showCASE
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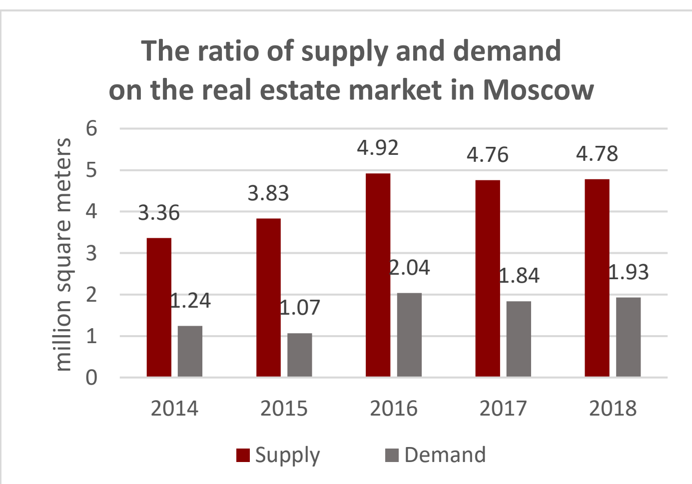
CASE – Center for Social and Economic Research

Overview: In this week's showCASE, our experts analyze to what extent Moscow renovation plan can affect the upcoming local and presidential elections. We then look at the potential impact of China's Belt & Road initiative on the regional economic and political stability.

The Moscow renovation trap

By: Givi Gigitashvili, CASE Analyst

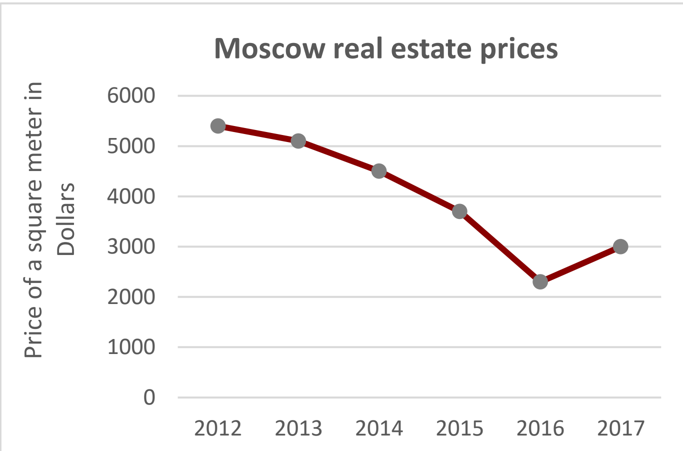
On May 14, over 20,000 people gathered in Moscow to protest an extraordinary renovation plan aiming to demolish over 4,500 Soviet-era prefabricated apartment blocks, known affectionately as *khrushchyovkas.* Local authorities argue that the vast majority of these aging buildings (constructed in 1960s) are slowly becoming inhabitable and plan to resettle approximately 1.6 million Moscovites who occupy them. While 74% of the renovation zone-dwellers support the initiative, the "bill on renovation" that forms the legal basis for the project is highly unpopular, as it is believed it does not guarantee that the rights of residents will be respected. And with the local municipality and presidential elections upcoming next year, unpopularity is not something the authorities are rushing to create.



Source: link

One of the most worrisome aspects of the renovation plan is that the Moscow municipality is going to mark chosen territories as renovation zones, which means that not only *khrushchyovkas*, but entire neighborhoods may be leveled to the ground. In fact, the Housing Code and other laws will not apply to such renovation zones, and the Renovation Assistance Fund will be vested with power to demolish *any* building inside them. Needless to say, this nurtures a well-grounded suspicion that the Moscow City Hall intends to free up vast areas for developers, using the poor condition of *khrushchyovka*s as a pretext.

The government, which is notoriously closely-connected with the construction industry (which itself accounts for 8% of Russia's GDP) is seen as trying to help it to recuperate after a tough few years; following a sharp drop in income levels in Russia in 2014, supply in the real estate market has consistently exceeded demand, resulting in a plummeting of property prices. Moscow Mayor Sergey Sobyanin has already started negotiations with large developers over purchasing already-finished apartments and constructing new ones for the people who are to be resettled. The whopping 3 trillion rubles that is expected to be needed to make the ambitions renovation plan a reality means that the government will have no choice but to work closely with the private sector, if only if to secure funding. Since Russia's state usually favors large construction companies, the fear that the whole undertaking will adversely affect competition in the real estate market and put small and medium companies in a disadvantage is, in our mind, not misplaced.



Source: Bloomberg

The situation is further aggravated by the fact that residents of *khrushchyovkas* do not possess effective legal instruments to protect their rights. Property rights in Russia are notoriously fickle, especially in this case: not only do tenants not own the land underneath the blocks, but the final decision about the demolition of the buildings will be made based on a majority vote. Those who refuse to leave their apartments and move to substitute apartments (of similar size but not necessarily similar value) can face court proceedings.

Feeling vulnerable and disregarded by the authorities, people who had never dreamed of protesting before started self-organizing themselves in a bid to stop the demolitions. City authorities, again perhaps with an eye on upcoming elections, have taken notice. The city promised buildings in which the majority of residents vote against the demolition shall be spared and the State Duma deputies, backed by President Putin, submitted on Thursday last week a package of amendments to the bill. These amendments envisage additional guarantees of the rights of residents, including judicial protection and choice of compensation type.

It remains to be seen if such measures are effective. If City Hall fairly compensates small businesses and residents are satisfied with the substitute apartments, it is anticipated that Mr. Sobyanin will maintain or even increase his share of the vote; according to one estimation, his electoral support could increase by 15% (and, as a bonus, Vladimir Putin's electoral base in the upcoming presidential elections could be boosted by 7% as well). However, given that 16% of Moscow's residents opposes his plan, should consensus with reluctant Moscovites not be reached, it is likely that the ruling party will lose a significant number of votes (even if, due to lack of any serious competition, actually losing the elections is not very probable). In the worst-case scenario, should the authorities forcefully evict people from their houses – even if the move is based on a court decision – it is not inconceivable that the protest will escalate and spread beyond *khrushchyovka*-dominated areas, or indeed Moscow.

The Belt and Road initiative: golden bridge or outright confrontation?

By: Iakov Frizis, CASE Economist

Source: Reuters

Last week, China hosted a 2-day summit in front of 28 world leaders to showcase the Belt and Road Initiative (B&R), one of the most ambitious infrastructure projects in the world to date. Its official aim is an improvement of trade links between more than 60 producer-countries, accounting for close to 30% of the world's GDP. However, while the project in its current shape has in fact potential to bring China closer to its trading partners in Asia, Oceania, Africa, and Europe, its present setup also may create regional segmentation, as a likely confrontation between two regional powers, India and China, may urge other countries in the region to pick sides.

B&R involves the development of a land-based economic belt and an oceanic transport "road" (network of maritime routes). The goal is to reduce transportation costs through improvement of cross-border infrastructure across a vast geographical area (its exact borders are still unknown and will depend on the outcome of bilateral negotiations). This multi-trillion dollar project, while developed primarily to address a number of Chinese policy objectives such as excess production capacity, inadequate domestic demand, and a saturated exports market, also has potential to bring significant economic spillovers for the entire region by attracting significant direct investment from China.

However, while almost all countries along the proposed route view the project in a positive light, China's geopolitical rival India does not. In addition to being a notable absentee from the Belt and Road Forum held on May 14, the country has consistently criticized the initiative on the grounds of its adversely affecting regional economic sustainability and outright disregard for sovereignty and territorial integrity. In particular, by pointing to the issues of financial responsibility and transparent assessment of project costs, India hinted that the B&R project may function as a vehicle for economic expansionism, as the case of Sri Lanka would suggest. During the recent debt crisis in Sri Lanka, despite China's rejection of debt-to-equity swaps for the USD 8 billion that the country owes China, Pekin is taking steps to bring infrastructure projects under government control by accommodating takeover of infrastructure relevant to B&R by Chinese corporations.

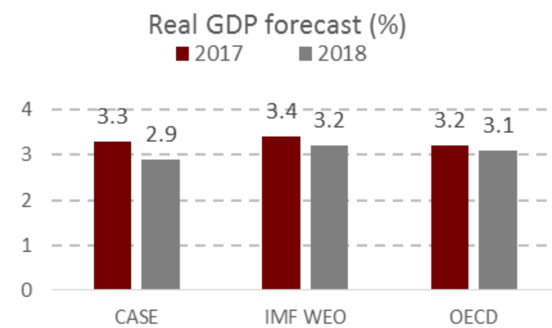
Perhaps more worrisome for India than increasing Chinese influence in the region is the possibility of China's meddling in the Kashmir conflict and aligning with Pakistan to protect the China Pakistan Economic Corridor (CPEC).

The government in Delhi fears that Beijing, if threatened by Indian territorial claims, may want to raise the profile of the conflict from a national to an international level in order to bring about a conclusive arbitration.

The plausibility of an adverse outcome of the B&R project for India can be seen from the impact the country's reservations have had on the initiative thus far; although both its criticism and absence from the forum were duly noted, they failed to temper the positive sentiment over the project on the part of other countries (with an interesting although not consequential exception of Sri Lanka). Although the project has undoubtedly potential to greatly benefit global trade, China should not strive to achieve its goals by antagonizing India. A resulting regional disarray may be detrimental not only to the bilateral relations of the two countries but, in the long run, to the project itself as well, creating more transportation costs than it alleviates.

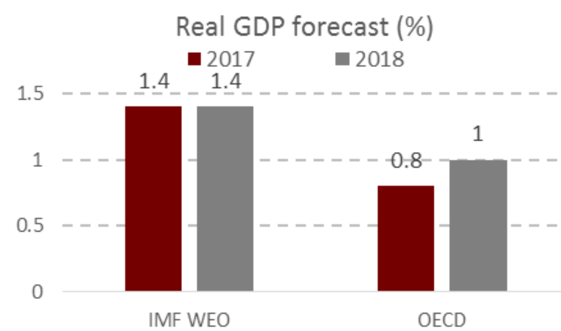
This week: Last week Polish Central Statistical Office released its first estimate of GDP for 2016 of PLN 1851.2 bn (an increase from PLN 1789.7 bn in 2015). Economists agree that this situation is due not only to growing private consumption (powered by rising wages and low unemployment) but also to investment. Given low inflation, specialists from the National Bank of Poland do not foresee any changes in the policy interest rate.

GDP (Q4 2016)	Inflation (Apr 2017)
2.5% y/y	2.0% y/y
Up from 2.4% in Q3	Unchanged from Mar 2017
Unemployment (Mar 2017)	**NPB Base rate**
8.1%	1.5%
Down from 8.5% in Feb	From 2% Mar 2015



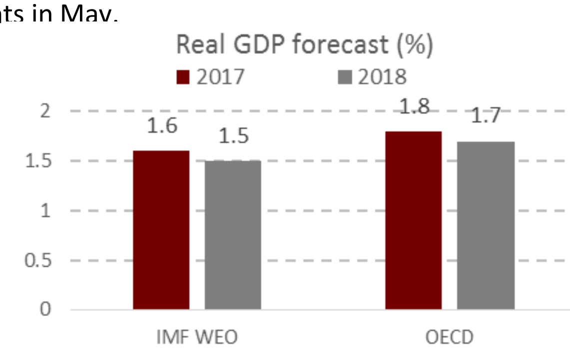
This week: Russian President Vladimir Putin approved Russia's "economic security strategy" for the period until 2030. The strategy aims to enhance the mechanism of response measures to foreign sanctions, diminish the use of foreign currencies in Russia, improve the investment climate, and de-offshorize the economy. This latest strategy updated the economic security strategy of Russia from 1996.

GDP (Q4 2016)	Inflation (Apr 2017)
0.3% y/y	4.1% y/y
Up from -0.4 in Q3	Down from 4.3% in Mar
Unemployment (Mar 2017)	**CBR Base rate**
5.4%	9.25 %
Down from 5.6% in Feb 2017	Down from 9.75%



This week: The ZEW Indicator of Economic Sentiment echoed the positive growth outlook conveyed by last week's PMI estimates. In particular, economic sentiment in Germany improved by 1.1 points up to 20.6 points in May, approaching closer to the long term average of 23.9 points. The current economic situation indicator for the country also improved, pushing upwards from 80.1 points in April to 83.9 points in May.

GDP (Q4 2016)	Inflation (Apr 2017)
1.2% y/y	2% y/y
Down from 1.5% in Q3	Up from 1.5% in Mar
Unemployment (Q4 2016)	**ECB Deposit rate**
3.9%	-0.4%
Down from 4.15% in Q3	From -0.3% Dec 2015



Countries at a glance

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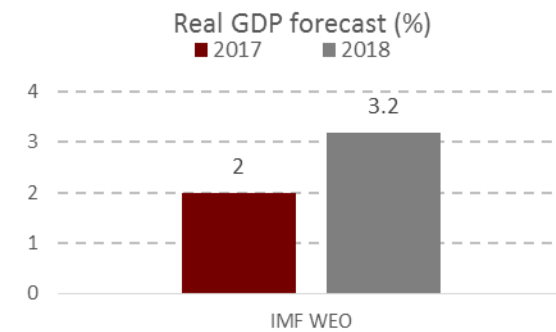
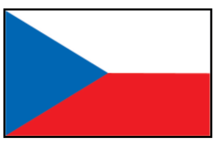
This week: According to the National Bank of Ukraine, the money supply in April expanded by 1.3% and reached UAH 1,089 bn. Hryvnia deposits grew by 4.1% m-o-m due to the combination of wage increase and expectations of falling interest rates in the future.

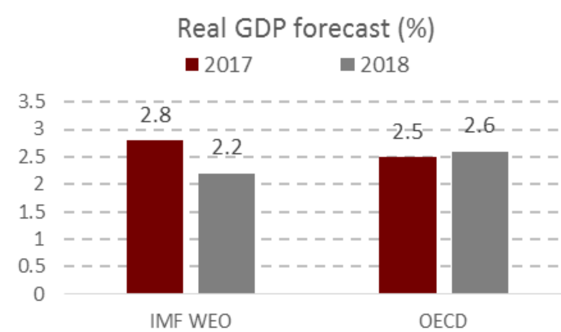
GDP (Q1 2017)	Inflation (Apr 2017)
3.0% y/y (est.)	**12.2% y/y**
Down from 4.7% in Q4	Down from 15.1% in Mar
Unemployment (Q4 2016)	**NBU Base rate**
10.0%	**13.0%**
Up from 9.2% in Q3	From 14.0% in Apr





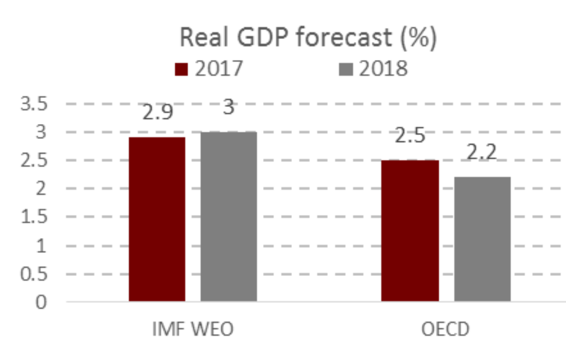
This week: According to preliminary data released by the Czech Statistical Office, the Czech economy gained momentum in Q1 2017. GDP was up by 2.9% compared to Q1 2016 and by 1.3% compared to Q4 2016. This growth is primarily attributable to external demand coupled with steadily growing household consumption.

GDP (Q1 2017)	Inflation (Apr 2017)
2.9% y/y	**2.0% y/y**
1.9% in Q4 2016	Down from 2.6% in Mar
Unemployment (Q1 2017)	**CNB Base rate**
3.4%	**0.05%**
Down from 3.6% in Q4	Unchanged since Nov 2012



This week: Hungary announced it will increase its military spending up to 1% of GDP by 2018 and the government pledged to further increase it up to 2% by 2024. Consequently, Hungary's military budget will amount to HUF 1-1.2 trillion by 2014. By doing so, Hungary will meet NATO's military spending target.

GDP (Q4 2016)	Inflation (May 2017)
1.6% y/y	**3% y/y**
Down from 2.2% in Q3	Up from 2.2% in Apr
Unemployment (Q1 2017)	**MNB Base rate**
4.7%	**0.9%**
Up from 4.5% in Q4	From 1.05% May 2016



Other CASE products

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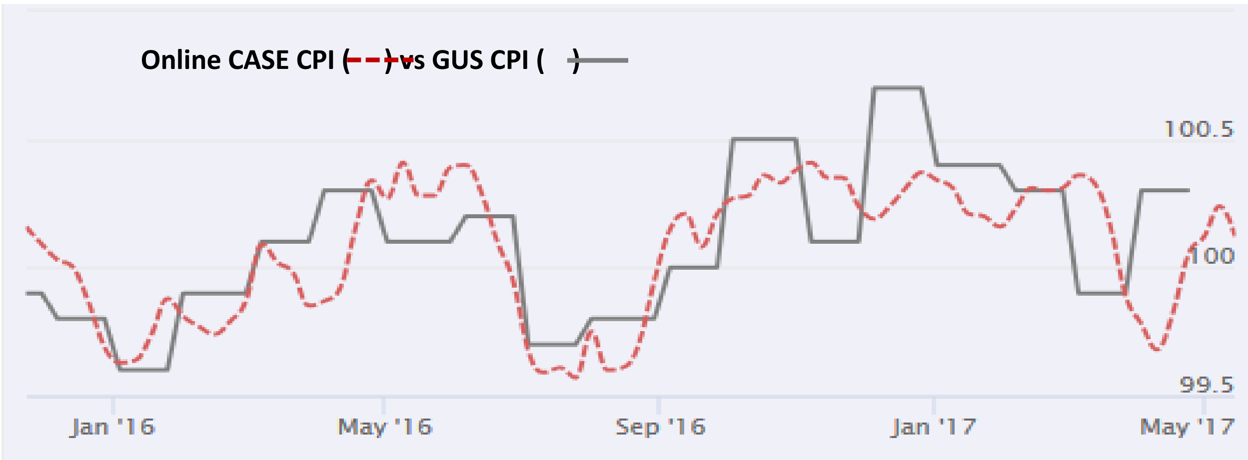
The weekly online CASE CPI

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)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2017	3.3	3.5	2.9	3.8	1.9
2018	2.9	3.0	2.7	3.7	2.0
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	4.7	201.6	201.8	-0.2	-4.7
2018	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
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