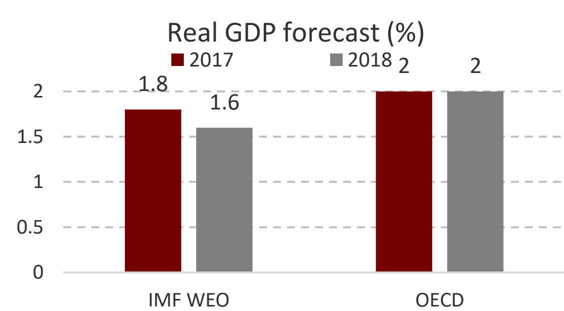
3.6%

Unchanged from June

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: The National Bank of Ukraine approved Resolution no. 88, coming into effect on September 13th, easing the procedure of raising funds from international financial institutions by residents. The European Bank for Research and Development's (EBRD) Director for Ukraine said the move will encourage the flow of foreign investment into the country and contribute to the development of the investment climate.

GDP (Q2 2017)

2.4% y/y

From 2.5% in Q1

Inflation (August 2017)

16.2% y/y

Up from 15.9% in July

Unemployment (Q1 2017)

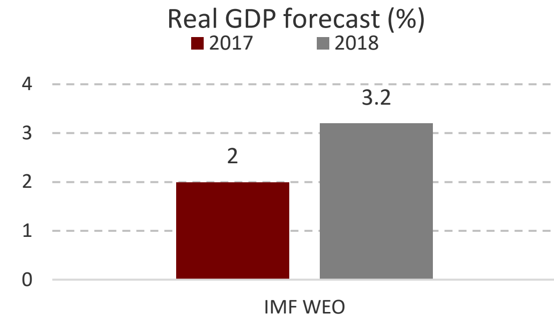
10.5%

Up from 10.0% in Q4

NBU Base rate

12.5%

From 13.0% in May



This week: The Czech prime minister announced on September 11th that public sector employees would receive a 10% increase in wages, with teachers being granted an exceptional 15% raise. The changes are meant to take effect from November 1st. The Czech Republic has experienced record quarterly growth, and the unemployment level in the country is the lowest in the EU, prompting trade unions to demand higher wages.

GDP (Q2 2017)

4.7% y/y (est.)

Up from 3.0% in Q1 2017

Inflation (July 2017)

2.5% y/y

Up from 2.3% in June

Unemployment (Q2 2017)

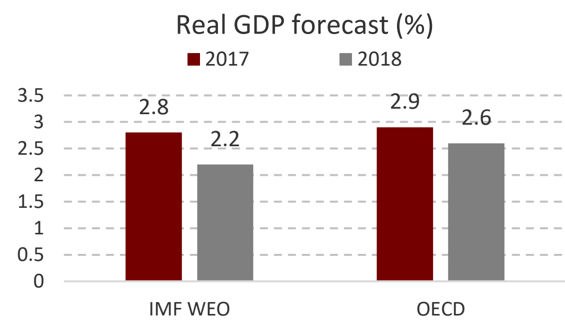
3.0% (est.)

Down from 3.4% in Q1

CNB Base rate

0.25%

From 0.05% (4 August 2017)



This week: Hungary's central Magyar Nemzeti Bank (MNB) reported an increase in the country's banking sector liquidity. The announcement, based on preliminary data, said that in August the banking sector required reserves equal HUF 187.9 billion, exceeding the mandatory reserves requirement by HUF 11.8 billion.

GDP (Q2 2017)

3.2% y/y

Down from 4.2% in Q1

Inflation (July 2017)

2.1% y/y

Up from 1.9% in June

Unemployment (Q2 2017)

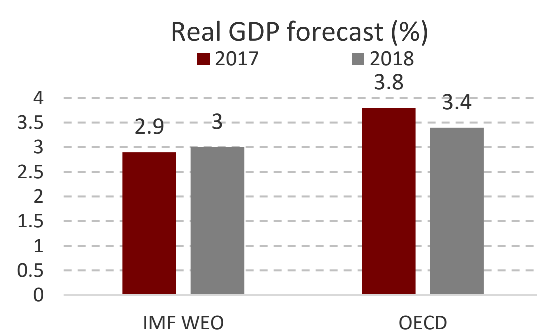
4.2%

Down from 4.3% in Q1

MNB Base rate

0.9%

From 1.05% May 2016



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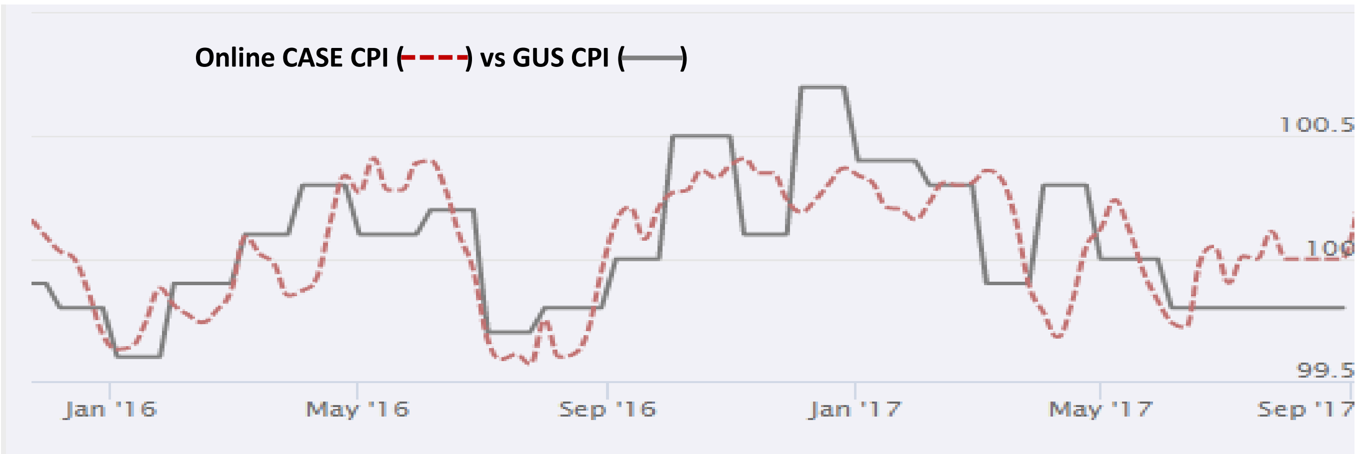
Center for Social and Economic Research

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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