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

Overview: For the first issue of 2018 our team looks back at the highlights and lowlights of 2017, focusing on the most important events in Poland, Europe, and all over the world: from a string of national and regional elections in the European Union, through collapsing economy of Venezuela, to Bitcoin's astonishing appreciation and troubles in the Gulf.

2017: The Year in Review

Photo: G7 Summit in Taormina, Italy, May 2017. *Source:* Reuters

With the start of a new year, it is only fitting that we review the key events of 2017, in order to understand what might be in store for Central and Eastern Europe and the world in 2018. This past year was a turbulent one for **Poland**. The "good change" implemented by the Law and Justice (PiS) government prompted the European Commission to trigger Article 7 against the country in an attempt to halt legislation that gives more sway to politicians over the judiciary system. The never-used-before procedure may even lead to Poland losing its voting rights in the bloc.

At the same time, however, the economic situation in the country continued to improve, and 65% of Poles believed that 2017 as a good year for the well-being of themselves and their families. Record low unemployment rates (6.5%), the lowering of the retirement age to 65 for men and 60 for women, as well as the "Family 500+" program, were among factors behind this satisfaction. However, despite a positive macroeconomic outlook for 2018 (CASE believes the GDP will grow by 3.4%), the fact that current growth is being stimulated predominantly by consumption and not investments, as well as increasing costs of social benefits, are a cause for concern in the medium- to long-term.

Even more tempestuous was the passing year for the **European Union**. In March, the United Kingdom officially launched its procedure for exiting the EU. Thus far, Brexit negotiations have been sluggish and difficult, with EU officials calling British negotiators anything from "ill-prepared" to from "a different galaxy," and PM Theresa May has struggled to maintain any kind of internal support. In the southern part of Europe, Catalonia's independence referendum in October, declared illegal by the Spanish Constitutional Court, led to riots and to one of the biggest political crises in **Spain's** history.

The EU's unity has been further threatened by increasing support across the continent for political parties espousing anti-EU or anti-immigrant sentiments (and in most cases, both). The populist wave seen over the past three years is certain to remain a challenge in 2018, especially in case of Poland and Hungary, but also in other countries where populist parties have won support during national and local elections: prominently, this includes **Austria**, where Sebastian Kurz was named Chancellor and formed a coalition government between his own conservative People's Party and the anti-EU Freedom Party.

In **France**, on the other hand, populist Marine Le Pen, who threatened to take the country out of the EU, suffered a heavy defeat to Emmanuel Macron, who won over voters promising a "profound transformation" of the country and the EU. Whether or not Macron can produce this in 2018 is doubtful, but his election was seized upon by EU proponents as holding back the populist wave. However, in **Germany**, although elections were won once again by the incumbent Chancellor Angela Markel and her Christian Democratic Union, populist far-right Alternative for Germany (AfD) party received a record 12.6% of all votes and entered the Bundestag. Coalition talks still continue on forming a new government.

The EU also faced problems over its **external policies**. Member States were divided over the prolongation of economic sanctions against **Russia**, first introduced in 2014 over the illegal annexation of Crimea. Another bone of contention was the planned new Russian gas pipeline Nord Stream 2, conspicuously backed by Germany, but opposed by the Baltic and Eastern European countries. Divisions over relationship with Kremlin shown once more that a common EU foreign policy continues to remain in wishful thinking.

Even more challenging for the EU was dealing with the issue of **migration**. While the situation has calmed down significantly since 2015 when the migrant crisis started, over 146,287 migrants still arrived at Europe in the first three quarters of 2017. Member States are deeply divided over how the issue should be tackled, with Visegrad countries promoting the idea of "effective solidarity" over the relocation mechanism (in reality, a quota system) favored by states such as Italy, Greece, and Germany.

In the **United States of America**, Donald Trump came into office promising to "make America great again". One year into his presidency, he is leading a country that is as politically divided as ever and is less effective in projecting soft power. Mr. Trump, whose political activity is highly visible on Twitter, instituted a temporary travel ban from certain Muslim countries, pulled the USA out of the Paris Climate Agreement and the Trans Pacific Trade deal (TTP), and has threatened on several occasions to pull the country out of the NAFTA agreement. Despite his personal volatility, he has also overseen a process of de-regulation and a landmark tax reform; because of this, the US economy is doing well, with the unemployment at its lowest in 17 years, the stock market booming, and GDP growth accelerating. At the same time, however, the federal budget deficit is growing and government spending has not been cut back as promised.

In the Middle East, Crown Prince Mohammed bin Salman, the de facto ruler of **Saudi Arabia**, has pursued a risky path of foreign interventions destabilizing the region. Apart from sustaining a devastating war in Yemen, he caused a major diplomatic crisis in the Gulf region by conspicuously breaking ties with **Qatar,** ostensibly over its "funding of terrorism." Despite the Crown Prince's wishes, Qatar is faring quite well and enjoys the support of **Turkey**, whose president's Recep Tayyip Erdogan's ambition clearly go beyond extending power in his own country (achieved thanks to a win in a controversial referendum last April). Saudi attempts at interfering in the affairs of **Lebanon** did not end exactly as planned, either, with Lebanese PM Saad Hariri, who previously announced his resignation in a TV interview from a hotel room in Riyadh, returning to the country and resuming his post. The deadlock was solved after an intervention by the French president Macron, who invited Mr. Hariri to Paris, allowing both sides of the conflict to save faces.

Major crises were also witnessed in **Venezuela** as the country's socialist system predictably collapsed. President Nicolas Maduro attempted to defuse protests by holding elections for the Venezuelan Constituent Assembly, appropriating prerogatives of the opposition-controlled National Assembly. The results of the July elections, as well as the manner in which they were conducted, were contested not only by the opposition and Venezuelans themselves, but also by the international community. While Mr. Trump's threat of a "military option" never materialized, the country's once-vibrant economy is at the verge of collapsing. With inflation reaching over 4,000% annually, Mr. Maduro announced a creation of Venezuela's own oil-backed cryptocurrency, a *petro*. The November restricted default of the country is not, however, likely to encourage investors to queue behind the new currency.

Another currency, **Bitcoin**, on the other hand experienced a spectacular year. The cryptocurrency, whose value skyrocketed by 1,400% over the past 12 months (from USD 1000 to USD 14,000 at the end of the year), reached a peak of USD 20,000 in December before falling again. Such volatility and lack of regulation on its use led different states to adopt varying strategies to try and control what they perceive as competition. Some countries, such as Japan and Mexico, have accepted it as a legal currency, while many authoritarian states, such as Russia and China, banned its use. A half-way solution was implemented by Australia, Malaysia, Singapore and Vietnam, all of which introduced their own regulations concerning Bitcoin in order to avoid its use for money laundering.

Finally, the main theme and indeed the phrase of the year was "**fake news.**" Disinformation is believed to have affected public moods and election results all over the world. But the solution for fake news could be worse than the cure, as fears over the influence of rumors and lies spread online have led politicians to consider restricting free speech and forcing tech companies such as Facebook, Twitter or Google, to actively combat dissemination and promotion of fraudulent information. We believe that this war over narrative, and the rights of people to express themselves in any number of forums, will continue to be the defining trend of 2018.

This week: Prime Minister Mateusz Morawiecki confirmed once again that joining Eurozone is not being considered by the Polish government at the moment. This statement was given as an answer to an appeal from a group of Polish economists who advised Mr. Morawiecki to take concrete steps towards joining Eurozone. The group noted that it would be an indispensable move to secure a strong position in the EU and to help ward off Russian influence.

GDP (Q3 2017)

5.2% y/y (est.)

Up from 4.2% in Q2

Inflation (Nov 2017)

2.5% y/y

Up from 2.1% in Oct

Unemployment (Nov 2017)

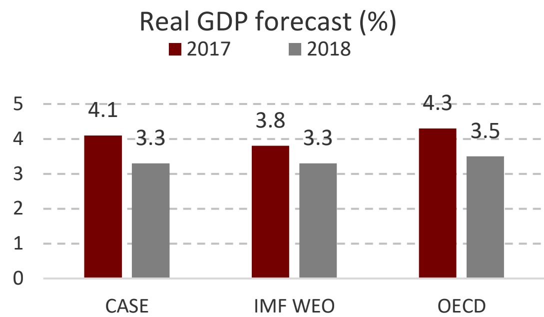
6.5%

Down from 6.6% in Oct

NBP Base rate

1.5%

From 2% Mar 2015



This week: The Russian Supreme Court upheld its decision to ban Aleksei Navalny, Mr. Putin's main opponent, from running in the upcoming Russian presidential elections. Mr. Navalny, an anti-corruption activist, dubbed the case against him "politically motivated" and called for the boycott of the elections; his lawyers said they will make their case at the European Court of Human Rights.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2

Inflation (Nov 2017)

2.5% y/y

Down from 2.7% in Oct

Unemployment (Nov 2017)

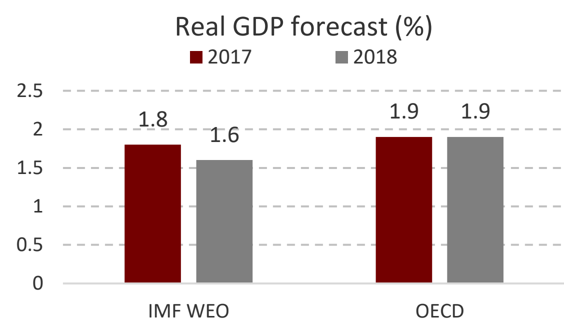
5.1%

Unchanged since Oct 2017

CBR Base rate

7.75 %

From 8.25% in Nov 2017



This week: On January 1, 2018, for the first time in history, Germany managed to cover its domestic energy demand solely by renewable resources. Wind delivered around 85 % of its power demand, supplemented by water, biomass, and solar energy. Power exports to the neighbouring countries continued to increase, signalling that Germany is on track in meeting its renewable energy targets according to the Renewable Energy Source Act.

GDP (Q3 2017)

2.8% y/y

Up from 2.3% in Q2

Inflation (Nov 2017)

1.8% y/y (est.)

Up from 1.5% in Oct

Unemployment (Nov 2017)

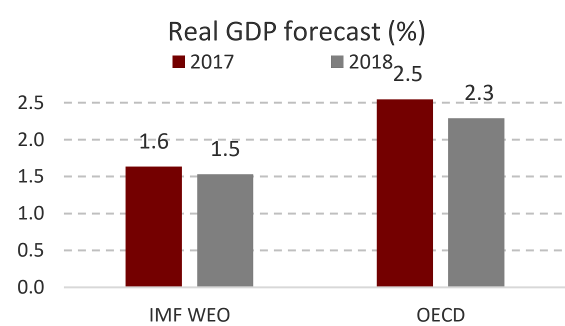
3.4%

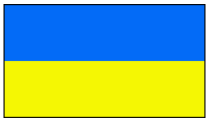
Up from 3.8% in Oct

ECB Deposit rate

-0.4%

From -0.3% Dec 2015





This week: On January 4th, port operator P&O Maritime, which is owned by one of the world's largest maritime logistics companies DP World, officially entered Ukraine. The value of the deal was not disclosed. An initial joint venture contract was signed by Stavnitzer and DP World Group Director General Sultan Bin Sulayem back in November during a visit of Ukraine's President Petro Poroshenko to the United Arab Emirates.

GDP (Q3 2017)

2.1% y/y

Down from 2.3% in Q2

Inflation (Nov 2017)

13.6% y/y

Down from 14.6% in Oct

Unemployment (Q2 2017)

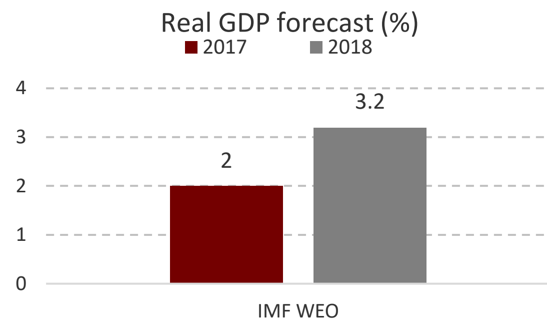
9.1%

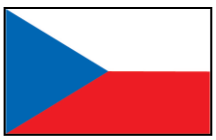
Down from 10.5% in Q1 2017

NBU Base rate

14.5%

From 13.5% in Oct 2017





This week: Czech e-shops recorded another successful year by growing 18% more than in 2016, with turnover of 115 billion of Czech Korunas. Internet sales of several new product categories such as food stuffs have been on rise, increasingly taking place through mobile phone platforms.

GDP (Q3 2017)

5.0% y/y

Up from 4.7% in Q2 2017

Inflation (Nov 2017)

2.6% y/y

Down from 2.9% in October

Unemployment (Q3 2017)

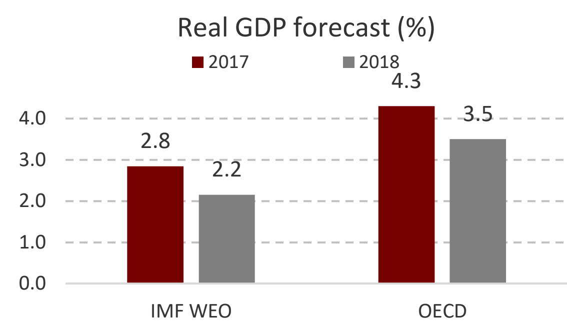
2.8% (est.)

Down from 3.0% in Q2

CNB Base rate

0.50%

From 0.25% (3rd November 2017)



This Week: Hungarian Ministry for National Economy announced that 2017 was a very successful year for the Hungarian economy. A short summary presented by the government stated that in the first three quarters of 2017, GDP increased 3.8% when compared to the same period the previous year, while total investments amounted to EUR 13.2 billion (an increase of 25% when compared to 2016) and the unemployment rate fell to 4.0% (from 4.7% in the same period of 2016).

GDP (Q3 2017)

3.8% y/y (est.)

Up from 3.3% in Q2

Inflation (Nov 2017)

2.5% y/y

Up from 2.2% in October

Unemployment (Q3 2017)

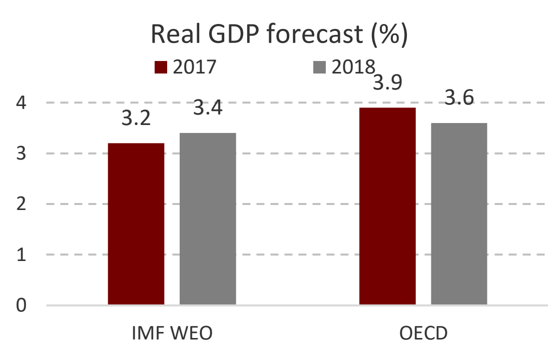
4.0%

Down from 4.3% in Q2

MNB Base rate

0.9%

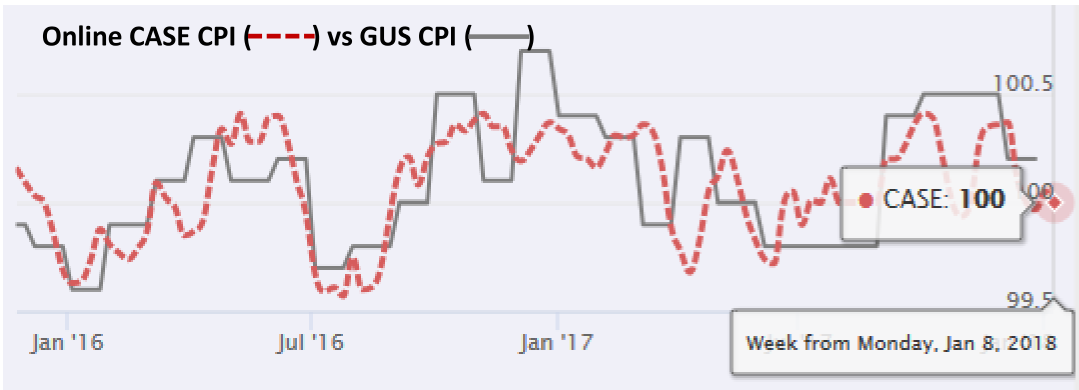
From 1.05% May 2016



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	4.1	4.6	3.0	4.7	1.9
2018	3.4	3.4	3.1	3.7	2.1
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	5.1	213.4	213.6	-0.2	-2.7
2018	3.5	221.9	223.8	-1.9	-3.9

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi
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Contributions: Stanislav Bieliei, Krzysztof Głowacki, Katarzyna Mirecka, Marian Mraz, Aleksandra Polak, Katarzyna Sidło, Klaudia Wolniewicz-Slomka **Editor:** Katarzyna Sidło **Editor-in-chief:** Christopher Hartwell