

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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**Committee on Balance-of-Payments Restrictions**

**1995 CONSULTATION WITH POLAND UNDER  
ARTICLE XII:4(b)**

**Basic Document Supplied by Poland**

1. Acting in conformity with the relevant provisions of Article XII of the *General Agreement on Tariffs and Trade* and the *Declaration on Trade Measures Taken for Balance-of-Payments Purposes of 1979*, Poland, on 17 December 1992 instituted a temporary import surcharge to remedy its external position. The measure was subject to consultations in the Committee on Balance-of-Payments Restrictions in March/April 1993 and in June 1994 according to Article XII: 4(a) of the *General Agreement on Tariffs and Trade*. The Committee recognized the circumstances and the nature of the measure presented for its consideration.

a) *Essential features of the current surcharge<sup>1</sup>*

2. As of 1 January 1995, in accordance with its commitment accepted by the Balance-of-Payments Committee and in view of a gradual improvement of its external position, particularly since the second half of 1994, Poland has reduced the import surcharge by 1 percentage point to 5 per cent of the customs value of imported goods increased by the due duty. The instrument currently used is the same as in 1994, i.e. it is a separate border tax levied on imports from all sources. The level of surcharge has been changed by parliamentary amendments to *Import tax act of 25 November 1993* (*Journal of Law 1994, No. 132, item 669*) and has been accordingly notified to the GATT/WTO (*Doc. L/7461/Add.1 of 5 May 1995*).

3. The current surcharge is used in accordance with the requirements set down in the relevant GATT provisions concerning trade measures taken for balance-of-payments purposes. In particular:

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<sup>1</sup>The initial surcharge was established by the Decree of the Minister of Finance of 18 November 1992 (*Journal of Laws 1992, No. 86, item 437*) as an additional turnover tax levied on all imports except for alcoholic beverages, tobacco products, fuels and automobiles, as these items were at that time already subject to relatively high domestic taxes. It amounted to 6 per cent of the customs value of imported goods and was effective from 17 December 1992 until 4 July 1993. Since the VAT came into force on 5 July 1993 this surcharge was replaced by the separate custom duty, an instrument similar to the previous one, introduced for legislative reasons by the Council of Ministers' Decree of 8 June 1993 (*Journal of Laws 1993, No 51, item 235*). It was applied until the end of 1993. Thereafter the surcharge was continued until the end of 1994 as a separate border tax levied on all imports. It amounted also to 6 per cent of the customs value of imported goods increased, however, by the due duty. This instrument was enacted by the parliamentary *Import tax act of 25 November 1993* (*Journal of Laws 1993, No.123, item 551*).

- the comprehensive trade coverage proves that it is not used for the purpose of protecting any specific industry or sector of the economy,
- it is price based and transparent and, as such, less trade disruptive than alternative import restricting measures,
- its restrictive impact on trade is confined to what is considered necessary for meeting the objectives of the measure,
- Poland fulfills the obligations to consult the measure in accordance with the relevant GATT procedures.

4. Despite recent improvements, Poland's balance-of-payments position remains fragile and prevents the Government from an accelerated reduction of the surcharge. Moreover, the current level of external reserves is not sufficient to offset adverse effects of fundamental difficulties that are expected to last through the next few years. Therefore, the need to improve and stabilize Poland's external position will continue in the coming years.

5. The import surcharge is a temporary measure. Poland is going to relax the surcharge in accordance with the declared schedule, if its external position continues to recover. Poland intends to decrease the surcharge level to 3 per cent in 1996 and eliminate it from the beginning of 1997, as stated by Poland at balance-of-payments consultations last year. An earlier phasing down or elimination of the measure will be considered if economic conditions permit. The rationale for the maintenance of the surcharge during the next several months is presented below.

b) *Original need for a surcharge.*

6. The measure was initially taken to forestall imminent threat of further deterioration in Poland's foreign reserves, linked directly to an unusually prolonged drought experienced in 1992, effects of which had been expected to be particularly strong in 1993 and 1994. The foreign trade data on agricultural products confirmed the case as, since 1992, Poland's traditional surplus in food exports has turned into substantial trade deficit in this sector. In 1993 Poland's foreign trade balance in agricultural products amounted to US\$610 million, in 1994 net imports were recorded around US\$302 million (Annex, Table 3/Chart 2)

7. A greater reduction of the trade deficit in agricultural products, forecasted for 1994, was hampered, *inter alia*, by another severe drought in Poland that year. Total agricultural output in 1994 was 7 per cent lower than in 1993 and 20.8 per cent below 1989 figures. Such considerable decrease in agricultural production last year adversely affected export capabilities and at the same time induced higher imports, mainly of cereals. Therefore, according to estimates, Poland will not balance its agricultural trade in 1995 and probably not in the following year. Thus, the original motive remains valid in the coming months.

c) *Structural determinants*

8. The initial rationale of the surcharge was reinforced by the new circumstances linked to inherited structural imbalances as well as to transition-related determinants. These factors led to further deterioration of Poland's external position and to Poland's initiative in 1993 to prolong the application of the surcharge. First of all, there continues to exist poor non-price competitiveness of Polish exports, the presence of which is supported by evidence indicating that most exports are still in the traditional products range. On the other hand, restructuring efforts which have been undertaken, have contained

transition-related structural factors by encouraging rapid growth of intermediary and investment imports and increase their ratio to total purchases from abroad.

9. The strong economic recovery experienced by Poland's major trading partners since 1994, particularly the European Union (62.7 per cent of total exports and 57.6 per cent of total imports) has generated a big surge of traditional exports. Last year a significant trade turnover was also registered with countries of the former Soviet Union (43.9 per cent increase of exports and 16.0 per cent increase of imports) (Table 6). Nevertheless, exports of such products will quickly reach their ceiling. Indeed, recent foreign trade data show that since the third quarter of 1994 Polish exports have continued to grow much slower than imports (Annex, Table 1/Chart 1).

10. The gradual improvement in non-price competitiveness of Polish exports can be achieved through export oriented restructuring based on expansion of the private sector. In 1994 the share of this sector increased to 51.2 per cent of total exports and to 65.8 per cent of total imports (Annex, Table 4). Export competitiveness should also be enhanced by restructuring investments in the entire enterprise sector.

11. As far as investment imports are concerned, they comprise already around 15 per cent of the total imports and are increasing rapidly (in 1994 by 31.8 per cent as compared to 1993 data). Imports of intermediate inputs represent currently over 66 per cent of total imports and have also been strongly increasing (in 1994 by 46.5 per cent as compared to 1993 data) (Annex, Table 5). These two categories of imports should, in due course, help to upgrade the volume and quality of Polish output and lead to further growth of exports. Nevertheless, the improvements in the balance-of-payments are expected to be more gradual than it was originally assumed at the beginning of transformation reforms.

d) *Special factor*

12. The special factor of considerable importance that should also be taken into account in the context of the import surcharge, is related to the unusually large threat to the international monetary reserves posed by the fragility of the macroeconomic equilibrium in Poland. This factor is still present despite the earlier radical reforms, impressive achievements in stabilizing the economy, and the on-going structural reform efforts. Such phenomenon appears to be an intrinsic feature of transformation process, as may be implied by a more general, recent experience of several reforming economies.

13. The special factor comprises, among others, the high velocity of money circulation, high ratio of money held in the form of dollar deposits, large bad debts of the banking sector, strong reliance of the budget on bank financing and large public debt, including foreign. All this gives rise to a very serious credibility problem for macroeconomic policies. To meet this challenge there are no other options but to ensure, *inter alia*, the adequate level of international reserves, significantly above the minimum required for the orderly conduct of trade and financial transactions.

e) *Foreign debt.*

14. Poland has already normalized relations with all its creditors, including western official creditors, commercial banks and Russia. Both London and Paris Club agreements have improved significantly Poland's external debt indicators, e.g. the debt to exports rate decreased from 336 per cent in 1992 to 244 per cent at the end of 1994. Such changes have been influenced also by a recent simultaneous increase in Poland's foreign trade turnover. Nevertheless the external debt problem will continue to adversely affect the balance-of-payments position in years to come. Despite debt reductions Poland's debt-servicing payments - at present mostly interests due - remain relatively high and are expected to increase considerably in the future. This situation is partly due to the termination in 1994 of a three-

year "window of opportunity" granted to Poland by the Paris Club with the burden of servicing official debt especially low, partly because of the need to implement the agreement with the London Club.

15. Annual interest payments on the Paris Club debt will remain at around US\$660 million until the turn of the century. Principal repayments increase rapidly after the year 2002, peaking in 2008. In the case of the London Club, the time profile of cash flow under the concluded agreement has been designed to avoid the peaks associated with Paris Club repayments. According to the arrangements interest payments will be on average US\$400 million during the first five years and US\$500 million thereafter; capital repayments will increase after 2009 when Paris Club commitments reach their peak.

16. In the next several years the significant servicing burden will constitute an important consideration in formulating policies of Poland as a relatively moderate indebted country. The Polish Government response to this problem is envisaged in the medium-term economic programme for 1995-1997 called "Strategy for Poland", which aims at establishing conversion of debt to equities of the privatized enterprises. Initial debt to equity swaps are expected to be implemented later this year with the limit of conversion amounting to US\$150 million.

f) *Balance of payments and reserves*

17. Although Poland's overall external position has shown gradual improvement since the second half of 1994, it still remains fragile. Uncertainties result from a number of factors, including negative official trade balance and the quantity and structure of capital flows to Poland (large increase, particularly in the first months of 1995, of short-term capital inflow and relatively low level of FDI). Moreover there are uncertainties associated with new economic circumstances resulting from a recently introduced partial floating of the national currency ("zloty") and from the practical introduction of full convertibility of the zloty for current account transactions since the beginning of the year.

- *Trade balance*

18. According to the balance-of-payments statistics, total value of convertible currency traded exports and imports amounted in 1994 to US\$16,950 million and US\$17,786 million respectively. As compared to 1993 data, exports were higher by 24.8 per cent and imports by 12.0 per cent. Despite the higher rate of growth of exports than imports, the trade balance continued to be negative and amounted to US\$836 million although it was much lower than in 1993 (US\$2,293 million). The trade balance/GDP ratio was 0.9 per cent, as compared to 2.7 per cent in 1993.

19. The trade deficit on a customs basis was significantly larger as compared to balance-of-payments statistics, and amounted in 1994 to US\$4.3 billion (exports US\$17.2 billion, imports US\$21.6 billion), modestly less than US\$4.7 billion in 1993 (exports US\$14.1 billion and imports US\$18.8 billion) (Annex, Table 6).

- *Capital account*

20. Since late 1993 Poland's official external reserves and those of the banking system have been increasing despite the current account deficit (Table 1). On evidence, Poland has been the recipient of short-term capital flows coming: (i) mostly from investments in Treasury bills, due to their comparative advantage with respect to the same securities abroad, and (ii) from net purchase of foreign exchange largely from unregistered border trade as well as from tourism.

21. The inflow of long-term capital, mainly in the form of foreign direct investment, is still rather limited as compared to the need of a country in transition. Foreign direct investment in Poland for a number of years has been growing relatively rapidly but from a very low level. In 1994, FDI inflow registered a first drop (by 25 per cent of net inflows as compared to 1993 data). According to statistics of the Polish Agency for Foreign Investment, by the end of March 1995 FDI stocks in Poland amounted to US\$5.0 billion, with confirmed commitments estimated at US\$5.1 billion. In per capita terms FDI accrued until 1994 amounted to around US\$110, which is still substantially less than in many other comparable economies. The balance-of-payments data produced figures for FDI that are significantly lower (in 1994 only US\$542 million as compared to US\$1,280 claimed by the Agency).

22. More recently (first quarter of 1995) investment inflow has been positively influenced by continuous economic recovery and by partial rescheduling of Poland's external debt in the Paris and London Clubs. It is expected that continued liberalization of market access and the introduction of current account convertibility of the *zloty* will further enhance Poland's standing as an investment venue for both portfolio and direct investment. Adherence of Poland to the OECD Codes of Capital Flows and Current Invisible Operations, which is expected to become effective in 1996, should also contribute to this end.

- *External reserves*

23. The steady recovery of Poland's external reserves is in line with the needs of the country. The official reserves merely cover extensive foreign currency deposits of the population and as such can hardly be regarded as high. In fact, these reserves are necessary to keep confidence and prevent any significant capital flight. Poland's official reserves, especially in relations to the size of the economy, are still lower than in most of the emerging market economies outside Europe or in some European countries in transition.

24. From the long-term perspective, Poland, above all, has to maintain a reasonably high level of international reserves, adequate to meet its debt servicing obligations. There are, however, some other, more immediate necessities for higher reserves.

25. On 25 May 1995 Poland formally accepted, as of 1 June 1995, the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement and it is expected that the IMF will confirm Poland's new status in June 1995. This move has been a consequence of the new foreign exchange law and the implementing regulations that permit unrestricted payments and transfers for current international transactions. Also most exchange restrictions that were maintained by Poland under Article XIV Section 2, until the end of 1994, have been eliminated with the enactment of the new General Foreign Exchange Permit. Therefore the higher level of international reserves is needed to secure full current account convertibility.

26. On 16 May 1995 a new market-based exchange system was established, under which the *zloty* may float within the limits of plus or minus 7 percentage points around the central rate which is still to crawl down monthly by 1.2 per cent vis-à-vis the basket of five currencies (composed as follows: 45 per cent - US dollar; 35 per cent - DM; 10 per cent - Pound sterling; 5 per cent French franc; 5 per cent - Swiss franc). The central rate of crawl is to be retained for interventions by the National Bank of Poland on the forex market, which also provides an additional argument in favour of maintaining the import surcharge in the months to come.

ANNEX

Table 1

POLAND  
Balance of payments (payments basis, convertible currencies), official reserves and foreign debt  
(US\$ million)

	1992				1993				1994				1995*			
	I	II	III	IV	I-IV	I	II	III	IV	I-IV	I	II	III	IV	I-IV	I
Exports	3310	3545	3513	3629	13997	3040	3348	3471	3726	13585	2489	4132	4561	4763	16950	5066
Imports	2925	2984	3440	4136	13485	3410	4103	4261	4104	15878	3757	4298	4573	5158	17786	5411
Trade balance	385	561	73	-507	912	-370	-755	-790	-378	-2293	-1268	-166	-12	-390	-136	-945
Current account	139	206	-60	-348	-369	-563	-969	-698	1	-2329	-483	-69	-37	-380	-969	-605
Overall balance	12	311	232	-83	473	-324	-278	332	444	-5	803	113	847	-314	1379	1544
Official external reserves**	3826	4137	4369	4287	4287	3963	3486	3837	4281	4281	5084	5197	6044	6028	6828	7572
Foreign debt***	45453	48196	50229	47044	47044	47540	47377	48414	47246	47246	48192	46765	47470	41507	41507	44139

\* Preliminary data

\*\* End of period

\*\*\* In convertible currency only

Table 2

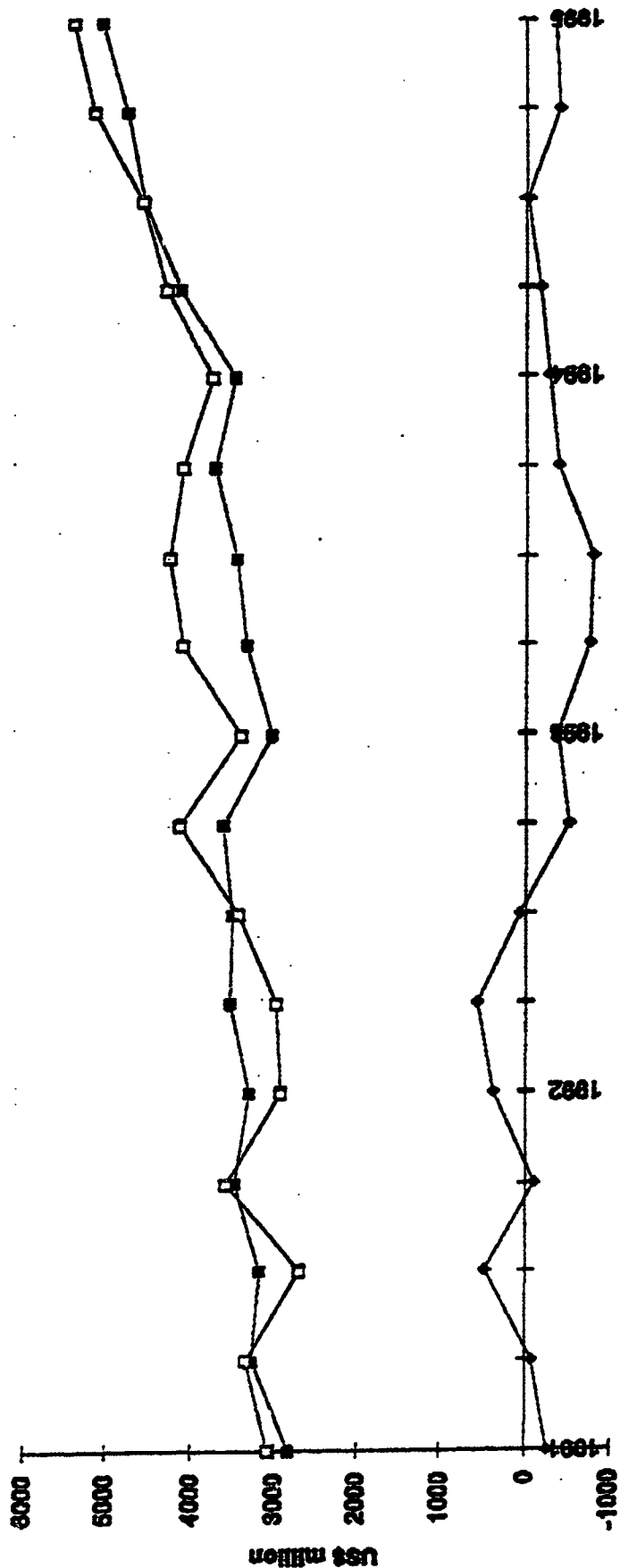
POLAND  
Net International Reserves\*  
(US\$ million)

	1992				1993				1994				1995
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Changes	-1317	104	836	991	-317	-456	-230	485	836	843	468	1286	-63
													1830

\* As from the end of the previous period

Chart 1

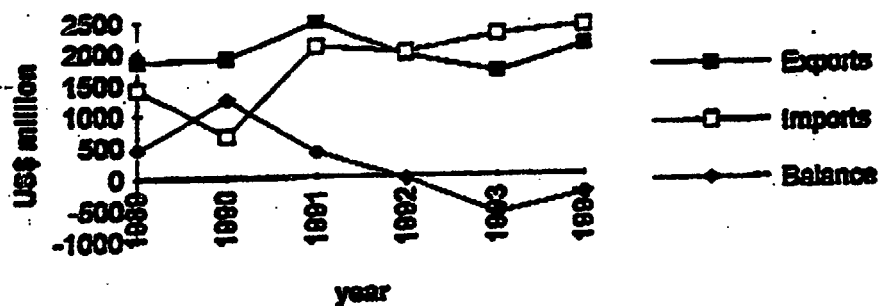
Poland: Foreign trade



**Table 3**  
***Poland: Foreign trade in agricultural products***  
***(US\$ million)***

	1989	1990	1991	1992	1993	1994
<b>Exports</b>	1850	1903	2469	1932	1646	2072
<b>Imports</b>	1402	666	2082	1974	2256	2374
<b>Balance</b>	448	1237	387	-42	-610	-302

**Chart 2**  
***Poland: Foreign trade in agricultural products***





**Table 4**

**POLAND**  
**Private sector participation in foreign trade**  
**(trade data)**

Year	As percentage of total	
	Exports	Imports
1990	4.9	14.4
1991	21.9	49.9
1992	38.3	54.5
1993	44.0	59.8
1994	51.1	65.8

**Table 5**

**POLAND**  
**Imports 1993-1994 by main categories**  
**(trade data)**

Category of imports	1993	1994
Total	100.0	100.0
Intermediary	64.8	66.4
Consumption	19.9	19.1
Investment	15.3	14.5

Table 6

**POLAND**

Foreign trade by main trading partners  
(trade data)

	1993 (US\$)			1994 (US\$)			1993 = 100	
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports
Total	14,143.1	18,834.0	-4,690.9	17,240.1	21,569.1	-4,329.0	121.9	114.5
European Union	8,950.9	10,784.5	-1,833.6	10,804.9	12,403.4	-1,598.5	120.7	115.0
EFTA	1,109.0	2,103.1	-994.1	1,409.9	2,442.5	-1,032.6	127.1	116.1
Other developed	539.1	1,446.6	-907.5	776.8	1,366.0	-589.2	144.1	94.4
Former SU	1,110.8	1,811.7	-700.9	1,598.1	2,106.4	-508.3	143.9	116.3
CEE	758.0	719.7	38.3	900.8	956.3	-55.5	118.8	132.9
Developing	1,675.3	1,968.4	-293.1	1,749.6	2,294.5	-544.9	104.4	116.6