showCASE
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Overview: In this week's edition of showCASE, we analyze why Saudi women, despite being allowed to drive, are still not in the driving seat in the Kingdom. We also take a closer look at the Pyrrhic victory of Angela Merkel and challenges lying ahead of both her Christian Democratic Union (CDU) Party and the country as a whole in the aftermath of the latest elections to Bundestag.

"I shall allow it:" Saudi Arabia's drive to the 20th century

By: *Katarzyna W. Sidło, CASE Political Economist*

In a rare display of international unity, last week the world cheered the announcement by Saudi Arabian authorities allowing their female citizens to drive. The decision to lift the much-derided ban was welcomed ("it's a long-overdue but important step") and mocked perhaps an equal amount of times, with the only people apparently not amused being a number of fellow Saudi males ("the women of my house won't drive").

The news itself, while hoped for for years, came as a surprise. In the recent past, women were jailed for taking the driver's seat, with various justifications offered: some of the more outlandish claimed that driving would damage women's ovaries, put them in danger of being raped, make them homosexual or turn into sex maniacs, or in general overload their brains. What changed to occasion such a swift *volte face*?

Photo: Reuters

It is possible that the move was merely an attempt to improve the kingdom's public image or/and a pragmatic step towards diversification of its oil-driven economy. At the same time, however, neither objective will be met, if more and deeper reforms do not follow.

Firstly and most importantly, just because women are (or technically speaking – will most probably be) allowed to drive by the state, it does not automatically mean they will be granted permission to do so by their male guardians (*mahrams*). Men control virtually every aspect of their female relatives' lives, from opening a bank account, working outside of the house, and applying for a passport, to having surgery, leaving the country, and getting married. Indeed, not being able to drive by themselves has been a substantial barrier preventing many women from getting a job, but not the only one. That does not mean that the lifting of the ban is not a step in the right direction: public transport in the country is severely underdeveloped and in any case for a female to commute on her own is not socially conceivable. Moreover, the ban harms poorer families disproportionately, as not every family can afford a private driver, while Uber, highly popular among Saudi women (who constitute an estimate 70-90% of its clients in the kingdom), is also subject to social norms. Once the new law comes into force, women that will be able to afford a vehicle (or will take over cars from their male private drivers) may find it easier to enter the job market.

As a side effect, employment may be lost by at least part of an estimated 1.4 million of mostly South Asian chauffeurs. The USD 8.8 billion that they are paid each year will stay in the pockets of Saudi families, boosting their household budgets and spending power (as well as the Kingdom's balance of payments). Some of this money will probably be spent on new vehicles, although it is unlikely that there will be a substantial increase in car sales.

More reasonable may be expectations that putting an end to the farcical driving ban is a ploy to strengthen investor confidence in Crown Prince Muhammad ibn Salman, the apparent mastermind behind the move, and his ability to reform the country. Letting women drive is perceived as a part of a wider plan (the so-called Vision 2030) aimed at opening the Kingdom and preparing its economy for existence in a post-oil world. Cultural moves recently made along similar lines include plans to lift the ban on cinema and create luxury bikini- and alcohol-friendly zones in an attempt to develop a tourist industry that is not entirely dependent on pilgrims.

What the lifting of the driving ban highlights, however, is that the Kingdom is overlooking a great source of human capital, one which is still for the most part locked-up and inaccessible: Saudi women. Making women's lives tiny bit easier seems almost like a corollary to the recent policy, as women are still far from being treated as equal citizens (and a set of car keys will not change that). Going forward, it would be crucial for the Saudi economy to remove the guardianship system, "allowing" women not only to drive to work, but also choose to have a job (or a car) on their own. As the old Arab saying goas, however, everything in this world has its time. *Shway*, *shway*, *inshallah*.

*To read more about women's empowerment in the MENA region, see our latest report for the European Committee of the Regions "Women's Empowerment in the Mediterranean Region".

Fallout from German elections: What next for the European economy?

By: *Ellam Kulati, CASE Analyst*

Photo: Reuters

As anticipated, the Christian Democratic Union (CDU) Party won a plurality with 33% of the vote in the elections to German federal parliament held on Sunday, September 24th. The Pyrrhic victory may have secured Angela Merkel a fourth term as German Chancellor but did not give her enough power to comfortably rule the country. The results of the CDU and its sister party the Christian Social Union (CSU) were its worst showing in nearly seven decades; arguably, what they lost in votes was picked up by the far-right Alternative for Germany (AfD), which gained roughly 12.6% of seats in Bundestag, entering serious politics for the first time since its establishment four years ago.

Ms. Merkel now purposes to form a coalition before December 25 and to fill the 316 seats needed to govern. Who she will join forces with will likely determine the focus of the German politics for the next four years.

Education, investment, inequality, pensions, and (a possibly Russia-friendly) foreign policy are among the main areas the Social Democratic Party (SPD), CDU's incumbent partner, would want to focus on, but the SPD has already said it would not remain in a "grand coalition." Indeed, the SPD's share of the vote plummeted to 20.5%, a historic low, and the party needs s substantial revamping if it is to remain relevant.

With the SPD bowing out, this leaves only smaller parties as plausible coalition partners. The Greens, an unlikely choice, would charge as a price for their acquiescence to a coalition a greater focus on climate change and promotion of a more integrated Europe. However, diverging stances on issues such as on taxation and defense spending mean that the Black-Green coalition has many hurdles to overcome, despite a history of cooperation between the two parties at the *Land* level (in the state of Baden Wuerttemberg).

More plausible for the CDU/CSU seems to be a coalition with the Free Democrats Party (FDP), the economic liberals who are re-entering the Bundestag after a four-year hiatus. Such a coalition is possible, but only if both parties manage to reach consensus on how future cooperation with Turkey and migration issues should be handled in the future. Such a government would most likely concentrate on deregulation, cutting taxes, and security issues, as the two parties have previously done while co-governing in North Rhine-Westphalia, the most populous state of Germany. However, the CDU cannot govern with the FDP alone, and would need a Black-Green-Yellow coalition involving the CDU/CSU alongside both the FDP and the Greens (commonly termed the 'Jamaica Coalition').

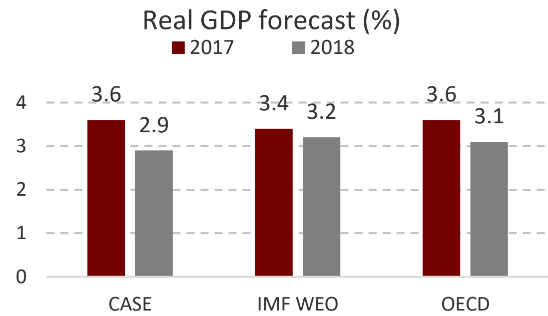
The road ahead is both tricky to make and having far-reaching consequences, not only for Germany, but also for the future of regional and economic integration in Europe. Internally, the country's economy faces potentially troublesome times ahead, with the steel industry deteriorating, calls for the abolition of the combustion engine being growing louder, and the diesel crisis affecting thousands of German employees intensifying. On the top of this, Germany will have to find a way to efficiently and effectively integrate hundreds of thousands of migrants and refugees it has already admitted, and decide how to answer NATO's demands to increase its defense spending.

How the situation in Germany unfolds will also necessarily have an impact on the country's foreign policy, most crucially on issues such as crises in Ukraine and Turkey, as well as European Union's internal struggles. For example, before the elections, Ms. Merkel has seemed to reach an agreement with French President Emmanuel Macron on issues involving introduction of a European finance minister, a common budget for the Eurozone, European parliament, and more coordinated reforms. Whether her new coalition government will be able to follow this course is uncertain. Although the Chancellor confirmed her belief that Germany could do with more Europe – especially if it leads to increased employment, competitiveness, and leverage of the European Union – closer cooperation within EU may be placed on the altar of regaining votes of the nationalists lost to AfD.

Not all is gloomy, though, at least for CDU. Although the party is weakened, hammering out a set of political allies and working on maintaining the current economic progress in Germany may enable them to rise from the proverbial ashes and win back their doubters just as they did during Angela Merkel's first term, in 2006. Germany, on the other hand, faces more challenges beyond the political survival of Ms. Merkel. The not utterly unforeseeable but still extremely worrisome success of the xenophobic far-right AfD does not bode well for the future. Even if the party will most likely have little direct influence on politics in the upcoming years, their vote total cannot be ignored, especially given how AfD was successful mainly in the former East Germany. At some point, the CDU will have to bring those voters into the fold. Ms. Merkel may have survived temporarily survived her own response to the refugee crises, but what this policy sparked and how Germany handles the fallout may be even more challenging.

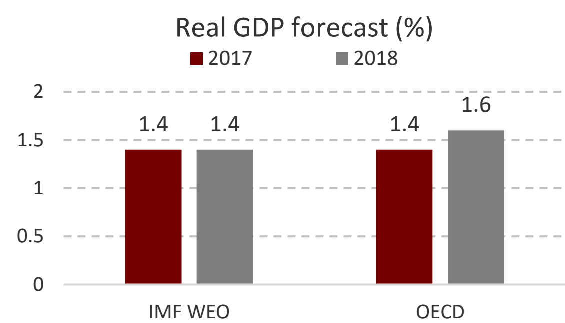
This week: The Central Statistical Office estimates that prices of goods and services in September increased by 0.4% month-on-month and by 2.2% year-on-year. This increase constitutes the highest growth in prices since February. September's inflation is related to rising prices of food and fuel, with fuel prices growing by as much as 3.6% m-o-m.

GDP (Q2 2017, est.)	Inflation (Sep 2017, est.)
4.4% y/y	2.2% y/y
Up from 4.2% in Q1	Up from 1.8% in Aug
Unemployment (Aug 2017)	**NBP Base rate**
7.0%	1.5%
Down from 7.1% in July	From 2% Mar 2015



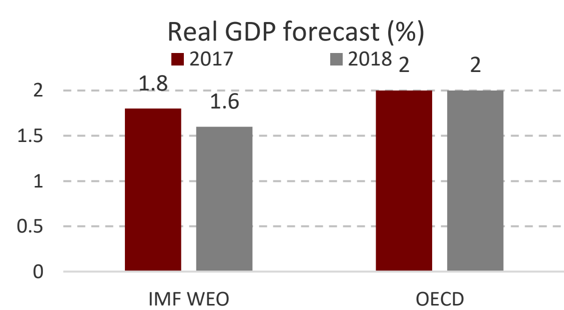
This week: On September 27th, Russia signed an agreement with Myanmar that will set up a trade mission in Yangon. Bilateral trade between the two countries has experienced a 61.2% (year-o-year) increase in 2017, up from a trade turnover of USD 258 million in 2016. In other news, Russia climbed to 38th (up from 43rd) place in a World Economic Forum ranking on global competitiveness Index (GCI), due mainly to improvements in the macroeconomic environment.

GDP (Q2 2017)	Inflation (Aug 2017)
2.5% y/y	3.3% y/y
Up from 0.5% in Q1	Down from 3.9% in July
Unemployment (Aug 2017)	**CBR Base rate**
4.9%	8.5 %
Down from 5.1% in July 2017	From 9%



This week: Germany's Siemens is expected to merge with France's train producer Alstrom, according to a statement by the latter issued on September 26, 2017. Siemens is to have a 50% stake in the new industry conglomerate, which is meant to compete with China's CRRC, the largest company of its type in the world. The news led to a 1.2% and 8% gain in shares of both Siemens and Alstrom respectively at the beginning of trade on September 27.

GDP (Q2 2017)	Inflation (Aug 2017)
2.1% y/y	1.8% y/y (est.)
Up from 2.0% in Q1	Up from 1.5% in July
Unemployment (July 2017)	**ECB Deposit rate**
3.6%	-0.4%
Unchanged from June	From -0.3% Dec 2015



This week: In a statement issued on September 25, the Ukrainian government noted a 25.4% (year-o-year) increase in construction from January through August, up to USD 2.04 billion. The announcement confirms the recovery of this sector from a crisis that ended in 2016, when 13.1% growth was reported for the first time after a four-year-long hiatus.

GDP (Q2 2017)

2.3% y/y

From 2.5% in Q1

Inflation (August 2017)

16.2% y/y

Up from 15.9% in June

Unemployment (Q2 2017)

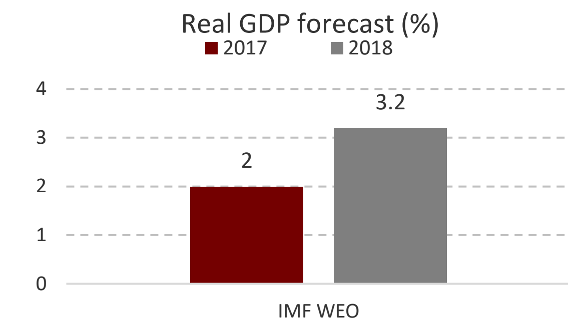
9.1%

Down from 10.5% in Q1 2017

NBU Base rate

12.5%

From 13.0% in May



This week: The government approved a draft budget for 2018 on September 25. The budget expects CZK 1,314.5 billion in revenues to offset CZK 1,364.5 billion in spending. A reduction of the state deficit by CZK 10 billion, CZK 30 billion lower than the deficit approved last year, was also expected. Education, sport state salaries, and social benefits are among the areas the government projects to increase spending.

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)

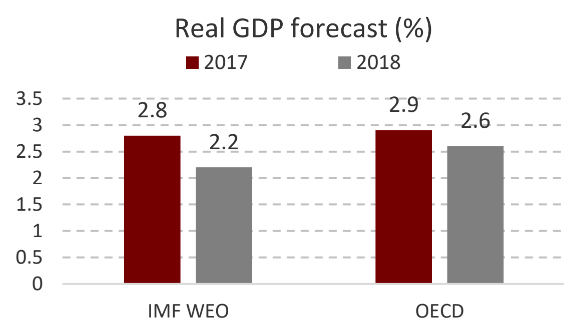
3.0% (est.)

Down from 3.4% in Q1

CNB Base rate

0.25%

From 0.05% (4 August 2017)



This Week: Hungary held its three-month treasury bill auction on September 26, the same day the country's debt agency announced a deal that replaces the dollar-denominated bonds it issued with longer-dated Euro bonds. This is in the midst of a five-month low valuation of the forint and continued loosening of the monetary policy by the central bank.

GDP (Q2 2017)

3.2% y/y

Down from 4.2% in Q1

Inflation (August 2017)

2.6% y/y

Up from 2.1% in July

Unemployment (Q2 2017)

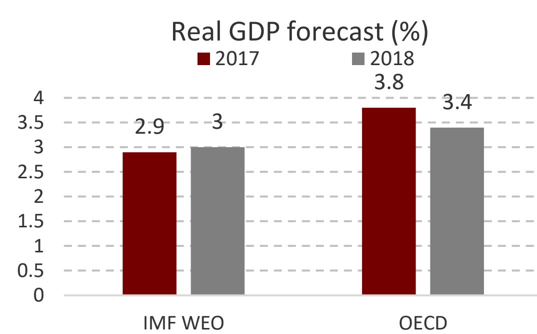
4.2%

Down from 4.3% in Q1

MNB Base rate

0.9%

From 1.05% May 2016



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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