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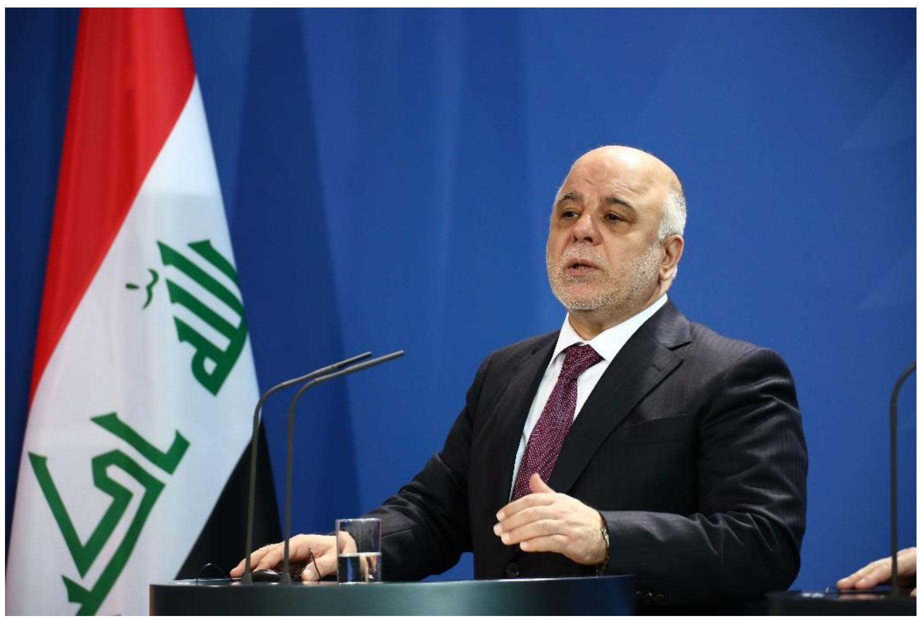
Overview: In this issue of showCASE, our analysts explore the implications of the outcome of the International Conference for Reconstruction of Iraq that recently took place in Kuwait. USD 30 billion was pledged by the international community to help rebuilding the country, but is it enough?

Iraq's Reconstruction Conference: It's Touch-and-Go

By: Katarzyna Sidło, Political Economist

For most people, Valentine's Day gift means a bouquet of roses, hear-shaped hand-written card or – if their partner feels generous – a voucher for a romantic getaway. For Iraq's Prime Minister, Hajdar al-Abadi, this year's present was much more thrilling – a revived hope for re-election that came with pledges of USD 30 billion from international allies made during the International Conference for Reconstruction of Iraq held in Kuwait on 12-14 February 2018.


Hajdar al-Abadi. *Photo:* Reuters

Granted, the amount does not come anywhere near the USD 88 billion that Iraq is estimated to need to recover from the war with the so-called Islamic State (Daesh) and the money pledged are mostly in the form of loans and investment promises, not donations. Calling it 'an enormous success' the way that the United Nations Secretary-General Antonio Guterres did is therefore a bit of an overstatement. The way the Iraqi ambassador to the U.S., Fareed Yasseen, put it in an interview with the Atlantic, 'We never thought we'd get that amount [USD 88 billion] (…). There's donor fatigue and countries that need international assistance more than we do'. But the fact remains that Iraq managed, once again, to receive attention – and significant pledges – of the international community (including 76 governments and 1,800 companies and NGOs), weary of paying for yet another reconstruction.

The money is needed predominantly to reconstruct destroyed houses (an estimated 2.5 million Iraqis remains displaced and 40,000 houses need to be rebuild in Mosul alone), schools, hospitals and other infrastructure, as well as restoration of basic services. The bulk of the money pledged to cover those needs came from the Gulf countries and Turkey, with the latter offering USD 5 billion in credit lines. Kuwait (to whom Iraq still owes money in Gulf War reparations) promised USD 1 billion in loans and another USD 1 billion in investment. Saudi Arabia offered USD 1 billion through the Saudi Fund for Development and further USD 0.5 billion in export credit. Another USD 1 billion in credit and investment was pledged by Qatar, while the United Arab Emirates promised USD 0.5 billion in loans on the top of USD 5.5 billion in private sector investment. Smaller contributions were made by other stakeholders, including the European Union (EUR

400 million on top of the Member States' support), Australia, and the Islamic Development Bank, as well as the World Bank, which overall commitments to Iraq increased to USD 4.7 billion.

Conspicuous by their absence among donors and investors were the United States, which did not pledge direct assistance. Instead, Mr. Trump's administration offered financial incentives of USD 3 billion to U.S. companies willing to invest in Iraq. While disappointing, this came as no surprise to those who follow the current U.S. policy and heard about plans to transfer money from economic support (USD 4.6 billion), international development aid (USD 3 billion), and democracy promotion (USD 211 million) to the Pentagon's budget.

This unwillingness to shoulder the burden of reconstruction of Iraq the Western powers – especially by a country, which occupied Iraq between 2003 and 2011 – creates a void that other countries will be happy to fill. China already claims that 60% of Baghdad's electricity is provided by Chinese companies and pledges USD 12.6 million in material aid. Russia may be currently busy in Syria but always happy to meddle in regional politics. More crucial, however, a re-emergence of extremist groups, Al-Qaida or Daesh affiliated or not, remains a real threat.

The territories devastated by Daesh were predominantly inhabited by Sunnis. Should the local populations be left without assistance for too long, political space for resurgence of violent jihadism may easily re-emerge. In a shorter term, growing dissatisfaction and exasperation among the Sunnis may make it difficult for Mr. al-Abadi to keep his post after the upcoming May elections. While in Iraq, the Prime Minister must be a Shia Muslim (while the Speaker of the Parliament – a Sunni and the President – a Kurd), Mr. al-Abadi's cross-sectarian coalition may find it hard to mobilize enough voters.

The moderate success of the Reconstruction Conference is therefore very good news to the incumbent Prime Minister on many accounts. In order to make the most of it for the benefit of his country – and indeed to bolster his chances of winning – he now needs to overcome a number of challenges. Firstly, ensure the pledges do turn into actual cash. Secondly, secure the proper use of any upcoming funds (Iraq is ranked by Transparency International as one of the world's most corrupt countries), bearing in mind that the financing coming in the form of loans will need to be re-paid at one point. Finally, continue fighting Daesh; despite publicly announced victory over the Islamic State in December 2017, attacks by jihadists are still being reported. International community should not turn their eyes away but assist Mr. al-Abadi (or whomever his successor may be) in a strive to reconstruct the country. Both the USA and the EU should actively participate in this process of rebuilding not only the country, but also the nation – both for the Iraqis', and their own sake.

This week: According to the data released by the Polish Central Statistical Office (GUS), wages and employment in the corporate sector continue to grow. The average employment grew by 3.8% year-on-year. The average salary, in turn, in January 2018 stood at PLN 4,588.58 (gross), an increase by 7.3% compared to the same month last year. In similar vein, the national minimum wage was risen by PLN 100 up to PLN 2,100 (gross), effective from January 2018.

GDP (Q4 2017)

4.3% y/y (est.)

Down from 5.2 % in Q3 2017

Inflation (Jan 2018)

1.9% y/y

Down from 2.1% in Dec 2017

Unemployment (Jan 2018)

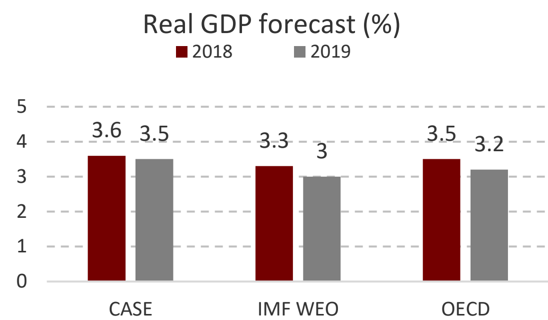
6.9%

Up from 6.6% in Dec 2017

NBP Base rate

1.5%

From 2% in Mar 2015



This week: The Organization of the Petroleum Exporting Countries (OPEC), together with other large oil exporters, decided to keep the restriction on the crude supply for a second year to curtail stockpiles and control the price of oil. Russia agreed to cut its output by 300,000 barrels per day from its peak production of 11.25 million barrels in 2016. According to the Russian Central Bank, this decision will likely have a negative impact on the country's economy.

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)

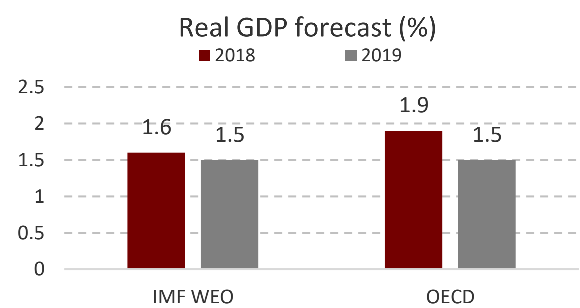
5.1%

Unchanged since Oct 2017

CBR Base rate

7.5 %

From 7.75% in Jan 2018



This week: Volkswagen AG and Germany's biggest workers' union, IG Metall, reached an agreement to raise wages of around 120,000 workers by 4.3% starting from May 2018. Moreover, workers in the West Germany will be entitled to an annual additional payment equivalent to 27.5 % of their monthly wage, which they may exchange for six additional days off a year.

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)

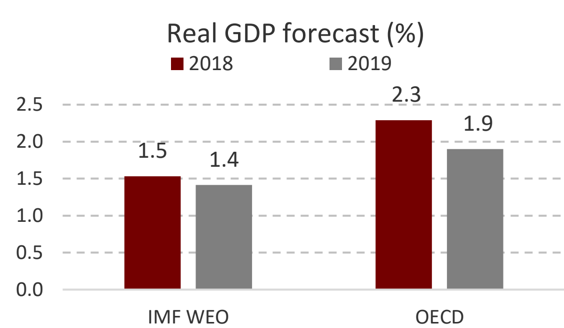
3.6%

Up from 3.5% in Dec 2017

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



The European Commission announced on February 22 that the EU will immediately end its border checkpoint scheme with Ukraine. The scheme aimed at helping to integrate Ukraine's economy with those of its EU neighbors by building or modernizing checkpoints at crossings with Poland, Hungary, Slovakia, and Romania. As of the end of 2017, none of the six checkpoint projects had been completed, despite the EU providing EUR 29.2 million in funding.

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)

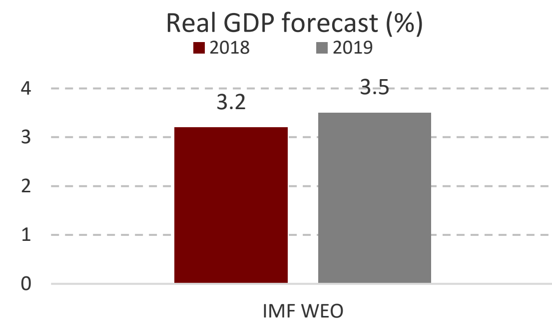
8.9%

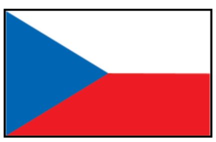
Down from 9.1% in Q2 2017

NBU Base rate

16.0%

From 14.5% in Dec 2017





This week: According to a survey carried out by the Czech Association of Textile, Clothing and Leather Industries (ATOK), in 2017 Czech companies recorded best result in 12 years, selling fibers, textiles and clothing worth CZK 55.3 billion. The growth is attributed to the fast-growing economy and increased focus on technical textiles, which are mainly used in the auto industry. As a result, the average wage in the textile industry grew by 7.1% year-on-year.

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)

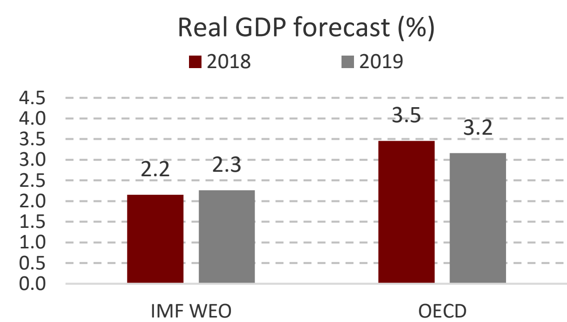
3.9%

Up from 3.8% in Dec 2017

CNB Base rate

0.75%

From 0.5% (2nd Jan 2018)



This Week: The Hungarian Ministry for National Economy informed that the real wages have been rising for five years in a row. Since 2010, the average net wage, including family tax allowances, has grown by 54%. Moreover, as of January 2018, the minimum wage was increased by 8% and now amounts to HUF 138,000 (EUR 444.7) per month.

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 (Q4 2017)

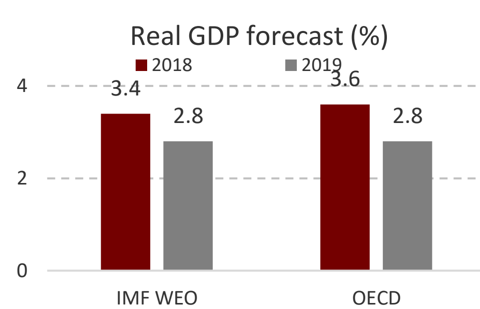
3.8%

Down from 4.1% in Q3

MNB Base rate

0.9%

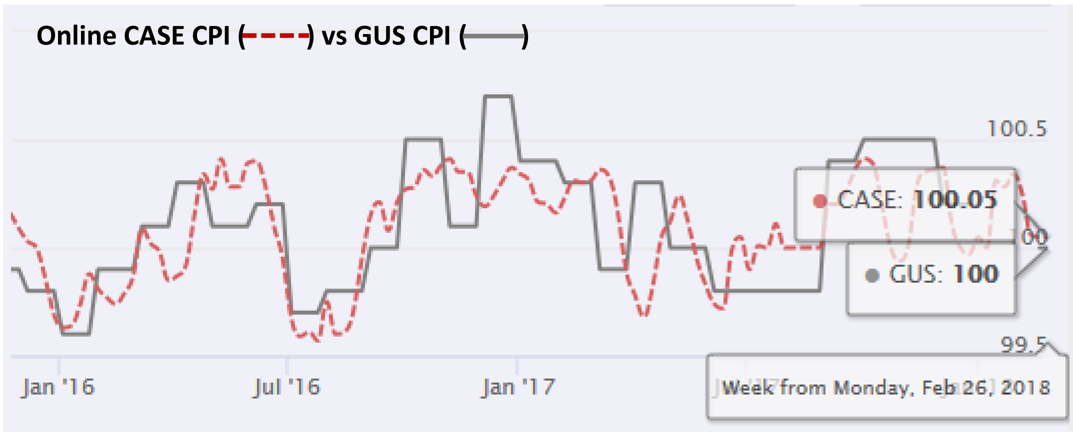
From 1.05% in May 2016



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

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