

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
BOP/R/228
1 August 1995
Limited Distribution

(95-2282)

Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b)
WITH THE REPUBLIC OF POLAND

1. The Committee consulted with Poland on 29 and 30 June 1995, in accordance with its terms of reference, pursuant to Article XII:4(b) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the chairmanship of Mr. P. Witt (Germany). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV:2 of the General Agreement.

2. The Committee had the following documents before it:

Basic document supplied by Poland BOP/325 and Corr.1

Background paper by the Secretariat BOP/W/162

Notification by Poland under paragraph 3 of the Declaration
on Trade measures Taken for Balance-of-Payment Purposes L/7461/Add.1

International Monetary Fund, Supplementary Background material
for the WTO, Republic of Poland, dated 26 May 1995.

Opening Statement by the Representative of Poland

3. The opening statement of the representative of Poland is attached as Annex I.

Statement made by the Representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund is attached as Annex II.

Discussion in the Committee

(i) **Balance-of-payments position and prospects; alternative measures to restore equilibrium**

5. Members of the Committee noted that Poland's macro-economic achievements since the last consultation had been remarkable: Led by exports and private sector investment, Poland's GDP growth in 1994 had been the highest among the Eastern European countries; public finances had improved significantly; the rise in export earnings and investment flows had strengthened the external position; and official reserves had reached five months' of imports. Poland's recent economic performance and the rescheduling of its debt should facilitate its access to international financial markets and thus should consolidate the favourable trend in its balance-of-payments situation. The real appreciation

of the zloty following the introduction of convertibility for all current account transactions witnessed to the confidence in the soundness of Poland's external position. Acceleration of privatization should have a positive impact on the exportables sector and should improve the trade balance. However, inflation remained the main stumbling block to economic stabilization and could eventually undermine the competitiveness of Poland's exports.

(ii) System, methods and effects of import restrictions

6. Members of the Committee emphasized that the import surcharge should be resorted to as an exceptional and temporary measure in the case of acute balance-of-payments difficulties. Problems associated with low competitiveness and the potential reversibility of capital flows and other perceived uncertainties in Poland's economic environment were quasi-permanent features of economies in transition and should be addressed through structural measures.

7. Members of the Committee noted that Poland had reduced the rate of surcharge from 6 to 5 per cent on 1 January 1995, consistently with the commitment undertaken by Poland during the 1994 consultation. It was recalled that at the last meeting the GATT 1947 Committee had considered that a more rapid phase-out than Poland's schedule could well be possible. Poland was invited to accelerate its phase-out of the surcharge to the extent that the circumstances that had warranted the measure had changed significantly.

8. Given the recovery of Poland's economic situation and external balances, some Members had doubts that the continuation of the surcharge was justifiable under the relevant provisions of GATT. Several Members also expressed concern that surcharge became entrenched beyond the necessary time period and was part of the regular revenue stream. With the tax reform and the introduction of value added tax there should be less need for the use of import surcharge as a source of fiscal revenue.

(iii) Replies by Poland

9. The representative of Poland stated that Poland had to be prepared for any unfavourable developments in its macro-economic and external situation. While Poland regarded the surcharge as an instrument of exceptional and temporary nature, it enabled Poland to adjust gradually to the challenges and requirements of its transition to market economy.

10. The representative of Poland stated that uncertainties in Poland's economic structure and external environment required the maintenance of large reserves. Although the reform had successful results, there was need for certain safeguards in view of Poland's limited experience with institutional structure and economic agents' behaviour in a market economy. Risks specific to economies in transition, in addition to those inherent to macroeconomic performance of a market economy, required Poland to be particularly cautious. The change in the geography of Poland's foreign trade links was an additional element of uncertainty.

11. The favourable developments in the external sector were the result of the recovery in Poland's economy, in Western European and in the region. However, Poland had a large proportion of traditional exports which were subject to fluctuations in foreign demand. Imports of foodstuffs had increased due to draught and services account had deteriorated significantly with the liberalization in the services sector. While exports had surged in the first five months of 1995, mainly because of exporters' expectations regarding reevaluation of zloty, imports had also been increasing which could widen the trade deficit for 1995.

12. Substantial inflow of short term capital caused by the switch to Polish zloty as transaction money had contributed to the build up in reserves and an appreciation in the real effective exchange rate. Efforts for the stabilization of the money market and the on-going liberalization of the capital account could bring further pressure on reserves.

13. The representative of Poland stated that while import surcharge could have an inflationary effect, corrective changes in prices, foreign and domestic demand boom and rapid growth of money supply had been the main factors in fuelling inflation.

14. The representative of Poland acknowledged that one side effect of import surcharge had been additional fiscal revenue. Notwithstanding the domestic pressures for the extension of the surcharge during the presentation of the bill of law on the schedule of phase-out, his authorities were committed to the elimination of the surcharge by the end of 1996, provided there were no unforeseen adverse developments.

Conclusions

15. The Committee commended Poland on its trade liberalization process during the past year. It noted that, since the last consultation, Poland's economic transformation and recovery had continued and it commended Poland on the progress made. Led by an increase in industrial output, investment and exports, GDP growth had been 6 per cent in 1994. The acceleration of exports and a slower growth of imports had significantly reduced the current account deficit in 1994; the Committee noted the IMF statement that, with unrecorded trade, an estimated current account surplus of 2¼ per cent of GDP had been achieved in 1994. This, together with an increase in short-term capital inflows, an increase in net transfers and the reduction in debt amortization following debt relief agreements had led to a large increase in the level of international reserves, which were now estimated at some 5 months' imports of goods and services. However, inflation remained high and monetary growth was above the official target.

16. The Committee noted the statement by Poland that, despite the recent improvements, Poland's external position remained vulnerable and that the current account balance was likely to deteriorate in 1995 and 1996.

17. The Committee welcomed that Poland had reduced the import surcharge to 5 per cent as of 1 January 1995 and had presented a phase-out programme, but expressed disappointment that the surcharge was to be maintained in 1996. It emphasized that, under Article XII of the GATT, trade measures were to be used only in the case of severe balance-of-payments difficulties and to be temporary in nature; it also emphasized the harmful effects on resource allocation resulting from the prolonged application of an import surcharge. The Committee repeated that surcharges should not be used for fiscal or protective purposes.

18. In relation to the phase-out programme presented, the Committee welcomed Poland's declaration that an earlier phasing down and elimination would be considered if economic conditions permitted. The Committee felt that, given the improvements in Poland's economic situation and its favourable balance of payments position, a more rapid phase-out should be possible. It thus requested Poland to eliminate the surcharge by the end of 1995, if possible, and in any case to accelerate the phase-out to take place by the time due for the next consultation.

ANNEX 1

Opening Statement by the Representative of Poland

Pursuant to consultation provisions of Article XII:4 of the General Agreement on Tariffs and Trade, the Government of Poland wishes to present its case to members of this Committee. The matter which we raise relates to a temporary import surcharge applied by Poland since 17 December 1992 in order to assist in remedying the balance-of-payments situation. This matter is before this Committee for a third time.

Following the 1993 consultations, the Committee issued a statement in which it noted, "the import surcharge was ... introduced by Poland as a temporary measure, in view of perceived imminent threat of further deterioration in the balance-of-payments situation.... The Committee welcomed the fact that the measure was transparent and price based; that its coverage would extend to all imports; that it was implemented in a non-discriminatory manner..."

Following the 1994 consultations, the Committee further noted that, I quote, "Poland's new commitment to reducing the surcharge to 5 per cent in 1995 and 3 per cent in , and eliminating it by the end of 1996" and "welcomed Poland's readiness to review the situation... in spring of 1995". In this respect let me draw your attention to the Notification of 21 April 1995 in which the Government of Poland confirmed the fulfilment of commitment to lower the surcharge from 6 per cent to 5 per cent, effective as of 1 January 1995.

In my opening statement today I intend to present the current situation related to the application of the measure and confirm our intentions to eliminate the surcharge according to the declared timetable.

As this Committee has already received comprehensive background documents provided by the Government of Poland, the International Monetary Fund and the Secretariat I shall refrain from the general review of economic conditions and reform policies of Poland. May I, however, refer to those conditions and policies which are directly relevant to the issue at hand.

Mr. Chairman, let me begin with a reflection on the original need for the surcharge.

The measure was initially taken "to forestall the imminent threat of a serious decline in Poland's foreign exchange reserves", linked directly to an unusually prolonged drought experienced in 1992, effects of which were expected to be particularly strong in 1993 and 1994. The latest foreign trade data on agricultural products fully confirmed the case as, since 1992, Poland's traditional surplus in food exports has turned into substantial trade deficit in this sector.

The situation in this sector was further complicated by another severe drought which occurred in Poland in 1994. The total agricultural output that year 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 also in the next year. Thus, the original motive remains valid in the coming months as well.

Mr. Chairman, may I also point out the structural determinants.

As I already mentioned during the 1994 consultation, the initial rationale of the surcharge had been reinforced by the new circumstances related to inherited structural imbalances as well as to

transition-related determinants. These factors have 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 traditional products range, which means that exports of such products would inevitably quickly reach their ceiling. Last year such a trend was moderated by economic upswing experienced by Poland's major trading partners which generated a surge in Poland's traditional exports, particularly to the European Union (which accounts for roughly 63 per cent of Polish exports) and the significant increase in trade turnover, including 40 per cent increase of exports, registered with countries of the former Soviet Union.

Nevertheless, the recent foreign trade data show that since the third quarter of 1994 Polish exports have continued to grow much slower than imports. Such basic tendency is further supported by forecasts for the rest of 1995 and 1996. Its temporary reversal in March and April of this year has been largely a result of expectations concerning currency appreciation and is not expected to be more than a short-term development.

A gradual improvement in this respect 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. Export competitiveness should also be enhanced by new investment in the entire enterprise sector.

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 its high rate to total purchases from abroad. These two categories of imports have also been strongly increasing and should in due course, help to upgrade the volume and quality of Polish output and lead to a further growth of exports. Nevertheless, the consequent improvements in the balance-of-payments are expected to be slower, more gradual than it was originally assumed in the beginning of transformation reforms.

Mr. Chairman, in our earlier presentations in this Committee I also drew the attention of its members to the effects of the surcharge.

I wish to reiterate our original position that the prime objective of this measure had been to alleviate grave risks to the balance-of-payments position. The surcharge has been instrumental in containing such risks through certain moderation of growth in imports relative to what would otherwise have been likely to occur in the absence of this measure. May I, however, state most emphatically, that the original level of the surcharge and its subsequent reduction have been carefully chosen so as not to discourage outward-oriented approach in trade policies, nor to substitute for a fundamental reform of public finances. True, the surcharge has been helpful in assisting such reforms, designed with the assistance of the International Monetary Fund. This, however, does not detract from its legitimate, Article XII objective for which it had been taken.

Mr. Chairman, I would also like to mention the external debt problem that considerably affects the balance-of-payments position.

As you well know Poland has already normalised relations with all its creditors, including western official creditors, commercial banks and Russia. However, Poland's debt-servicing payments remain relatively high and are expected to increase considerably in the future. Therefore the external debt problem will continue to adversely affect the balance-of-payments position in the years to come and the significant servicing burden will constitute an important consideration in formulating our policies.

Full normalization of financial relations with all external partners is a great asset for us and a major step in Polish transition reforms. Therefore, one of our paramount objectives is to keep adequate international reserves and conduct sound economic policies so as to safeguard Poland's ability to fully honour its external financial obligations. This aspect has been reflected in Poland's improved international credit rating.

Mr. Chairman, 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 a 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 the new economic circumstances resulting from a recently introduced partial floating of national currency ("zloty") and from the practical introduction of full convertibility of the zloty for current account transactions since the beginning of this year.

Trade balance

Coming to the trade component of the BOP, which is explained in greater detail in the Basic Document, may I only indicate that on the balance-of-payments basis Poland's deficit in 1994 was still relatively substantial and amounted to US\$836 million. The deficit recorded on the custom basis was remarkably much higher at US\$4.3 billion. A similar development has been observed this year with trade deficit on the custom basis exceeding already US\$1 billion after the first four months.

This trend, structural in its nature, is compounded by the effects of the on-going trade liberalization, including the implementation of the first stage of the Uruguay Round tariff reductions on industrial products since the beginning of the year 1995. Also a new tariff schedule for products covered by the WTO Agreement on Agriculture, rates which will take effect as of 1 July 1995, provides for applied tariff rates which are generally substantially below the levels accepted in Poland's list of WTO commitments. Such policy choice is intended to encourage structural change in the agricultural sector. All these factors suggest that the existing strains in the trade balance and, consequently, in the current account performance, are likely to persist.

According to our forecasts current account deficit this year is likely to amount to US\$2.2 billion and will further deteriorate throughout the next year reaching the level of US\$3.1 billion at the end of 1996.

Capital account

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

The inflow of long term capital, mainly in the form of foreign direct investment, is still fairly limited as compared to the need of a country in transition. Foreign direct investment in Poland for a number of recent years has been growing relatively rapidly, but its total per capita volume amounted in 1994 to around US\$110, which is still considerably less than in some other countries.

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

The recovery of Poland's external reserves is in line with the needs of the country. However, official reserves merely cover extensive foreign currency deposits of the population and as such can hardly be regarded as high. In fact, these reserves allow to keep confidence and prevent any significant capital flight. Poland's official reserves, especially in relation 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.

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

One of them results from the fact that on 24 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 the IMF has already confirmed Poland's new status. This move is consistent with 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.

The other requirement is related to the establishment, on 16 May 1995, of a new market based exchange system, under which the zloty may float within the limits of ± 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. The zloty fixing is to be retained within the above limits by the National Bank of Poland interventions on the forex market, which also provides an additional argument in favour of maintaining the import surcharge in the months to come.

Poland recognises the exceptional and temporary nature of trade restrictions of any kind applied for balance of payments purposes. My Government continues to be fully committed to trade liberalization policies. The rate of effective tariff protection, as measured by the ratio of import duties collected to imports, dropped this year by around 4 percentage points to 9.3 per cent, mainly as a result of the implementation of the Uruguay Round commitments, the Europe Agreement provisions and the reduction of the surcharge.

Polish trade liberalization reforms are among the most comprehensive in Central Europe. In this respect, one of the most significant initiatives has been a formal acceptance of full convertibility of the zloty for current operations, which will be followed shortly by further expansion in foreign currency autonomy of the economic agents.

Despite recent improvements, Poland's balance-of-payments position remains vulnerable 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 which are expected to last through the next few years. Therefore, the need to improve and stabilize Poland's external position continues to exist.

Nevertheless, the import surcharge, important as it may be as a temporary measure, is not regarded by Poland as a substitute for more fundamental, structural adjustment efforts. Such adjustment has been widespread and it has affected each and every segment of our economic and social life, and no objective observer of the Polish scene may deny this fact. The surcharge has played its positive rôle as one of the important components of the overall policy package which is intended to ease the shocks associated with the systemic change and to sustain Poland's open trade and financial policies with our partners within this Organization.

It is in this spirit that we have been consulting in this Committee. We are coming to the present meeting to confirm what was contained in our conclusions last year, namely that Poland is going to relax the surcharge in accordance with the declared schedule, if its external position continues to recover. Consequently, Poland intends to decrease the surcharge to 3 per cent in 1996 and eliminate it from the beginning of 1997, as acknowledged by this Committee last year. An earlier phasing down or elimination of the measure will be considered if economic conditions permit.

To conclude this opening statement, I wish to thank you, Mr. Chairman, for your and the Committee's positive response to our request to consult with the Committee. I would also like to thank the Secretariat of the WTO/GATT and the IMF officials, both in Washington and Geneva, for their helpful co-operation in preparing this review.

I and my colleagues stand ready to respond to questions and comments from you and other members of the Committee. We count on your understanding and friendly partnership.

ANNEX II

Statement by the IMF Representative

Since June 1994, when the Committee on Balance of Payments Restrictions last consulted with Poland, the momentum for growth in Poland has been well maintained. Real GDP growth was a solid 6 percent in 1994, supported by large gains in industrial production. Underlying this outcome has been a steady strengthening in Poland's productivity, which attests to the growing benefits of the economic transformation and Poland's ability to capitalize on the economic recovery in its major trading partners. These results have been supported by generally sound macroeconomic policies. Looking to the year ahead, economic prospects remain favourable overall, with expectations for continued robust growth.

At the same time, some recent trends point to challenges ahead. Symptomatic of those challenges has been the persistence of inflation. The inflation rate, as measured by the consumer price index, was 29.5 percent during 1994, some 7 percentage points above target, but 8 percentage points below the 1993 outcome. Inflation has continued unabated in early 1995; prices increased by nearly 11 percent during the first four months of the year, raising annual inflation to 32 percent.

The strength of activity in 1994 was accompanied by a sharp rise in savings. In particular, nongovernment net savings increased by 2 1/2 percent of GDP, partly offsetting an even sharper deterioration during 1993. Such sharp fluctuations in the private savings-investment balance have not been uncommon during the transformation. The 1994 outcome likely reflected developments in the labour market, where the protracted increase in unemployment and the decline in real wages, going back to the beginning of the transformation program, have finally started to reverse. However, the increase in income last year has not translated into consumption, perhaps owing to uncertainty. A rise in private consumption later in 1995 cannot be ruled out, particularly if wage awards were to increase sharply.

The 1994 savings developments had a counterpart in a marked improvement in the current account of the balance of payments. If estimates of unrecorded trade are included, Poland posted a current account surplus in 1994 equivalent to 2 1/4 percent of GDP, an improvement of about 3 percentage points of GDP relative to 1993. Annual official export volume growth in 1994 (21 percent) far exceeded import volume growth (7 percent). However, imports have been accelerating since the latter part of the year and are now growing faster than recorded exports.

While clearly positive for economic activity, Poland's strong current account position has exacerbated inflationary pressures. The increase in net international reserves (NIR) accounted for about a fourth of the money supply growth during 1994. In recent months, this trend has strengthened, with NIR having increased by about US\$2 billion by the end of the first quarter of 1995, thus increasing gross official reserves to about five months of imports.

Monetary and fiscal policy have attempted to counter the external demand stimulus. Throughout 1994, the NBP faced the challenge to offset the monetary impact of the large NIR increase. Despite extensive contractionary open market operations, through both reverse repo agreements and direct sales of government paper, and an expansion in net domestic assets which was some 3 percent lower than envisaged in real terms, broad money growth of 34 percent was 5 percent above the target. Regarding fiscal policy, the deficit of general government was the equivalent of 2.5 percent of GDP, over 1 percent of GDP tighter than envisaged. The margin realized in the budget for the most part arose from lower than envisaged interest payments on external and domestic debt.

The fiscal and monetary targets for 1995 are ambitious but no slippages can be afforded if inflation is to be reined in. However, budget results for the first quarter of 1995, especially lower-than-expected revenue receipts, are providing early warning signs that meeting the budget target—a deficit for general government of 3.1 percent of GDP—will be more demanding than last year, especially as Presidential elections are scheduled for this fall. Regarding monetary policy, during the first quarter the National Bank of Poland (NBP) stepped up its sterilization efforts and raised interest rates by a couple of percentage points. In mid-May the NBP introduced a more flexible exchange rate system, allowing the exchange rate to float within bands of ± 7 percent around the central rate, which will continue to depreciate at a preannounced 1.2 percent per month against a basket of currencies. Under the new system, the exchange rate quickly appreciated a few percent. To complement the exchange rate movement, the NBP reduced its headline interest rates by 4 percentage points in late May.

In view of the recent developments, and despite the progress achieved in 1994, the fiscal and external balances remain vulnerable. Delays in structural reform, especially regarding pensions and privatization, have added substantially to future fiscal pressures, starting as early as 1996. Developments in the external balance are very much dependent on the reactions of the private sector both in Poland and abroad. Resources for the prospectively heavy debt service payments to external creditors and to finance the large import demands indispensable to sustain rapid growth can be met either through large sustainable medium-term private capital inflows or a stronger export performance. Evidence of the former, though scant at the moment, may surface following Poland's recent completion of the normalization of relations with all its creditors. However, sustainable flows will require further progress in structural reform, especially as regards privatization.

Substantive changes have been made to the exchange system in 1994 and 1995. In late 1994, Parliament passed a new foreign exchange law that has eliminated all restrictions on current account transactions. In addition, in early 1995, regulations have been introduced unifying the interbank and "kantor" markets. These changes have permitted Poland to accept the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement with effect from June 1, 1995.

Substantive changes have also occurred in the trade system since June 1994. Poland has already implemented its tariff commitments under the Uruguay Round—as early as January 1, 1995 in contrast to the formal commitment for them to become effective on July 1, 1995—in the area of nonagricultural products, leading to a reduction in the weighted average tariff from 11.8 per cent in 1994 to 9.3 percent at the beginning of 1995. Furthermore, on July 1, 1995, nontariff barriers on agricultural products will be converted into tariffs, as agreed under the Uruguay Round, and the system of variable import levies on agricultural imports, introduced as a temporary measure in June 1994, will be eliminated by that date. In addition, in line with its international agreements with the EU, EFTA, and CEFTA countries, Poland is gradually phasing out quantitative limitations on exports and imports, as well as reducing to zero import tariffs on manufactures over a period of a few years.

Regarding other initiatives on trade reform, the Government lowered the import surcharge from 6 percent to 5 percent with effect from January 1, 1995. The surcharge currently yields 1 percentage point of GDP in revenue to the budget. The authorities intend to reduce the surcharge to no more than 3 percent at the beginning of 1996 and to eliminate it at the end of 1996. In view of the favourable external environment, the IMF staff has argued for a faster phasing out of the import surcharge, complemented by additional fiscal measures to offset the revenue loss. However, the authorities did not see such action as immediately feasible.

In summary, Poland's external position strengthened considerably during 1994. For the most part, this good performance was led by exports, and supported by strong competitiveness. Looking ahead, the vigorous export growth is expected to be maintained. However, the external current account

(including unrecorded trade) is likely to deteriorate during 1995, reflecting a rebound in domestic demand to more normal levels. The current account also remains vulnerable to swings in private savings that could be triggered by strong current and prospective income growth.