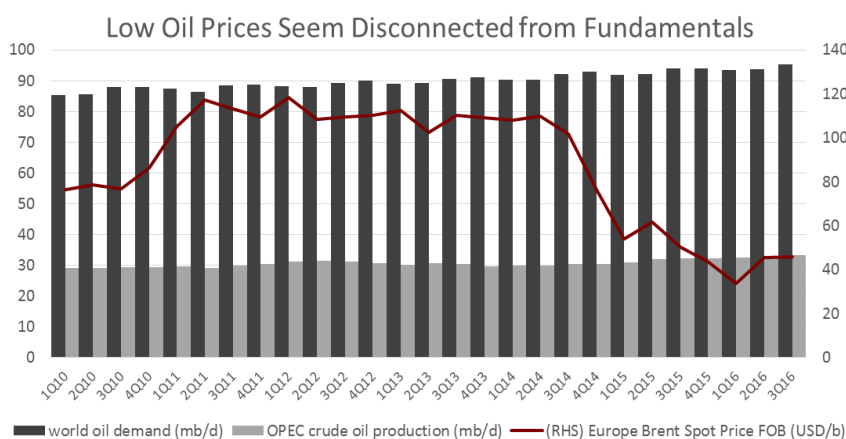


**Overview:** In this week's showCASE, CASE experts share their views on the recent preliminary agreement by OPEC to cut oil production. CASE also discusses the recent parliamentary election in Georgia and unpacks the potential geopolitical implications that could unfold depending on the outcome of its second round.

## OPEC's new agreement: Idle talk or call to action?

By: [Katarzyna Sidło](#)

On September 28, the OPEC-14 reached a preliminary agreement to cut the oil production of each member. Target oil output, which is set to be further discussed during the OPEC's next meeting at the end of November, was set between 32.5 and 33.0 million barrels a day (mb/d). Most analysts are, however, skeptical whether the deal will be fully respected or, indeed, implemented at all, given the history of the oil cartel.



Sources: OPEC (based on secondary sources), Thompson Reuters

As the data presented in the OPEC [Monthly Oil Market Report](#) published this week shows, compared to August, September saw a rise in the OPEC oil production by 220 000 barrels a day, reaching 33.39 mb/d. One day earlier, the [International Energy Agency reported](#) even higher figures of 33.64 mb/d, a record high achieved on the back of increased Iraqi output. While it might be argued that this spike in production is simply OPEC countries attempting to produce as much as possible in preparation for upcoming cuts, experience shows that the member countries are oftentimes far from unanimous regarding the cartel's policies. Indeed, as the already-mentioned report by OPEC shows, they cannot even agree on how much they are producing right now (Venezuela and Iraq reported 565,000 b/d above OPEC's estimates), let alone how much they are willing to cut in the future.

That said, the fact that Iran (along with Libya and Nigeria) was granted exclusion from the deal, may indicate that this time that members are serious about the cuts. In fact, Iran's exemption had to be approved by Saudi Arabia, its main geopolitical rival; with the two countries ferociously backing opposing sides of both the Yemen and Syria wars, this kind of agreement over output cuts may be a sign of OPEC's dedication to the deal.

However OPEC proceeds, the actual impact of the deal will depend on the behavior of other oil producing countries, such as Russia, who has its own geopolitical objectives *vis a vis* the Saudis. For the time being, the markets have settled from their slight increase following the OPEC announcement and have been rather stable since. Regardless, experts, [including the International Energy Association](#), are skeptical of whether or not the deal will materialize and are unsure whether or not the cuts have the potential to deliver any sort of significant impact.

# A Tricky Path Lies Ahead for Georgia's Maturing Democracy

By: [Paul Lirette](#)

On Saturday October 8, Georgia held the first round of its two-round 2016 parliamentary election. While competition between the two main parties, the ruling Georgia Dream coalition and the former ruling United National Movement (UNM), was tight in the lead up to the election, Georgian Dream [decidedly claimed victory with 48.6% of the votes](#).

The exact composition of government is yet to be determined in the upcoming second round of elections to be held in [51 single-member voting districts](#), the outcome of which could carry important implications for Georgia's relationship with both the east and the west.

As an example of the differences between the parties, Georgia Dream's main foreign policy agenda for the post-Soviet state involves forging greater ties with the European Union (EU) and the North Atlantic Treaty Organization as well as improving its relations with the Kremlin. However, with an ongoing [lack of trust between the west and Russia](#), maintaining these relationships could prove challenging.

Meanwhile, the UNM party is led by Mikheil Saakashvili, Georgia's third President who held two consecutive terms between January 2004 and November 2013 and presided over the controversial five-day-long Russo-Georgian war in 2008 (and is currently the Mayor of Odesa in Ukraine). Saakashvili is staunchly and vocally anti-Russian and would support only moves to tie Georgia further into western institutions.

Georgia's future in the east and the west is complicated further by the anti-west Alliance of Patriots party, [widely suspected of receiving funding from Russia](#) but which narrowly received enough votes in the first round to gain seats in parliament.

| First Round Proportional Election Results |           |             |
|---|-----------|-------------|
| Party                                     | Votes (%) | Total Seats |
| <b>Georgian Dream</b>                     | 48.67 %   | 67          |
| <b>UNM</b>                                | 27.11 %   | 27          |
| <b>Alliance of Patriots</b>               | 5.01 %    | 6           |

Source: Central Election Commission of Georgia



Giorgi Kvirikashvili, Georgian Prime Minister

Source: U.S. Institute of Peace, Flickr (CC)

If Georgia Dream is capable of clinching a majority government in the upcoming "first-past-the-post" election, [it is unlikely that Georgia will shun Russia](#), which has invaded neighboring Ukraine and occupied Crimea and part of the Donbas. However, a minority government with stronger UNM representation could help tip the scale in favour of the west.

In any case, the unfolding of the first round suggest that Georgia's democracy is maturing. While the lead-up to the vote was not without incident, where optics were marred by a [car bombing targeted at leading members of the UNM](#) and a [shooting incident during a rally](#), Western allies closely watching the election [congratulated Georgia](#) for what appeared to be a fair and free election.

## At a glance



Earlier this week, the Polish Development and Finance Minister released a 2016 forecast of 3.4% growth for the Polish economy. This forecast is slightly bearish compared to CASE expert forecasts, which believe GDP growth will increase further in H2, with 2016 annual growth settling at 3.6% (y/y) due. Despite growth remaining strong in Eastern Europe's largest economy, challenges remain for the new Polish government. The recently released Draft 2017 Budget assumes a deficit of 2.9% of GDP, just below the EU's 3% cap, which will require strong 2017 GDP growth as well as careful balancing between the new government's inflated social spending promises and plans to increase bank and state-run utilities taxes.

Sept core CPI declined 0.4% y/y, unchanged from prev. month

| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| CASE                  | 3.1  | 3.4  |
| IMF WEO               | 3.1  | 3.4  |
| OECD                  | 3.0  | 3.5  |



According to the Federal State Statistics Service, Russian GDP contracted by -0.6% (y/y) in Q2, the smallest contraction in six quarters, due in part to an increase in manufacturing production. The economy contracted by -1.2% in Q1, indicating that the pace of slowdown is starting to ease. According to the preliminary estimate of Bank of Russia, the external debt as of September 30, 2016 equals \$516.1 billion, representing a decrease of 0.5% compared to the end of last year. After double digit inflation growth in 2015, the economy seems to be stabilizing with annual inflation slowing to 6.4% in September. This seems to be a timid but positive sign for the country's economy after six quarters of contraction, caused in large part by low oil prices and economic sanctions.

Services PMI down to 53.0 in Sept. from 53.5 in Aug.

| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| IMF WEO               | -0.8 | 1.1  |
| OECD                  | -1.7 | 0.5  |



The robust German economy continues to lift market sentiment with a 0.5 p.p. increase in the investor and analyst expectation index, due to a surge in August exports and growing factory orders. However, concerns about German banks weigh on the outlook and could result in a slower Q3 reading for the economy. Overall, the Bundesbank forecasts GDP growth at 1.7% for 2016 and at 1.4% for 2017, whilst investment is forecasted to increase by 2.5% in 2016 and 1.8% over 2017. Inflation has reported incremental increases, with import and producer prices rising while energy prices remain stable domestically. Germany's current account was reported at €18.6bn in July, down from a surplus of nearly €25.4bn in July 2015.

ZEW Economic Sentiment index up to 6.20 in Oct. from 0.50 in Sept.

Wholesale Price Index up to 0.40 in October from -0.70 in Sept.

| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| IMF WEO               | 1.7  | 1.4  |
| OECD                  | 1.6  | 1.7  |

## At a glance



Ukraine's economy grew by 1.4% (y/y) in Q2. This positive development builds on Q1 growth of 0.1% (y/y), the first quarter of growth in two years. Headline inflation decreased to 7.9% (y/y) in September and stood at 1.8% m/m. The benchmark interest rate remains at 15% following a 50 bps cut on September 16<sup>th</sup>. In October, Ukraine's Central Bank announced that international reserves had increased by 10% in September and by 22% over the past year, largely owing to the IMF's loan program. In a recently published report, the Central Bank also discusses improved liquidity of the banking sector over the past eight months and suggests that there be a further gradual decrease in the deposit rates in the coming quarters.

■ NBU base policy rate unchanged at 15%

↓ Inflation rate down to 7.9% in Sept. from 8.4% in Aug.

| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| IMF WEO               | 1.5  | 2.5  |
| OECD                  | -    | -    |



The inflation figures released this week by the Czech National Bank (CNB) show the price levels increasing by 0.5% y/y last month – just above CNB's expectations, yet still low enough to reaffirm its expansionary policy plans announced earlier this month (to be pursued until mid-2017). The bank also maintains its predictions of the economic slowdown (2.4%) prevailing until the end of the year on account of a temporary decline in gross capital formation. However, in 2017-2018 it expects a rebound up to 3%. The labour market conditions are believed to remain mostly unchanged over the next year, with unemployment rates slowly declining and total employment slowly rising.

↑ Aug. construction output climbed to -5.9 from -16.3

↓ Sept. CPI slowed to 0.5% y/y, down by 0.1 p.p. from Aug.

| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| IMF WEO               | 2.5  | 2.7  |
| OECD                  | 2.4  | 2.6  |

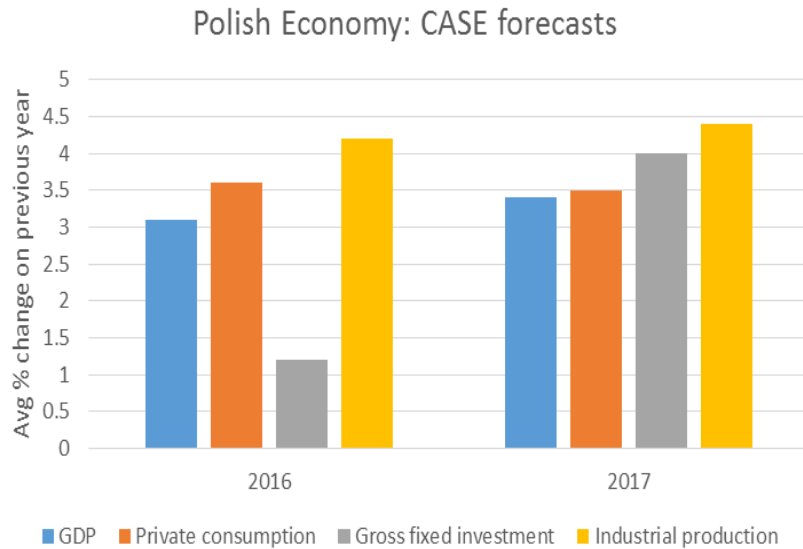


Hungary has made progress in reducing macroeconomic imbalances, but its economic growth path remains unclear. Recent Hungarian National Bank growth forecasts peg Hungarian GDP growth at 2.8% for 2016, significantly higher than IMF 2016 GDP forecast of 2.0%. Regardless, business capital accumulation, supported by inward FDI and EU structural funds, remain important drivers of growth for the economy as they mitigate weak domestic investment caused by barriers to entry for SMEs and ever-changing regulations. While progress has been made in reducing the current account (from -7% of GDP in 2008 to 5% of GDP in 2015) and the public debt-to-GDP ratio (down 5% since the crisis), addressing non-performing loans and unlocking increased bank lending will be a key challenge moving forward.

↑ Sept. CPI increased by 0.6% y/y, with a 0.2% increase m/m

↓ Aug. trade balance down to €601m from €668m in July

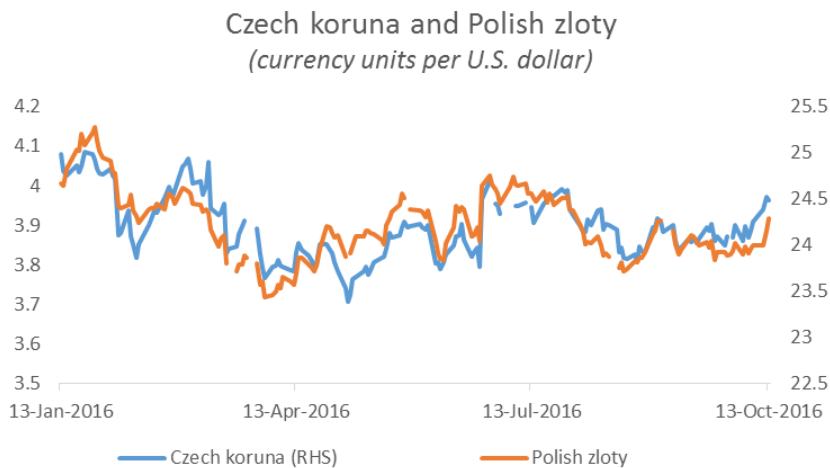
| Real GDP forecast (%) | 2016 | 2017 |
|-----------------------|------|------|
| IMF WEO               | 2.0  | 2.5  |
| OECD                  | 1.6  | 3.1  |



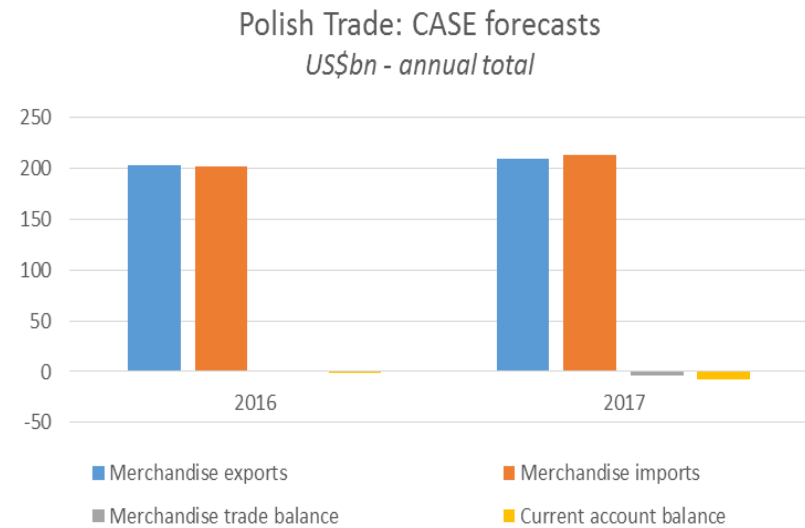
Source: CASE forecasts



Source: CASE. Most recent observation Oct 3, 2016



Source: IMF



Source: CASE forecasts