

Overview: This week, we evaluate the relationship between the European Union and Turkey in the aftermath of a summit that took place on March 26th in Varna, Bulgaria. While no breakthrough was achieved, the two parties are bound to cooperate and depend on each other in a number of areas.

Post-Varna EU-Turkey Relations. Neither a break-through nor a break-up

By: [Katarzyna Sidło](#), Political Economist

The long-awaited European Union (EU) – Turkey summit that took place in Varna, Bulgaria on March 26th ended on a rather bitter, if unsurprising note, with European Council President Donald Tusk [admitting](#) that European Commission chief Jean-Claude Juncker, Bulgarian Prime Minister Boyko Borissov, Turkish President Recep Tayyip Erdoğan, and himself “didn’t achieve any kind of concrete compromise (...)”

And room for compromise there was aplenty. On the [agenda](#) were the rule of law in Turkey, fight with terrorism, migration flows, and Turkey’s involvement in Syria and in the Eastern Mediterranean and Aegean Seas. For the Turkish side, most important issues involved visa-free movement for its citizens, revival of accession talks, and an upgrade of the EU-Turkey customs union. The list of complaints and expectations was therefore long and the talks themselves, as anticipated by Commissioner Juncker ahead of the meeting, “[frank](#)”. The most recent bone of contention was Turkey’s conflicts with Cyprus and Greece. In mid-February, an Italian oil company drill ship commissioned by the Cypriot government to explore for natural gas resources in disputed waters south-east of Cyprus was [confronted](#) by a Turkish warship. The following month, two Greek soldiers were imprisoned after trespassing onto Turkish territory near a border town of Edirne. The soldiers claim they did so unwittingly as they got [lost](#) in bad weather during a border patrol. Ankara, however, imprisoned them on suspicion of espionage (as of Sunday, April 8th, both were [still](#) under arrest). The EU called Turkey’s actions “illegal” and [assured](#) it stands united behind Cyprus and Greece.

The scandals, although by no means conducive to improvement of the relationship between Brussels and Ankara, are not likely to be of critical importance in the long term. At the very least, they should do no more harm than any of the past incidents such as Mr. Erdoğan urging German-Turkish citizens [not to vote](#) for Mrs. Merkel’s Christian Democrats or her sister Social Democratic Party in the elections to Bundestag last year. Or



European Council President Donald Tusk, left, and Turkish President Recep Tayyip Erdogan speak during a news conference at the EU-Turkey summit, in the Black Sea resort of Varna, Bulgaria, Monday, March 26, 2018. Photo by: Petko Momchilov/Impact Press Group/NurPhoto (Credit Image: © Impactpressgroup.Org/NurPhoto via ZUMA Press)

his calling German and Dutch leaders “Nazis” after they forbade rallies in favor of the Turkish government on their territories in March 2017.

Against all odds, three issues make this difficult marriage between Brussels and Ankara immune to divorce: migration, trade, and geopolitics. The much contested (on account of humanitarian issues) migration deal did achieve the result the EU wanted so badly – it significantly decreased the number of persons entering the Union through the Turkish border. According to the official data, as of April 2018 irregular arrivals remain [97%](#) lower than before March 2016, when the deal came into effect. While disputes over the second tranche of the promised EUR 6 billion continue as the Member States are [reluctant](#) to foot the bill from their own pockets, and Ankara would prefer to receive the money directly as opposed to through NGOs and UN agencies, it is still deemed one of the few areas where co-operation between Turkey and the Bloc is [constructive](#).

Similarly, although the overall volume of trade between the EU and Turkey somewhat [stalled](#) during the past two years, in 2017, Turkey was still European Union’s 5th and 6th largest [trading partner](#) in exports and imports, respectively. The EU, in turn, remains Turkey’s [most important](#) trade partner both for exports and for imports. Incidentally, upgrading the two-decades-old customs union between the two parties, determinedly sought-for by Ankara, would enhance this partnership and, as the EU 2016 study shows, be [beneficial](#) to both sides.

On top of that, Brussels is apprehensive about the Ankara-Kremlin friendship – a bumpy but enduring one, cemented by strategic interests and a shared ambivalent approach towards democratic and liberal values. Conclusively cutting the accession talks could push the country directly into Mr. Putin’s arms and deprive the EU of the remaining diplomatic leverage it still possesses.

Both sides have therefore a lot to lose should the accession negotiations be definitely broken. However, for the EU leaders one more important factor needs to be taken into consideration, and that is the opinion of their voters. Numerous studies show that the EU public on average is not favorable towards Turkey’s membership in the Block. Back in 2012, [half](#) of Europeans were against Turkey’s accession. Immediately after the failed coup d’ état of 15 July 2016, Turkey’ was even [less welcome](#) to the EU than Russia. Especially hostile towards Turkey’s membership were Germans with 81% of them rejecting the idea; in late 2017, another poll put that number at [74%](#).

With those numbers in mind it might be cautiously argued that for the EU leaders it is to a certain extent convenient that Turkey has been behaving the way it did, as it provides a good excuse for the lack of progress of the membership negotiations. However, as Mr. Tusk himself once [famously noted during Brexit negotiations](#), one cannot eat a cake and have a cake. With the next EU-Turkey summit [expected](#) to take place in June, both sides have some time to evaluate their positions. In the meantime, Mr. Erdoğan should refrain from engaging in more conflicts with the Member States and release journalists and at least some of the other post-coup detainees from prisons. Messrs. Tusk and Juncker on their part could do more to offer a realistic customs-union upgrade process and, to amplify the message, perhaps a less burdensome visa regime for business purposes. This may not be enough to upgrade the temperature of the mutual relationship from frosty to cordial, but it would be a first step towards its normalization.



This week: According to preliminary data published by the Central Statistical Office (GUS), in 2017, the general government deficit amounted to 1.5% of GDP, and gross debt decreased to 50.6% of GDP (compared to 2.3% and 54.2% in 2016 respectively). Contrary to market expectations, inflation fell in March to 1.3% (from 1.4% in February), deviating even further from the Central Bank's (NBP's) inflation target of 2.5% and making NBP's interest rate hike even more unlikely in the foreseeable future.

GDP (Q4 2017)

↓ 4.3% y/y (est.)

Down from 5.2 % in Q3 2017

Inflation (Feb 2018)

↓ 1.3% y/y

Down from 1.4% in Feb 2018

Unemployment (Feb 2018)

↓ 6.3%

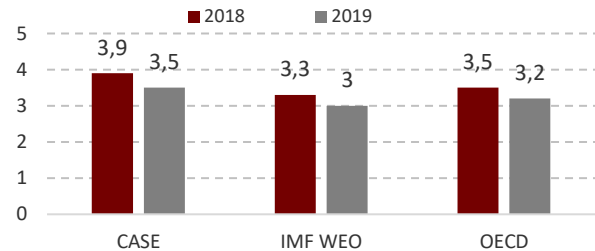
Down from 6.5% in Jan 2018

NBP Base rate

1.5%

From 2% in Mar 2015

Real GDP forecast (%)



This week: Sberbank CIB (the corporate and investment banking division of Sberbank) plans to increase its gold sales to India and China in 2018, Head of the Global Markets Department Andrey Shemetov said on Tuesday. Sberbank plans to upgrade its 2018 forecast of gold sales to China, initially at 20 tonnes, as it already sold 14 tonnes in the first quarter alone. The bank also plans to sell 25-30 tonnes of gold to India, while keeping its 2018 gold purchases forecast in Russia unchanged at 100 tonnes, including 64 tonnes bought from local gold miners.

GDP (Q4 2017)

↓ 0.9% y/y

Down from 2.2% in Q3 2017

Inflation (March 2018)

↑ 2.4% y/y

Up from 2.2% in Feb 2018

Unemployment (Feb 2018)

↓ 5.0%

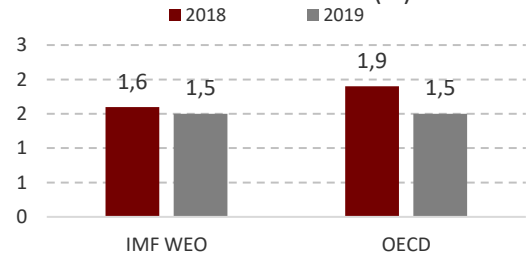
Down from 5.2% in Jan 2018

CBR Base rate

7.25 %

From 7.5% in Feb 2018

Real GDP forecast (%)



This week: The German industrial output fell by 1.6% m/m in February after increasing by a revised 0.1% in January, data from the Economy Ministry shows. February's drop is the biggest since August 2015, with the factories in Europe's largest economy throttling back in the face of the rising threat of protectionism.

GDP (Q4 2017)

↑ 2.9% y/y

Up from 2.8% in Q3 2017

Inflation (Feb 2018)

↓ 1.2% y/y (est.)

Down from 1.4% in Jan 2017

Unemployment (Feb 2018)

↑ 3.8%

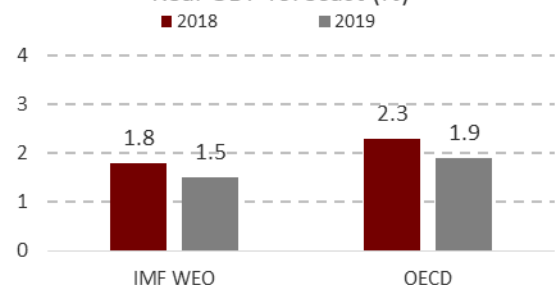
Up from 3.6% in Jan 2018

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015

Real GDP forecast (%)





This week: Ukrainian President Petro Poroshenko is discussing with the International Monetary Fund prospects of replacing the corporate profit tax with an exit capital tax. Mr. Poroshenko proposed compromises to businesses concerning the introduction of the exit capital tax and announced his plan to resubmit the bill to the National Reforms Council. The replacement of the corporate profit tax with the tax on withdrawn assets is aimed at elimination of corruption schemes in tax administration.

GDP (Q1 2018)

↓ 2.2% y/y

Down from 2.4% in Q4 2017

Unemployment (Q1 2018)

↑ 9.9%

Down from 8.9% in Q4 2017

Inflation (Feb 2018)

↓ 14.0% y/y

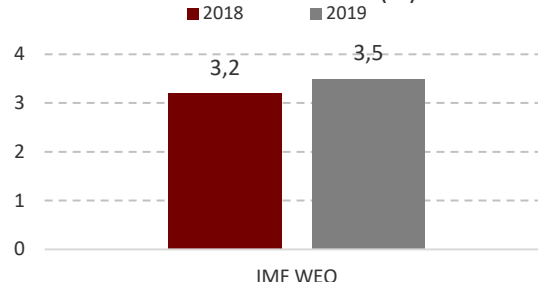
Down from 14.1% in Jan 2018

NBU Base rate

17.0%

From 16.0% in Jan 2018

Real GDP forecast (%)



This week: New data released by the Ministry of Labor and Social Affairs show that salaries in the Czech Republic have grown significantly. Compared to 2016, average monthly salaries in 2017 increased by 7%. However, 65% of the employees still make less than the average gross CZK 30,000 (EUR 1,184). Women saw a larger increase than men, although the gap in their salaries remains substantial. Data have also shown considerable wage increases for the employees with lower education, while the median wage of university-educated employees reached CZK 40,000 (EUR 1,579).

GDP (Q4 2017)

↑ 5.5% y/y

Up from 5.1% in Q3 2017

Unemployment (Q4 2017)

↓ 2.4%

Down from 2.8% in Q3

Inflation (Feb 2018)

↓ 1.8% y/y

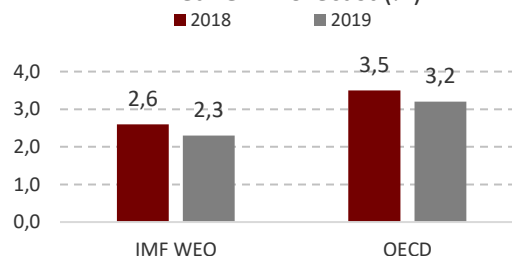
Down from 2.2% in Jan 2017

CNB Base rate

0.75%

From 0.5% (2nd Jan 2018)

Real GDP forecast (%)



This Week: According to the latest data published by the Hungarian Statistical Office (KSH), in February 2018, the retail sector in Hungary recorded a 6.5% growth compared to February 2017 (with the raw figure invariant under calendar adjustment). The growth was recorded in specialized and non-specialized food shops, at 3.8%, as well as in non-food retail shops, at 8.5% (calendar-adjusted).

GDP (Q4 2017)

↑ 4.4% y/y (est.)

Up from 3.9% in Q3 2017

Unemployment (Q1 2018)

■ 3.8%

Unchanged since Q4 2017

Inflation (Feb 2018)

↓ 1.9% y/y

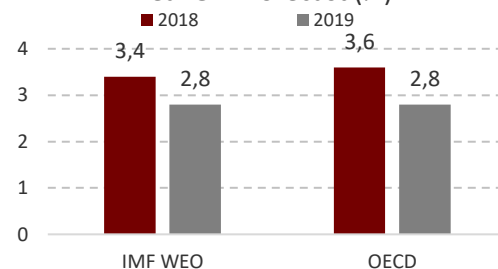
Down from 2.1% in Jan 2018

MNB Base rate

0.9%

From 1.05% in May 2016

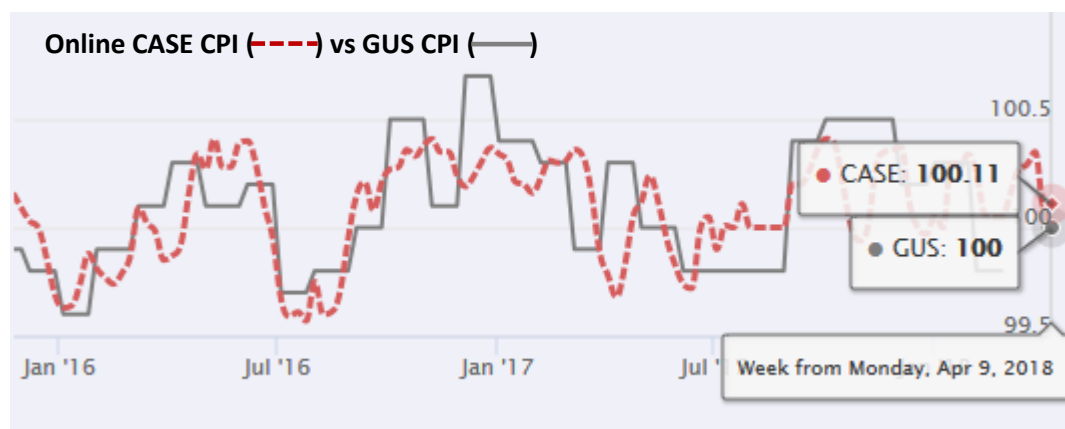
Real GDP forecast (%)



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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

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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	3.9	4.0	4.9	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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