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CASE – Center for Social and Economic Research

Overview: In this issue of showCASE, our analysts take a closer look at the air pollution in the European Union. How many Member States do not comply with the air quality standards? How is the European Commission planning to force them to change their ways? These are just some of the questions CASE's Sara Skejo is trying to answer this week.

Every Breath You Take (May Slowly Kill You). EU's Big Air Pollution Problem

By: Sara Skejo, CASE Analyst

Nine European Union Member States – the Czech Republic, Germany, Spain, France, Italy, Hungary, Romania, Slovakia, and the United Kingdom – could face legal action for failing to make progress on reducing air pollution. All the countries were invited to submit proposals on how they expect to improve air quality on their territories and meet EU standards by the EU Commissioner for Environment Karmenu Vella during the Air Quality Ministerial Summit held in Brussels on 30th of January.

The suggested measures, including Germany's suggestion to make public transport free of charge in highly polluted cities and the Italian plan to spend EUR 6.5 billion on air quality improvements, will now be discussed by the European Commission (EC). The final decision whether or not to launch legal action against the above mentioned Member States will be made by mid-March 2018. All the nine countries have already received a Reasoned Opinion and are currently in the last stage of the infringement procedure before their cases are taken to the European Court of Justice (ECJ).

Similar action has already been taken against two countries, Bulgaria and Poland, which were sent to the court for breaking EU laws on air quality standards. In April 2017, the court ruled that Bulgaria failed to meet the limits and improve its air quality. However, no financial penalties against the country were prescribed at that time. On February 22nd, the ECJ will rule on the case of Poland, home to 33 of the continent's 50 most polluted cities. Despite the EU's requirements to cut carbon emissions, the country continues to use the coal as the main energy source and on October 2017 filed a counter-case to the ECJ against new regulations aimed at reducing pollution in the region.

A man puts a white mask on a dog during a protest against air pollution in Pristina Jan 31. 2018. *Source*: REUTERS/Hazir Reka

However, it is not just Poland, Bulgaria, and the other nine countries under the procedure that are in dire straits due to their levels of air pollution.

A staggering 23 out of 28 EU Member States are continuously exceeding their air quality limits. This is despite the EU's main policy instruments on air pollution, Ambient Air Quality Directives and the National Emission Ceilings (NEC) Directive, setting 2020 and 2030 national emission reduction commitments for five main air pollutants and requiring Member States to draw up National Air Pollution Control Programmes. To date, the EC launched legal action against 13 Member States in an effort to enforce the air quality standards for NO2, and it runs cases concerning PM10 particles against 16 countries. To ensure compliance with the EU environmental laws and improve environmental governance, the EC has additionally recently adopted a nine-point Compliance Assurance Action Plan, aimed at helping all industrial operators, public utilities, farmers, and individuals to efficiently follow the existing rules. On the top of that, the EC is also setting up a high-level expert group, known as the Environmental Compliance and Governance Forum, to assist in implementing all the above listed actions.

The stakes are high. Should the Member States implement environment legislation the way they are obliged to, the EU could save EUR 50 billion annually in health costs and costs to the environment. The latest European Environment Agency air quality data showed that air pollution produces significant market and non-market costs as it effects crops, forests yields, and ecosystems. Moreover, the Organization for Economic Cooperation and Development (OECD) forecasts that market costs, including reduced labor productivity and additional health expenditure, will by 2060 increase to reach about 2% of the EU-wide gross domestic product (GDP), potentially creating stagnation in economic growth. In 2015, 80% of the total costs of air pollution in Europe were related to non-market costs, as the Commission estimates that more than 400,000 people die every year of air pollution and many more need to be treated against diseases related to poor air quality.

According to Anton Lazarus from the green lobby group European Environmental Bureau, air pollution has become a political issue for the Commission in face of the upcoming May 2019 elections to the European Parliament, and the ministerial summit was more about politicizing the issue than reaching a solution to the problem. Be that as it may, poor air quality has been at the bottom of the political agenda for way too long and, as the number of ECJ cases shows, Member States took EC's air quality recommendations lightly. Perhaps fear of not being re-elected by angry citizens tired of breathing in polluted air is exactly what the EU bureaucrats needed.

This week: According to the Central Statistical Office's flash estimate, Poland's seasonally adjusted GDP in the Q4 of 2017 was 4.3% higher than in the Q4 the previous year. Preliminary data indicates that investments, apart from household consumption, had an important contribution to the GDP growth, contrary to what was/had been observed in previous quarters. However, investments remained mainly public and EU-funded, with private investments still lagging.

GDP (Q4 2017)

4.3% y/y (est.)

Up from 5.2% in Q3 2017

Inflation (Jan 2018)

1.9% y/y

Down from 2.1% in Dec 2017

Unemployment (Dec 2017)

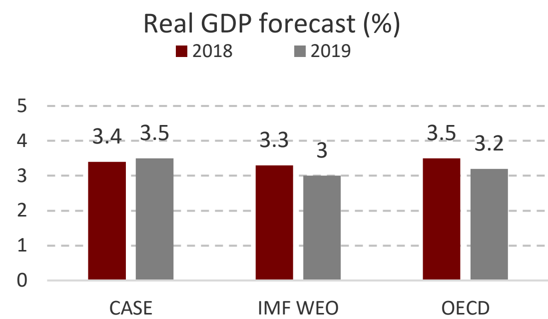
6.6%

Up from 6.5% in Nov 2017

NBP Base rate

1.5%

From 2% in Mar 2015



This week: Head of the Russian Direct Investment Fund (RDIF), Kirill Dmitriev, and Saudi King Salman discussed cooperation between their countries, including investment projects involving the Public Investment Fund of Saudi Arabia and Saudi Aramco. Russia is seeking to enhance stability of the global oil markets by investing in Aramco's IPO and finalizing multi-million-dollar deals in several projects through joint energy platforms, including in Russia's Eurasia Drilling.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2 2017

Inflation (January 2018)

2.2% y/y

From 2.5% in Dec 2017

Unemployment (Nov 2017)

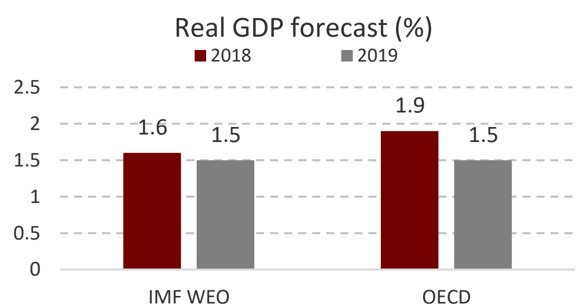
5.1%

Unchanged since Oct 2017

CBR Base rate

7.5 %

From 7.75% in Jan 2018



This week: According to the Federal Statistics Office data, German economy grew by 2.2% and by 2.5% on a calendar-adjusted basis in 2017. This rate of growth is an improvement from the 2016 result by 0.3 p.p. In the final quarter of 2017, exports were a significant driver of growth.

GDP (Q4 2017)

2.9% y/y

Up from 2.8% in Q3 2017

Inflation (Jan 2018)

1.4% y/y (est.)

Down from 1.6% in Dec 2017

Unemployment (Jan 2018)

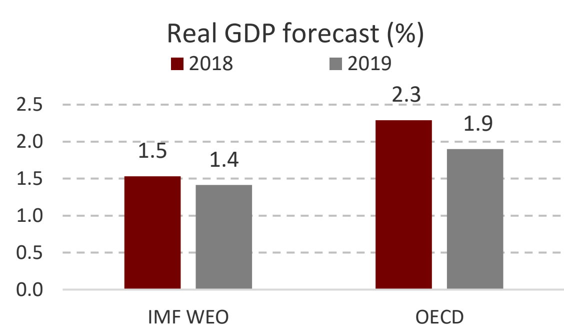
3.6%

Up from 3.5% in Dec 2017

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: Ryanair's Company Secretary Juliusz Komorek confirmed that Ukraine will become a new destination for the company. The low-cost airline is expected to start flying to Kyiv and Lviv in fall 2018. Ukraine will be another addition to Ryanair's portfolio this year, alongside the planned launch of routes between Jordan and Europe in March 2018.

GDP (Q3 2017)

2.1% y/y

Down from 2.3% in Q2

Inflation (Jan 2018)

14.1% y/y

Up from 13.7% in Dec

Unemployment (Q3 2017)

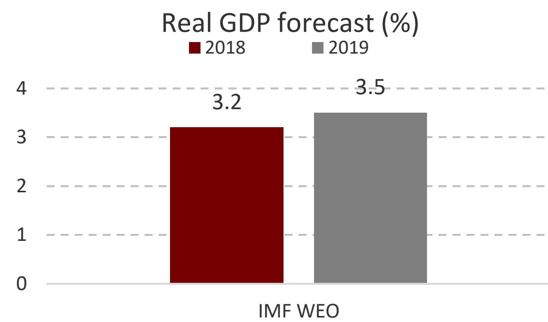
8.9%

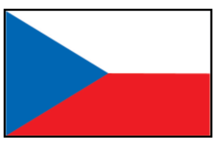
Down from 9.1% in Q2 2017

NBU Base rate

16.0%

From 14.5% in Dec 2017





This week: Last Wednesday, the Czech government approved the country's accession to the EU Fiscal Pact. The intergovernmental Fiscal Stability Treaty, which places limits on deficits and debt, was signed in 2012 by all EU member states with the exception of the Czech Republic and the United Kingdom. Czech Prime Minister Andrej Babiš said that despite the accession, the government still opposed introduction of the euro in the country at this time.

GDP (Q4 2017)

5.1% y/y

Up from 5.0% in Q3 2017

Inflation (Jan 2018)

2.2% y/y

Down from 2.4% in Dec 2017

Unemployment (Jan 2018)

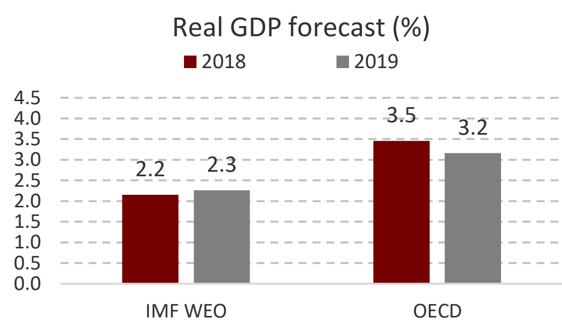
3.9%

Up from 3.8% in Dec 2017

CNB Base rate

0.75%

From 0.5% (2nd Jan 2018)



This Week: According to the results of "What Worries the World" survey, conducted by Ipsos among 27 countries from all over the world, 76% of Hungarians believe that their country is "on the wrong track". This places Hungary only behind Mexico (82%), Italy (82%), and Brazil (83%) and ahead of Poland and Russia (58% each). Asked to name three most pressing social and economic issues, Hungarians listed healthcare (72%), financial or political corruption (56%), and poverty and social inequality (56%).

GDP (Q3 2017)

3.9% y/y (est.)

Up from 3.3% in Q2

Inflation (Jan 2018)

2.1% y/y

Down from 2.5% in Nov 2017

Unemployment (Q3 2017)

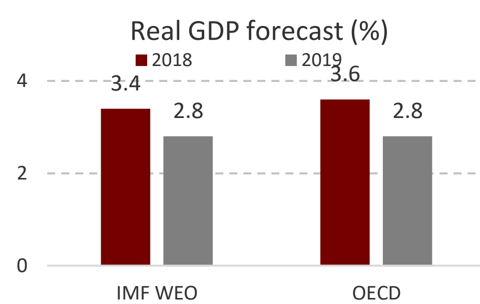
3.8%

Down from 4.3% in Q2

MNB Base rate

0.9%

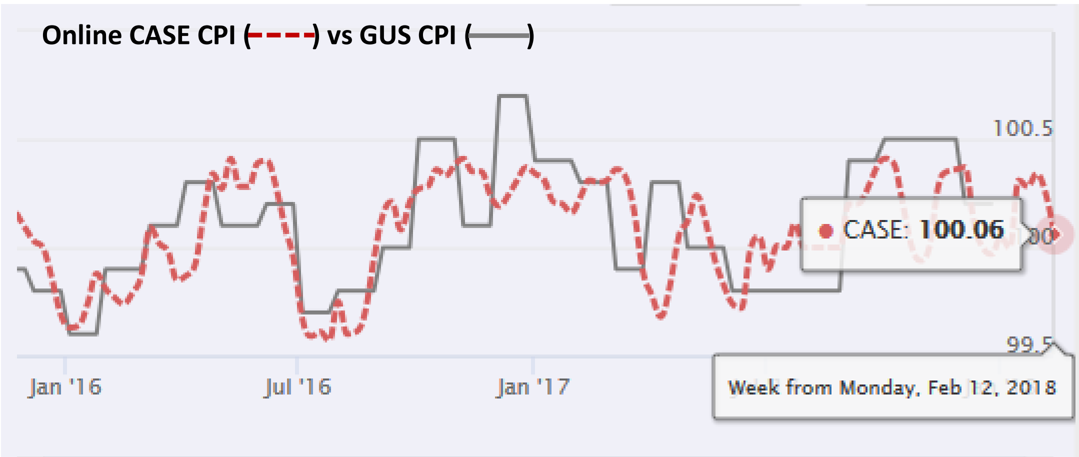
From 1.05% in May 2016



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
2018	3.6	3.6	4.1	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi To **subscribe** to our weekly showCASE newsletter, please click here. To see **previous issues** of showCASE, please visit: http://case-research.eu/en/showcase

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