

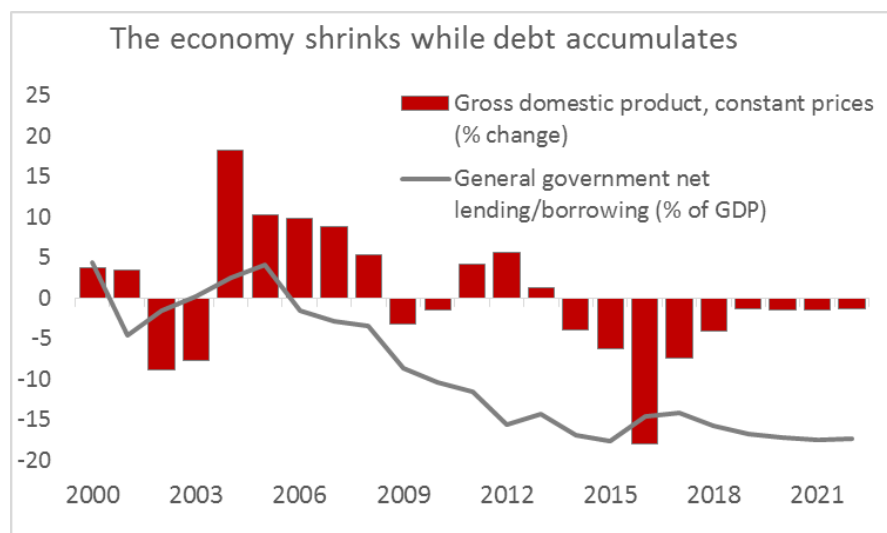
**Overview:** In this week's showCASE, our experts take a close look at the current chaotic situation in Venezuela to gain an understanding of the factors that are pushing the economy towards collapse. CASE also weighs in on the upcoming second round of French elections and assesses what its potential outcomes could entail for the economy.

## Dire Straits in Venezuela

By: [Krzysztof Głowacki](#), CASE Economist

*How can a state with the largest proven oil reserves in the world end up being on the brink of collapse? Venezuela, like several other South-American states before it, shows that there is no limit to what bad governance can lay to waste.*

The Venezuelan ruling class has recently given its people many reasons for discontent. First, the country's Supreme Court [dissolved the parliament](#) and transferred all powers vested under the legislative body to itself. Then, a major opposition figure, Henrique Capriles, was [banned from politics](#) for fifteen years. Meanwhile, police have started to crush civic unrest in the streets with [brutal force](#). But these acts of political terror are only the latest reason motivating the massive ongoing protests.

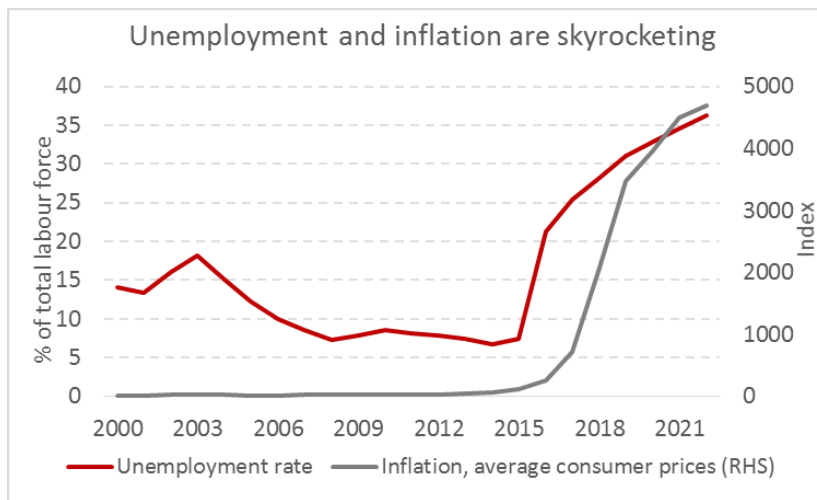


The other, much more primal, force driving the crowds is the bleak economic reality that the Venezuelan society must face every day. This year will mark the [fourth consecutive year of recession](#) in Venezuela (a 7.4% contraction as forecasted by the IMF), which is especially frightening given that the national economy already [shrank](#) by as much as 18% in 2016. Meanwhile, the budget

deficit reached 20% of GDP in 2015, and the country is reported to have only USD 10 billion worth of [international](#)

[reserves](#) left. Unemployment hovers around the 25% mark, and the IMF expects [inflation to reach 720% this year and 2068% next year](#). People suffer from severe shortages of basic goods, such as food and medicines, and photos of Venezuelans [scavenging through garbage](#) shocked viewers around the world.

But the dire straits of the Venezuelan economy are not only due to bad luck. To the contrary, the current situation can be viewed as an inevitable result of the irresponsible economic policies of Presidents Hugo Chávez and his successor Nicolas Maduro. In the name of the so-called Bolivarian Revolution that Chávez invented, both Presidents have embraced unsustainable social programs and massive government spending – [financed largely by debt](#) – while



Source: IMF World Economic Outlook database

doing little to curb corruption or create conditions favorable to investment and entrepreneurship. They have advocated [intrusive state control](#) of the economy, [deployed price controls](#), and have not shied away from nationalizing corporate assets. In fact, President Maduro seized [a Venezuelan GM plant](#) as recently as two weeks ago.

While world oil prices were high, the true state of the oil-dependent Venezuelan economy remained obscured. But the drop in prices since September 2014 has caused the national economy to stall, exposing its deep flaws. While painful and disruptive, this experience should have been seen as a signal for authorities to constructively redefine Venezuela's economic system (such as efforts to balance the budget or to implement much needed reforms and to make peace with the IMF). Unfortunately, these lost opportunities seem likely to lead to a devastating collapse of the Venezuelan economy.

## Emmanuel Macron: a game-changer or a status quo player in French politics?

By: Givi Gigitashvili, CASE economist

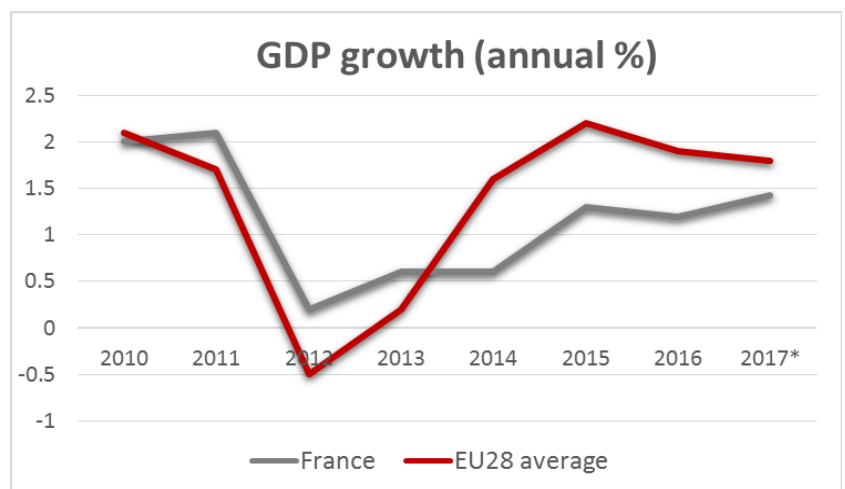
The victory of an independent centrist candidate, Emmanuel Macron, in the first round of the French election has revived hopes that France's shaky economy could finally undergo long-promised and much needed economic reforms. Nevertheless, Macron's ascent is a mixed blessing, one further clouded by the fact that he has not won the presidency yet.



In terms of campaign promises, Macron vows to cut 120,000 public-sector functionary jobs and decrease public expenditure by €60 billion over the next five years. He also intends to clear up burdensome red tape by unveiling economic deregulation, enforce business-friendly policies and roll back state intervention in the economy. He also pledges to eradicate inequalities between public and private sector pension systems and uphold the 3% budget deficit rule.

But why does France need reforms so urgently? France's [economic growth](#) was 1.2 % last year, well below the EU average (1.8%), making it one of the worst-[performing economies](#) in Europe. Furthermore, its feeble [economic recovery](#) over the past six years has not been accompanied by job creation; consequently, its current unemployment rate is [one of the highest](#) among EU members. If the underlying structural weaknesses in the economy continue unaddressed, the economy risks remaining mired in this sluggish growth environment.

But even though the data clearly demonstrates that France is in urgent need of modernization, Macron will have to tackle many obstacles in order to push forward his reform agenda. Firstly, irrespective of the strength of the mandate that Macron receives during the second round of the French elections, what will determine the success of his reform agenda is the June 2017 [French](#)



Source: Eurostat, \*estimate

[parliamentary elections](#). As long as Macron only has the backing of his newly established “En Marche” movement, which holds no seats in the current parliament, obtaining a majority seems like a Sisyphean task. Thus, he will need to form allies with the moderate, center-right and center-left members of the Socialist and Republican parties, who will also need to agree with and support Macron’s reform agenda.

Secondly, Macron’s [employer-friendly reforms](#) could infuriate workers, who are one of the most expensive in the EU (French hourly labor costs stand far [above the EU average](#)). Therefore, Macron’s effort is likely to translate into strong resistance to reforms from workers and trade unions, as was the case last year when labor laws triggered [public unrest](#) in France.

Thirdly, in his election manifesto, he pledges to [transform](#) French politics, depicting himself as an anti-system candidate. Nevertheless, the former economic minister still comes from the ruling class and, supposedly, the latter might be reluctant to give a green light to his vowed transformation. Furthermore, in light of Marine Le Pen’s radical populism, Macron is seen as a status quo player and his victory can be dishonestly presented by the establishment as an expression of people’s uneasiness about prospect of changes. Taken together, these factors can weaken zeal for reforms as they certainly entail changes.

Macron is truly caught between a rock and a hard place. On the one hand, if Macron fails to deliver profound economic reforms, French citizens might lose faith in him. On the other hand, if he pushes reforms too harshly to effectively tackle France’s structural shortcomings, his efforts could result in very painful outcomes for many citizens, which can adversely affect his approval rating. Given France’s sclerotic economy, delivering on effective economic reforms must be the litmus test for Macron’s popularity and political future correspondingly. But if he fails to become a real change-maker during his first presidential term, it might pave the way to the *Front National’s* increased support in 2022 election.



**This week:** The Polish state-owned company, PGNiG SA, signed an important deal with Cheniere Energy Inc. last week, for the delivery of American LNG to Poland (the first contract of its kind in Central and Eastern Europe). The deal is seen as an attempt to diversify Polish gas supplies, increasing independence from Russian fuel. The first delivery is expected in June.

**GDP (Q4 2016)**

↑ 2.5% y/y

Up from 2.4% in Q3

**Inflation (Mar 2017)**

↑ 2.0% y/y

Up from 2.2% in Mar

**Unemployment (Mar 2017)**

↑ 8.1%

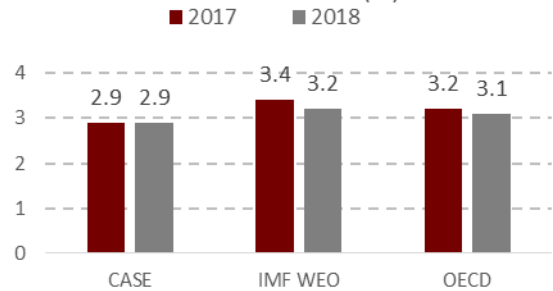
Down from 8.5% in Feb

**NPB Base rate**

1.5%

From 2% March 2015

Real GDP forecast (%)



**This week:** On April 27, President Putin and Japanese Prime Minister Abe met in Russia. A broad range of topics were discussed, from urban development to energy, but one topic was particularly important: the possible ease of conflict over the disputed Southern Kuril Islands. It was agreed that a joint research project on the dispute will be launched this month, which is hoped to pave the way towards the countries finally signing a peace treaty.

**GDP (Q4 2016)**

↑ 0.3% y/y

Up from -0.4 in Q3

**Inflation (Mar 2017)**

↑ 4.3% y/y

Down from 4.6% in Feb

**Unemployment (Mar 2017)**

↑ 5.4%

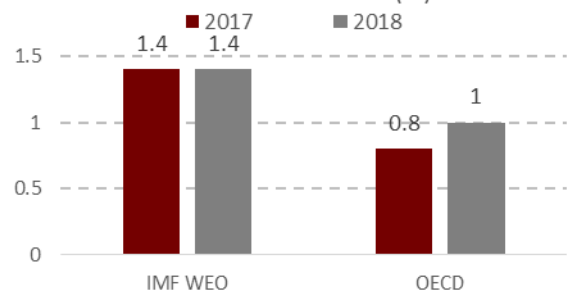
Down from Feb 2017

**CBR Base rate**

9.75 %

Down from 10%

Real GDP forecast (%)



**This week:** The ifo survey reaffirmed expectations of robust growth for the German economy. The business climate index recorded an uptick to 112.9 points in April, from 112.4 last month. Sentiment has improved across all sectors with the exception of manufacturing, where companies currently appear marginally less enthusiastic about the near future.

**GDP (Q4 2016)**

↑ 1.2% y/y

Down from 1.5% in Q3

**Inflation (Mar 2017)**

↑ 1.5% y/y

Down from 2.2% in Feb

**Unemployment (Q4 2016)**

↑ 3.9%

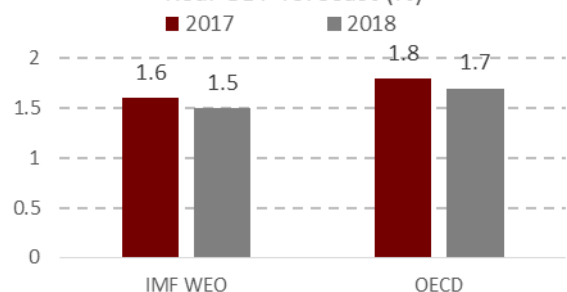
Down from 4.15% in Q3

**ECB Deposit rate**

-0.4%

From -0.3% Dec 2015

Real GDP forecast (%)





**This week:** The World Bank has agreed to provide a US\$150 million loan to Ukraine. The loan is said to be granted to Ukraine's Export-Import Bank under the country's Access to Long Term Finance Project. The funds seek to support export-oriented small and medium enterprises in Ukraine.

**GDP (Q4 2016)**

↑ **4.7% y/y**

Up from 2.1% in Q3

**Inflation (Mar 2017)**

↑ **15.1% y/y**

Up from 14.2% in Feb

**Unemployment (Q4 2016)**

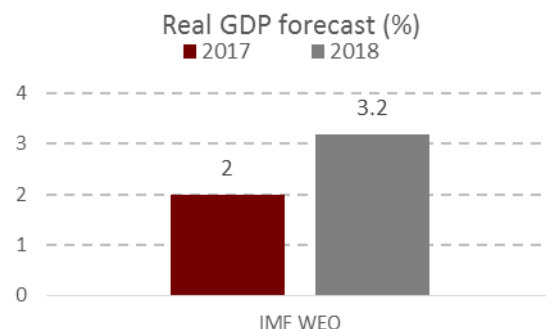
↑ **10.0%**

Up from 9.2% in Q3

**NBU Base rate**

**13.0%**

From 14.0% in Apr



**This week:** The Moody's Investors Service announced it will maintain a stable outlook for the Czech banking system. In related news, both the IMF and the Czech Ministry of Finance expect that growth in the Czech economy will accelerate to 2.8% in 2017. While the latter predicts growth will maintain this pace in 2018, the IMF forecasts a slowdown to 2.2% in 2018.

**GDP (Q4 2016)**

↑ **1.9% y/y**

1.9% in Q3

**Inflation (Mar 2017)**

↑ **2.6% y/y**

Up from 2.5% in Feb

**Unemployment (Q4 2016)**

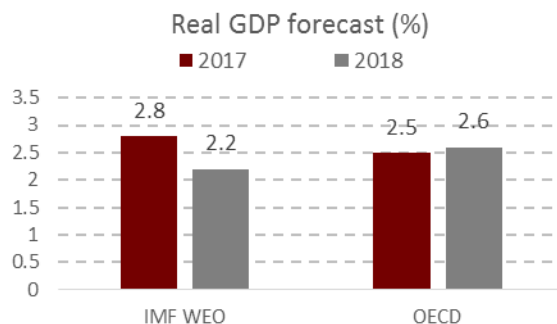
↑ **3.6%**

Down from 4.0% in Q3

**CNB Base rate**

**0.05%**

Unchanged since Nov 2012



**This week:** The Hungarian Minister of National Economy, Mihály Varga, released the country's 2018 budget on May 3<sup>rd</sup>. The budget forecasts an uptick in economic growth, from 4.1% in 2017 to 4.3% in 2018, which appear to be optimistic in comparison to both the OECD's and the IMF's latest forecasts of 2.2% and 3%, respectively, for 2018.

**GDP (Q4 2016)**

↑ **1.6% y/y**

Down from 2.2% in Q3

**Inflation (Mar 2017)**

↑ **2.7% y/y**

Down from 2.9% in Feb

**Unemployment (Q4 2016)**

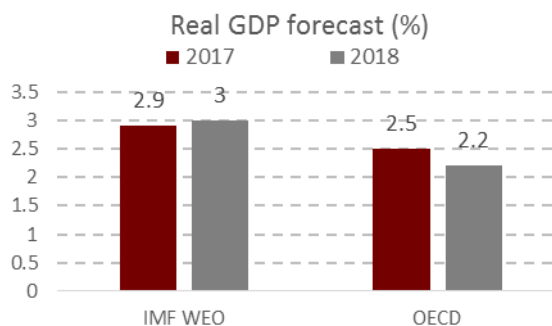
↑ **4.4%**

Down from 4.9% in Q3

**MNB Base rate**

**0.9%**

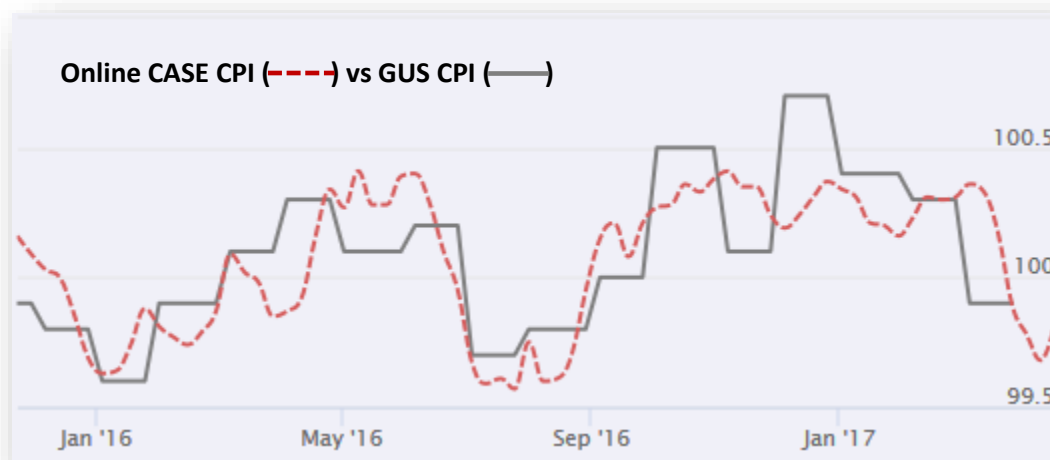
From 1.05% May 2016



### 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, CPI, among others.

#### **CASE economic forecasts for the Polish economy**

*(average % change on previous calendar year, unless otherwise indicated)*

	<b>GDP</b>	<b>Private consumption</b>	<b>Gross fixed investment</b>	<b>Industrial production</b>	<b>Consumer prices</b>
<b>2017</b>	2.9	3.2	2.0	3.5	1.2
<b>2018</b>	2.9	3.0	2.7	3.7	2.0
	<b>Nominal monthly wages</b>	<b>Merchandise exports (USD, bn)</b>	<b>Merchandise imports (USD, bn)</b>	<b>Merchandise trade balance (USD, bn)</b>	<b>CA balance (USD, bn)</b>
<b>2017</b>	4.1	201.6	201.8	-0.2	-4.7
<b>2018</b>	3.5	211.3	213.1	-1.8	-5.9

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 visit: <http://case-research.eu/en/showcase>

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