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MACROECONOMIC AND POLICY TRENDS IN POLAND

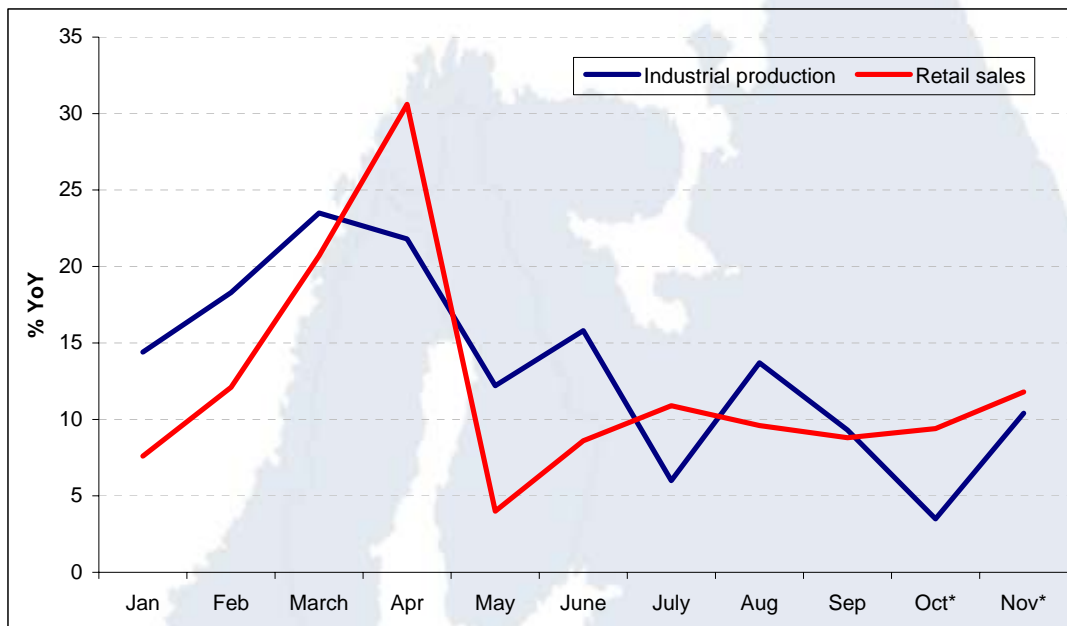
Economic growth has been strong in Poland in the first half of 2004. According to forecasts it will remain so in the second half of the year, just slightly decreasing compared to the first six months. In 04Q1 real GDP growth reached 6.9%, and in 04Q2 6.1%. In Q3 it is expected to be 5.1% and in Q4 5.7%. For the whole year GDP growth is expected to reach 5.9%, which is more than 2 percentage points higher than the 3.8% result in 2003. Thus economic growth seems to be steady now in Poland, after the years of stagnation experienced before 2002.

Industrial production and retail sales were the drivers of this growth in the first half of 2004. In Q1 the growth of industrial output reached 19% year on year. It decreased to 9.6% by Q3. The same decreasing tendency was observable in the case of retail sales. In Q1 the growth rate of retail sales reached 13.6%, and in Q2 11.3%. By Q3 it decreased to 4.7%. Therefore the fall in the growth rate of industrial output and retail sales had an observable effect on the growth rate of real GDP, which is also decreasing slightly as the end of the year approaches.

Despite the slight decrease, both industrial output and retail sales still show a healthy upward trend, meaning 9.3% growth rate year on year in September in the case of the former, and an 8.8% growth year on year in the case of the latter. In recent months only car sales dropped significantly, after high growth of car sales in the spring. The sales of other goods have been growing steadily. The growth rate of retail sales, excluding cars reached 9.7% in September, after 9.4% in August and 11.5% in July. The growth rate of retail sales is expected to accelerate slightly as the end of the year approaches.

At the same time rising inflation is constraining the growth of retail sales. As for industrial production, the same tendency is expected as for the retail sales, apart from October, when due to the lower number of working days, the year on year growth rate of industrial output is expected to fall to 3.5%. As for construction, the year on year output growth rate reached only 0.1% in September, according to expectations. For the end of the year faster growth in construction and stronger investment activity is forecasted.

Chart 1. Industrial production and retail sales, 2004

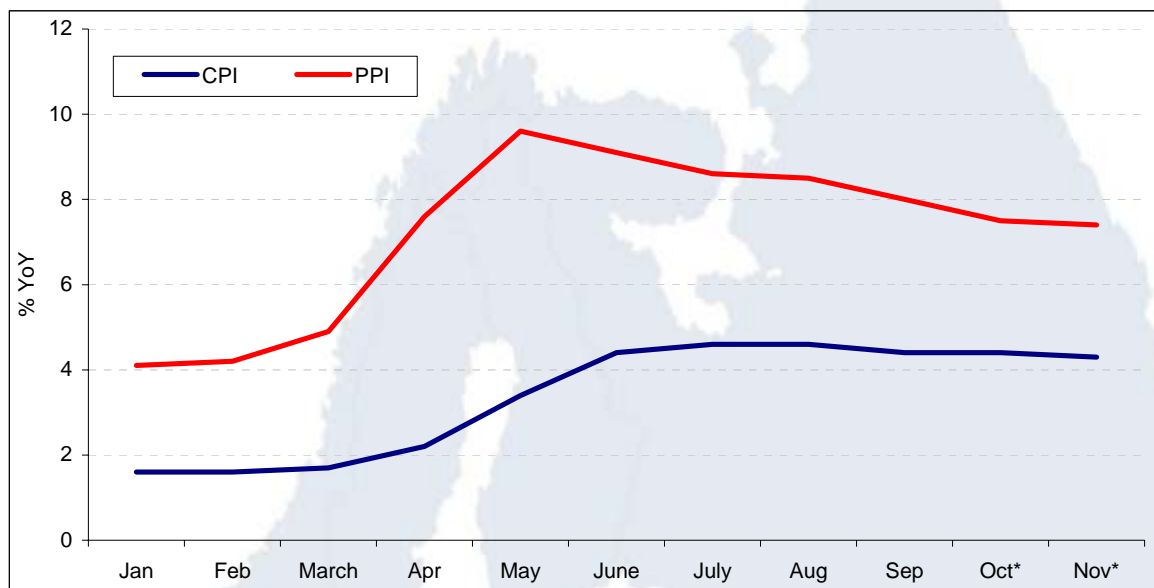


Source: NBP
* Estimate

Even if economic recovery has been going on for two years now, the unemployment rate has not decreased significantly. It reached 20% at the end of both 2002 and 2003, and it is expected to decrease to 19.2% by the end of 2004. The recent rise in inflation and inflation expectations have been threatening with increased wage pressure. However wage growth remained under the CPI in September (3.7% and 4.4% year on year, respectively). The still very high and only slowly decreasing unemployment rate is expected to keep the rise of gross wages under control for some time.

Inflation, and monetary policy The CPI has been rising since the beginning of the year, until September, when the year on year growth rate decreased slightly, compared to the previous month. In September the growth of the CPI reached 4.4%, while in August it was 4.6%. In January the growth rate of the CPI was only 1.6% compared to the same month in the previous year. As for the PPI, the same trend was observable. In January the year on year growth rate of producer prices reached 4.1%. It increased to 9.6% by June and decreased to 8% by September. The fall in CPI was the result of a negative price shock on the food market. At the same time the rise in fuel prices is expected to put upward pressure on the CPI in the near future. Producer prices also remain as a potential cause for the rise in CPI, as the PPI rise is mainly caused by the rise in domestic prices, because the strengthening zloty weakened the effect of the rising imported commodity prices.

Chart 2. CPI and PPI, 2004



Source: NB

* Estimate

The Monetary Policy Council of the National Bank of Poland left interest rates unchanged at its meeting in October, for the second time in a row. Therefore the reference rate now reaches 6.5%. Interest rates were raised by 50 base points in June, 25 base points in July, and by 50 base points in August, while they were kept unchanged in September. The medium term inflation target of the NBP is 2.5%. During the summer the main reasons for the interest rate hikes were the growing inflationary expectations, the likelihood of the continuing high rate of economic growth, and the expected pay dynamics in the economy.

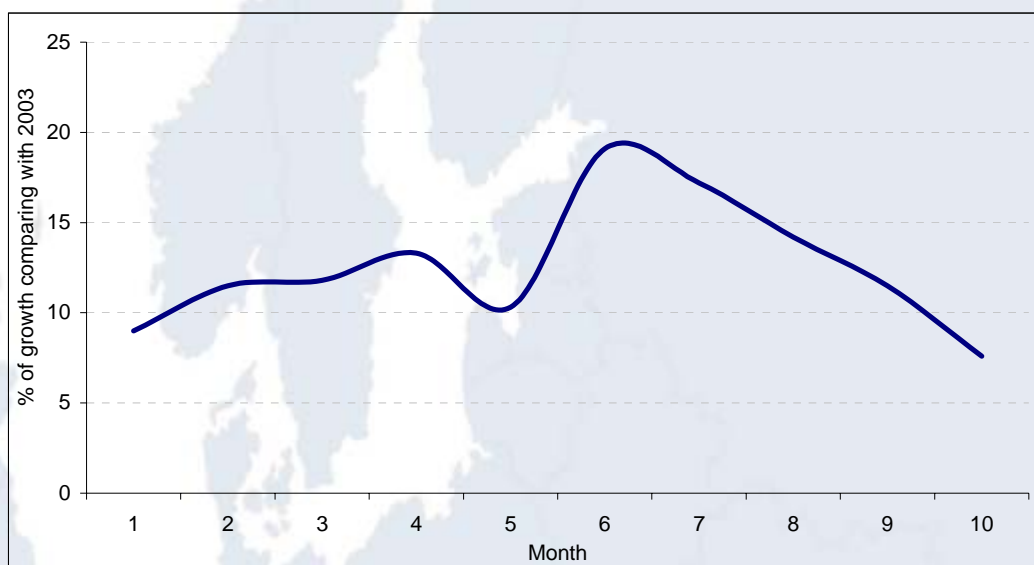
The zloty appreciation was one of the main reasons for leaving interest rates unchanged in September, while low wage pressure, weaker than expected revival in investments, and the dying out impact of EU accession on domestic prices, and the decreasing food prices were the main reasons given by the MPC for leaving the interest rates unchanged.

UKRAINE: MACROECONOMIC TRENDS IN THE SHADE OF PRESIDENTIAL ELECTION

21st of November was the final day of half-year long presidential election process in Ukraine. This time the ending of political cycle was extremely tense and unpredictable. Tough competition between two candidates caused significant changes in all spheres of Ukrainian life. Economic activities in September and October differ from those in summer and spring.

GROSS DOMESTIC PRODUCT

Chart 3. GDP Growth In 2004



In January-October the real GDP of the country increased by 12.7% comparing with the same period of 2003. But in October it increased only by 7.6%. Monthly statistic is following:

Slowing down of GDP growth in October is mainly caused by fall in growth in agricultural manufacturing (from 124.7% in January-September to 120.6% in January-October). In general, the structure of GDP growth is following:

Table 1. Structure of GDP growth

	Value Added	
	(% comparing with the same period of 2003)	
	January-September	January-October
Agriculture	124.7	120.6
Extractive industry	105.7	105.1
Manufacturing industry	116.6	115.7
Production and distribution of electric power, gas and water	98.7	99
Building	124.5	123
Retail and wholesale trade	121.1	120
Transport	110.2	110.3
Education	106.1	106.1
Healthcare and social help	105	105.1
Another kinds of economical activity	106.4	106.7
Gross Domestic Product	113.4	112.7

The demand side of GDP is characterized by growth in all its components. Namely, consumption raised by 22.3% in January-September comparing with the same period of 2003. Investment grows as well (plus 594 millions hryvnas in June, 659 millions in September). October in Ukraine is characterized by decrease of holdings in national currency by 4.8%. At the same time, holdings in euro and dollars increased by 8.8%. Uncertainty about economic situation in Ukraine after election may force people to increase their consumption and decrease savings, especially in national currency.

Foreign trade turnover in Ukraine increased by 36% in September-January (export – +41.7%, import - +29.2%), the share of CIS in export decreased and in import increased.

IMF predicts Ukrainian GDP to grow by 5% in 2005. But considering nowadays situation in the country, it is hard to make more precise forecasts. For example, one can expect a reasonable increase in turnover between Ukraine and CIS after the victory of pro-Russian candidate Victor Janukovych. On a contrary, if Victor Jushchenko wins, Ukraine is likely to enter the WTO and proportional growth of turnover with all countries is expected.

INFLATION

The acceleration of inflation could be noticed from April 2004, when the growth of consumer prices was 6.6% comparing with April 2003. In October it was 11.7% (in September – 10.7%):

Table 2. Structure of Inflation by Sectors

	Comparing to the previous month				Oct 2004 to Dec 2003
	Jul	Aug	Sep	Oct	
All goods and services	100	99.9	101.3	102.2	107.9
Foodstuffs	99.8	99.6	101.6	103	109.7
Nonfoods	100	100.3	100.5	100.4	104.2
Services	100.6	100.3	100.8	100.8	105.3

Comparing with the previous year, the biggest jumps were in petrol (62.9%) and meat food (44.1%) prices. The reason for the first jump is increase of world's oil's prices this year. Second jump is caused by abrupt reduction of cattle amount in spring and winter (which was caused by low harvest of crops in 2003). But there is also another reason of such rates. Since one of the presidential contenders is nowadays prime-minister, his campaign was followed by enormous number of decrees, released by Government.

Most of them were directed to temporary increase of social welfare of population. Almost on 8 billions of hryvnas (about 1.6 millions of dollars) increased Ukraine its budget expenses in the second half of 2004. From September Government raised salaries to state workers, doubled pensions, which increased paying capacity of population by 35%. Moreover, in the period of October money supply (MS) increased by 4.3% comparing with September.

Rates of MS growth during this fall were the highest in last 10 years. In the beginning of October Government charged with local authorities to bound markups on milk, meat and bread. So after election, when nobody regulates the prices, inflation rate will probably get higher. Experts expect it to be about 12%, comparing December 2004 and December 2003. Nevertheless, the Minister of Finance Mykola Azarov claims inflation rates to be approximately 6.5-7% at the end of the year.

Table 3. Other major macroeconomic data for Ukraine

	Rate of increase comparing		
	to Sep 2004	to Oct 2003	Jan-Oct 2003 to Jan-Oct 2004
GDP	X	107.6	112.7
Index of industrial production	106.4	107.7	113.6
Export	X	X	141.7
Import	X	X	129.2
Population's real incomes	106.2	119.1	116.2
Population's expenses	106.5	130.2	122.3
Official unemployment	97.8	95.2	X
Consumer price index	102.2	111.7	107.9
Industrial price index	101.6	124.4	120.3

All this data are the evidence of stable economic growth, but behind them is artificial governmental stimulation. Ukrainian analyst Victor Shevchuk says: "It is quite possible, that nowadays policy of pre-election economic growth stimulation will create for new president such macroeconomic situation, which will become impassable barrier for his supporters to overcome on Parliament election 2006".

Nowadays political situation in Ukraine can lead to completely unpredictable results. The country can become almost closed economy in few weeks, if authorities refuse to cancel the results of election. On the other hand, Ukraine is likely to be the real market economy, which tends to European Union, if opposition forces win.

RECENT TRENDS IN OIL AND GAS PRODUCTION IN KAZAKHSTAN

The amount of oil and gas condensate extracted in Kazakhstan during January-October 2004 increased by 14.9% with respect to the same period of 2003 and equals 48.5 million tons, which included 4.21 million tonnes of gas condensate, the staff of the Kazakh President reported.

As it seen from the graph, subsidiaries of Kazakh National Oil and Gas Company KazMunaiGaz, Ozenmunaigaz and Embamunaigaz produced 5.12 million tonnes of oil - up 16.8% year-on-year basis and 2.254 million tonnes - up 3.6%, respectively.

Companies with KazMunaiGaz participation produced 13.288 million tonnes of oil in the first ten months - up 10.8% year-on-year, of which most was produced by the joint venture Tengizchevroil - 11.32 million tonnes, up 6.7%. Tengizchevroil is Kazakhstan's leader in oil production sector with respect to the level of production. Karachaganak Petroleum Operating (KPO), which produced 6.488 million tonnes of oil, showed the highest growth compared to the previous period - up 36% year-on-year.

Oil production in Kazakhstan in October this year totalled 5.29 million tonnes (9.3% below target), including 306,240 tonnes of gas condensate (5% below target) with the division between the main producers shown in the table below.

Table 4. Oil production in Kazakhstan (in million of tons)

Producer	Jan-Oct, 2004	% change
Emba	2.254	3.6
Uzen	5.12	16.8
TengizChevroil	11.32	6.7
Mangistau	4.355	8.7
Aktobe	4.42	16.8
KPO	6.488	36
Others	10.293	17.2
Total Kazakhstan	44.25	14.9

Source: Interfax

Increased oil production in the last ten month of 2004 is not a one-time phenomenon for Kazakhstan, but the tendency, which has been prevailing over its economy for a long period. Between 1999 and 2003, Kazakhstan's oil production grew year-on-year by approximately 14%, resulting in a roughly doubling of oil production since independence. Kazakhstan producing annually about 60 million tons of oil expects to triple oil production by 2015. "Today's situation allows to suggest that the extraction of oil and gas condensate may reach 170-180 million of tons by 2015", - says the Minister of Energy and Mineral resources of Kazakhstan, L. Kainov. These plans are associated with the development of oil fields on the Caspian Sea shelf.

In this regard, economists are concerned about destabilising effects of oil wealth coming from revenues to the budget in form of taxes and royalties, a problem sometimes known as “Dutch disease” or the “resource curse”. Experience shows that oil money is inflating the value of the local currency (KZT/US\$ exchange rate: 155.85 by the end of 2002, 144.22 – 2003 and 130.0 on 17-11-2004), hitting other sectors, not based on natural resources by making it difficult for manufacturers to export or to compete with imports. Moreover, the natural resource sector of the economy provides substantial revenues, but does not create employment throughout the economy, along with making Kazakhstan’s GDP vulnerable to world oil price changes.

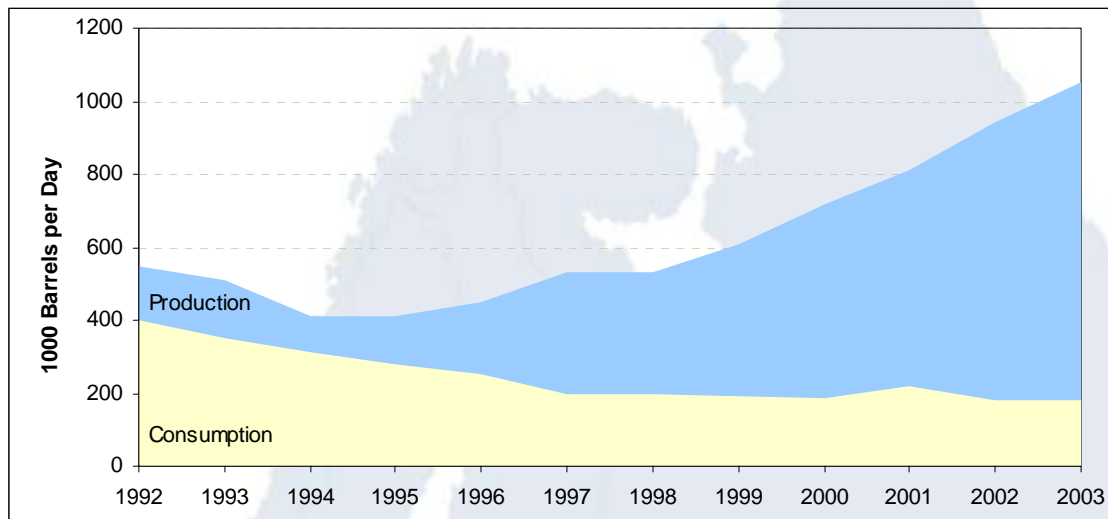
At the same time, Kazakhstan raised its gas production tentatively 46.2% year-on-year to 16.38 billion cubic meters (bcm) in January-October 2004. The figure includes 8.97 bcm of natural gas, a 54% increase, as government officials say and the division between the major producers is shown in the table below.

Table 5. Gas production In Kazakhstan (in million of cubic meters)

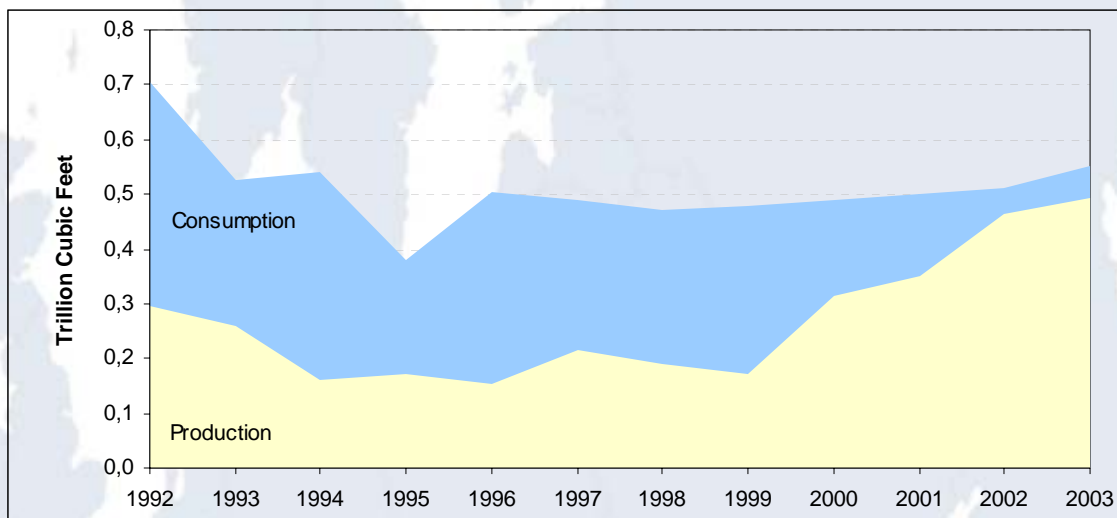
Producer	Jan_Oct, 2004	% change
Emba	73	-10.6
Uzen	941	-2.9
Tengizchevroil	3920	5.3
Mangistau	172	10
Aktobe	1780	170
KPO	6999	5.16
Others	6416	139
Total Kazakhstan	16380	46.2

Source: Interfax

Unlike the difficulties in the oil sector increasing gas production is expected to have positive effects. The reason behind this is that while Kazakhstan has sizeable natural gas reserves of 65-70 trillion cubic feet (Tcf) (comparable to Canada and Kuwait and ranking it in the top 20 countries in the world), the country is currently a net natural gas importer (Figure 2). Thus, referring to Interfax, in the first 9 month of 2004 Kazakhstan imported 9.115 billion cubic meters of natural gas for 288.7 million US\$. Most of Kazakhstan's natural gas imports come from Uzbekistan and go to the south of the country.

Chart 4. Oil consumption and production in Kazakhstan (1992-2003)

Source: EIA, 2003 are estimated

Chart 5. Natural Gas Production and Consumption in Kazakhstan (1992-2003)

Source: EIA, 2003 are estimated

In August 1999, the Kazakh government passed a law requiring subsoil to include natural gas utilisation projects in their development plans. As a result, natural gas production has been on a steady increase since 1999, and by 2000 it eclipsed its pre-independence production levels. According to the 15-year strategy of the Kazakh Ministry for Energy and Mineral Resources, the country plans to increase its natural gas production to 1.2 Tcf by 2005, to 1.66 Tcf by 2010, and to 1.84 Tcf by 2015.