GENERAL AGREEMENT

ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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

Background paper by the Secretariat

1. This paper has been prepared pursuant to paragraph 7 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.[1]

I. Previous Consultation with Poland

2. Poland had one consultation in the Committee on 31 March and 2 April 1993, following the introduction of a 6 per cent import surcharge under Article XII of the GATT in December 1992.[2] The Committee in its conclusions commended Poland for the significant progress achieved in the transformation to a market-based trade and economic system and noted the difficulties encountered by Poland in its transition process, which included a substantial fiscal imbalance. The Committee understood that the import surcharge was introduced as a temporary measure, in view of a perceived imminent threat of further deterioration in the balance-of-payments situation linked to the drought conditions experienced in 1992, as well as in a situation of fiscal imbalance. The Committee welcomed the fact that the measure was transparent and price based; that its coverage would extend to all imports; and that it was implemented in a non-discriminatory manner. The Committee urged Poland to hold to the original timetable for reduction of the surcharge to 3 per cent and looked forward to the elimination of the surcharge by the end of 1994, or even earlier if circumstances permit.

II. Poland's Trade and Exchange System: Evolution since the last consultation.[3]

(a) Import restrictions

3. Since the last consultation, Poland has introduced some changes in its tariff structure and slightly increased the level of tariff protection. Changes in July 1993 made customs duties lower on imported raw materials and semi-finished products and increased them on finished goods and products produced by the domestic industry. As a result, the average unweighted tariff has increased from 18.4 per cent (1991) to 19 per cent. In December 1993, some further tariff modifications were adopted, which have very small implications on the general tariff level. The practice of annual duty suspensions have been continued; duties on 1,500 nine-digit tariff lines, mainly industrial inputs, have been totally or partially suspended. In 1993, an import duty was introduced on sugar content (0.0017 ECU per 10 grams of sugar per kilo).

4. Poland's tariff schedule, negotiated during the Uruguay Round, has been annexed to the Marrakesh Protocol. It provides for a comprehensive tariff binding of all agricultural products and

[1]BISD 26S/205.

[2]BOP/R/206 and corr. 1.

[3]In document L/7444, Poland has provided updated information on its economic and trade policies for the Working Party on the Renegotiation of the Terms of Accession of Poland.

over 96 per cent of industrial tariff lines. The simple average tariff cut will be 37 per cent for food and agricultural products and the trade-weighted reduction of industrial tariff cuts 38 per cent.[4] The average level of tariff protection after the implementation of the Marrakesh commitments is expected to be less than 10 per cent (trade weighted).

5. The legal framework for the introduction of a variable levy on the import of some agricultural commodities has been adopted at the end of 1993. Decisions regarding coverage and operation of the variable levy are still pending.

6. Some changes have taken place in the area of non-tariff measures. Imports of poultry, milk products and wine have been subjected to import licensing. The scope of import prohibitions for 1994 remains the same as in 1993. In 1994, imports of wine, denatured alcohol, alcoholic preparations,alcoholic drinks made of grapes, whisky, 100 per cent alcohol, other alcohols, cigars, cigarettes, petrol and oils are subject to quotas. In 1994, there have been no changes in the scope and size of quotas.

(b) Taxes

7. Since July 1993, the previous turnover tax has been replaced by a uniform Value Added Tax (VAT), levied uniformly on all goods and services, irrespective of their domestic or foreign origin. The basic rate is 22 per cent ad valorem, with a lower (7 per cent) rate applicable to certain agricultural inputs (fertilizers, pesticides, farm machinery); basic goods for children; healthcare products; certain services (transportation, telecommunication), fuels and electricity. In addition to the VAT, some goods are subject to excise tax. This applies to passenger motor vehicles (priced higher than ECU 7,000), fuels and lubricants, alcoholic beverages, tobacco products and certain luxury consumer items, such as video cameras, yachts, motor boats, perfumes etc. The excise tax is uniformly applied to comparable domestic and imported goods.

(c) Trade agreements

8. The Association Agreement between Poland and the European Communities entered into force in February 1994. Its trade provisions, however, were applied on an interim basis since March 1992. In June 1993, the European Council decided to unilaterally improve market access of the four Central and Eastern European countries, including Poland, and speed up the reduction of import duties. The Interim Agreement was notified to the GATT under Article XXIV[5] and a GATT Working Party on its examination has been established. In April 1994, Poland applied for membership of the European Union.

9. In December 1992, Poland and the EFTA countries signed a Free Trade Agreement. Bilateral arrangements on trade in agricultural products between each EFTA State and Poland were also concluded within the framework of the Free Trade Agreement. The objective of the agreement is to abolish tariffs and other restrictions on industrial products, fish and other marine products and processed agricultural products. The Agreement, together with the bilateral arrangements, entered into force on an interim

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[4]L/7444, Section V.

[5]L/6992/Add.1.

basis from November 1993. The Agreement was notified in the GATT[6] and it will also be examined by a Working Party.

10. In December 1992, Poland, the Czech Republic, Hungary and the Slovak Republic signed the Central European Free Trade Agreement (CEFTA), which came into force in March 1993. The Agreement covers trade in industrial and agricultural products and provides for the gradual elimination of tariff and non-tariff barriers to substantially all trade among the signatories. The liberalization process will be based on the principle of symmetrical mutual concessions. The original CEFTA Agreement had provided for an eight-year transitional period to complete the liberalization process, which was cut back to five years by a declaration adopted by the signatories to the Agreement in February 1994.

(d) Exchange regulations affecting trade

11. Since the last consultation, no major changes have taken place in Poland's exchange rate policy. The crawling peg system introduced in 1991, has been maintained. The zloty was devalued by 7.4 per cent against the basket of currencies used by the Polish National Bank on 27 August 1993. Simultaneously, a reduction in the rate of crawl from 1.8 per cent to 1.6 per cent per month was announced. No major trade-related changes have been introduced in the exchange regulations.

(e) The import surcharge

12. In December 1992, under the law on turnover tax, Poland introduced a temporary 6 per cent import surcharge for balance-of-payments reasons to cover all imports except alcoholic beverages, tobacco products, fuels and automobiles. The turnover tax law expired with the introduction of VAT in July 1993; at that time, no new law had been passed to authorize the reimposition of the surcharge. Therefore, the authorities increased customs duties across-the-board by 6 per cent, by regulation. This additional customs duty was based on the customs value before duty, while in the first half of 1993 the surcharge was based on the duty paid value of the imported good. In accordance with a new law, since the beginning of 1994, the surcharge is again calculated on the basis of duty paid value of imported goods. Poland originally notified that the surcharge would be 6 per cent until the end of 1993 and 3 per cent in 1994, and would be discontinued from the beginning of 1995.[7] Since July 1993, the surcharge is levied on all products, including those that have been previously exempted.

13. On 11 May 1994, Poland notified (L/7461) that, in order to forestall an expected imminent threat of a serious decline in Poland's external reserves by the end of 1994 and in the next years, it intends to extend the surcharge on all imports until 31 December 1997. From the beginning of 1995 the surcharge will amount to 5 per cent of the duty paid value of imported goods. The surcharge will be applied to all goods and sources of imports, including trading partners with which Poland's commercial relations are based on Article XXIV of the General Agreement. Poland envisages the possibility of further relaxing the measure in subsequent years, if conditions permit, and the elimination of the surcharge by the end of 1997.

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[6]L/7372 and Add.1.

[7]L/7164.

III. Macroeconomic and Trade Developments

Introduction

14. In 1990, Poland embarked on a reform programme aimed at stabilizing the economy and making the transition to a market economy. The financial policy component of the programme included a commitment to sharply reduce the fiscal deficit, the introduction of a temporary fixed exchange rate as a nominal anchor to break emerging hyper-inflationary tendencies, and a tax-based incomes policy to restrain wage behaviour. The programme was initially associated with a sharp decline in output and Poland entered a severe depression. Since 1992, however, the Polish economy has shown signs of recovery and the transition to a growing market economy appears to be underway.

15. The main force behind the recent recovery has been the strength of domestic demand underpinned by a positive supply response. For some of 1993, demand outstripped supply leading to a surge in imports and, in the face of sluggish export demand in major trading partners, a widening of the recorded current account deficit. This prompted significant losses in foreign exchange reserves during the first eight months of the year and a devaluation at the end of August 1993. The surge in demand and the devaluation have also added to inflationary pressures.

Output, prices, and employment

16. Growth of real GDP in 1993, conservatively estimated to be 4 per cent, was reported to be the second fastest in Europe. This represented a significant improvement over the 1.5 per cent growth in 1992 and the large negative growth rates in 1990 and 1991 (Chart 1A). A large part of the increase in overall growth is attributable to improved industrial performance, with industrial output growing by 3.9 per cent in 1992 and 6.2 per cent in 1993. The level of industrial output is, however, still lower than levels achieved in the 1980s, reflecting the significant restructuring still taking place. The change in structure of Polish industry is illustrated by the relative strengths of public and private sectors: while the volume of sales of public industry continued to decline by 3.3. per cent in 1992 and 6.5 per cent in 1993, private industry expanded rapidly at 23.4 per cent and 34.7 per cent respectively. The share of private industry in total industrial output is now close to 40 per cent.

Table 1 - Poland - Savings and investment, 1991-1993[1]
(In percent of nominal GDP)

	1991	1992	Estimate 1993
Foreign savings[2,3]	2.8	0.3	2.7
Gross national savings	18.7	17.3	15.5
Government[4]	-5.1	-4.5	-1.7
Non-government[5]	23.9	21.8	17.2
Gross domestic investment	21.5	17.6	18.1
Government	4.1	3.4	2.9
Non-government	17.4	14.2	15.2
Fixed investment	18.8	16.7	17.3
Change in stocks	2.7	0.9	0.9

1 There are considerable data deficiencies that have led to uncertainty regarding the split between consumption and investment in 1993, the base year for the projections. The figures shown are IMF's staff estimates which differ from the official figures.
2 External current account deficit (+).
3 Current revenues less current expenditures (including interest arrears).
4 Derived as a residual.

Source: IMF, Republic of Poland, Staff Report, March 1994.

17. Savings have declined significantly over the past few years, from 18.7 of GDP in 1991 to 15.5 per cent in 1993 (Table 1). In the past, the decline was attributable to the deteriorating performance of output, incomes and public finances. In 1993, however, national savings as a share of GDP are estimated to have declined by nearly 2 percentage points despite recovery in output and incomes. Though public dissaving (government budget deficit) was less than in preceding years, available figures suggest that the private savings-investment balance dropped by over 5 per cent of GDP (non-government savings were down 4.6 percentage points, while non-government investment was up 1 percentage point). This has highlighted the need for reforms aimed at strengthening savings by households and enterprises. In each of the years 1991 to 1993, non-Governmental investment accounted for over 80 per cent of total gross domestic investment.

18. Inflation rates (measured as the change in consumer prices) continued to decline - from 70 per cent in 1991 to 43 per cent in 1992 and 35 per cent in 1993 (Chart B). Unemployment continued to grow, though at a lower annual rate of 2.1 per cent in 1993, which meant that just under 16 per cent of the labour force was unemployed at the end of 1993.

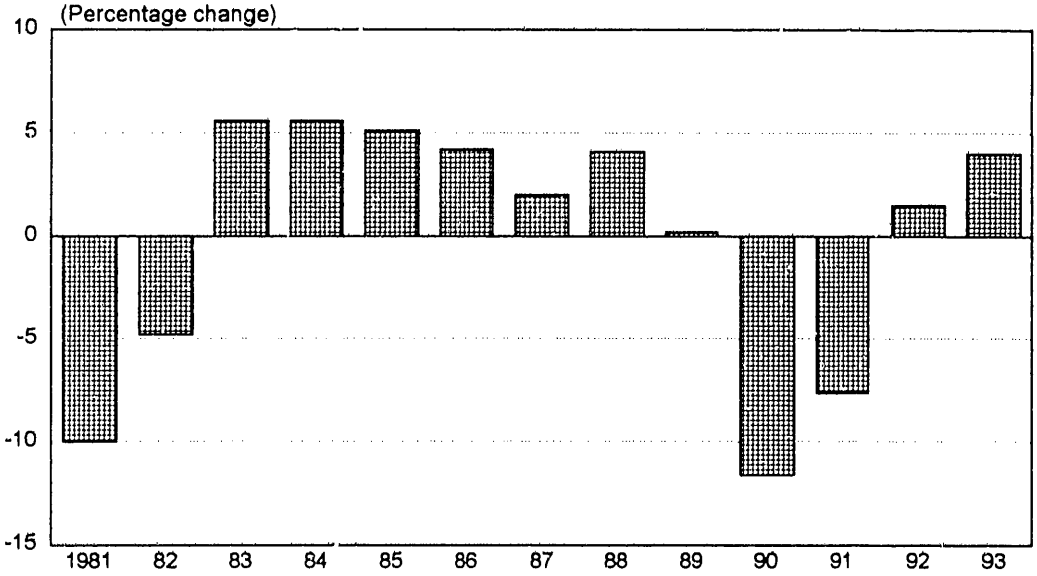
Public finance

19. After the 1990 reforms, significant budgetary pressures initially emerged, beyond those attributable to the decline in output. The traditional mainstay of the revenue base, taxes levied on state enterprises, collapsed as the financial situation of state enterprises deteriorated. On the expenditure side, while subsidies were rapidly reduced, transfer payments increased as a social safety net was put in place as a buffer against the social costs of economic transition. However, there has been significant success in controlling the fiscal deficit in recent years as fiscal accounts have been restructured away from those of a centrally planned economy and towards those of a modern market economy. A modern tax system is being implemented, including a value added tax introduced in the middle of 1993, which has contributed significantly to widening the tax base. This measure, combined with the strength of economic activity, contributed to a decline in the general government deficit (measured from financing data and on a commitments basis) from around 6.5 per cent in each of the years 1991 and 1992 to 2.9 per cent of GDP in 1993 (Table 2, Chart 1C).

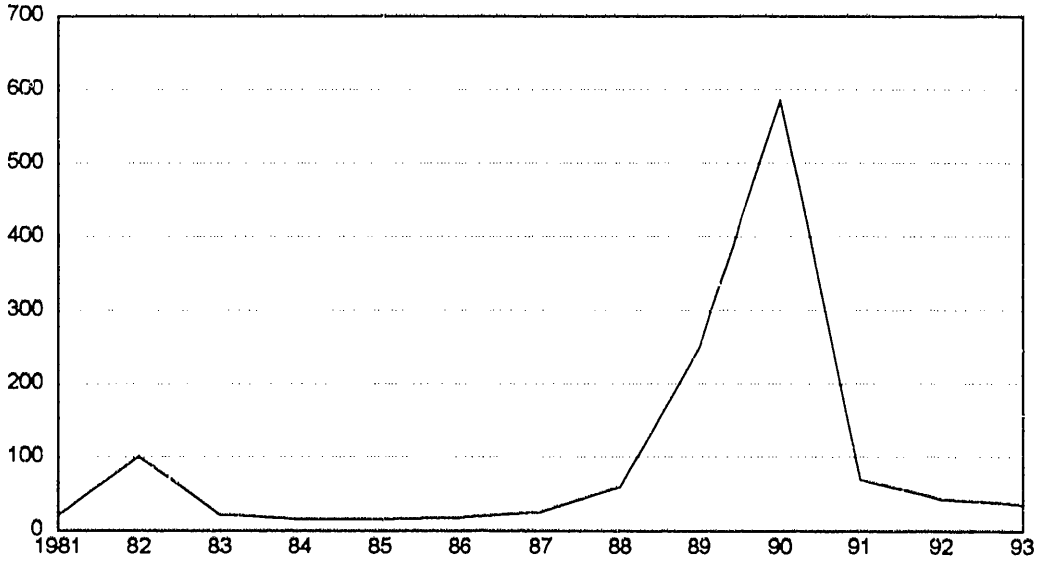
20. While aggregate Government revenues as a percentage of GDP have not changed much since the transition, increasing slightly from 43 per cent of GDP in 1990 to 45.5 per cent of GDP in 1993, there has been a significant change in their composition. The share of enterprise income tax in total revenues declined from 14 per cent of GDP in 1990 to an estimated 5.3 per cent in 1993. Over the same period, the share of personal income taxes increased from 3 per cent of GDP to 9.1 per cent, while the share of turnover taxes and excise taxes increased from 6.3 per cent of GDP to 10.6 per cent of GDP. The loss of revenues from enterprises has been compensated for by the increase in revenues from income and consumption taxes.

Chart 1 Selected economic indicators, 1981-93

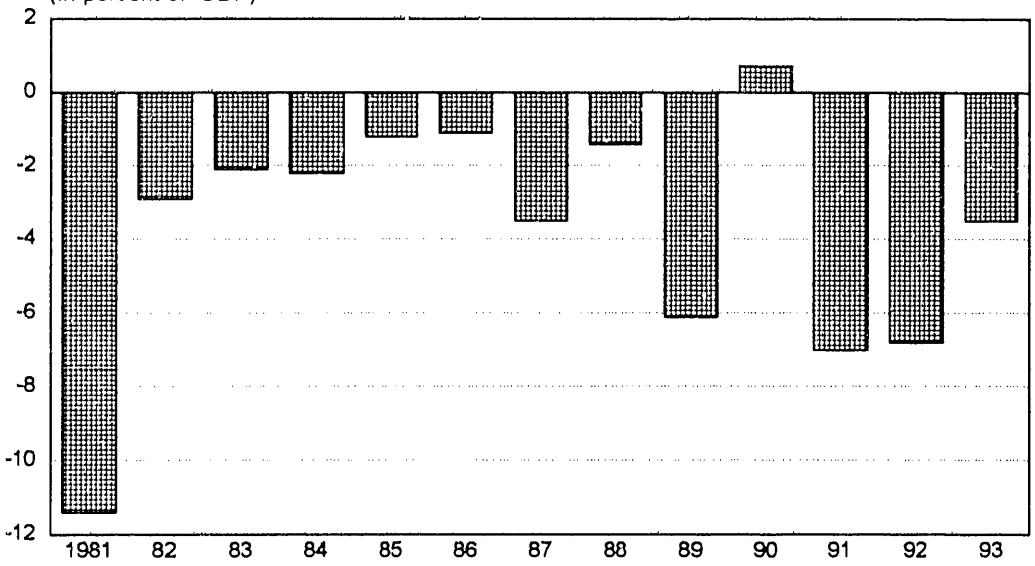
A. Real GDP
(Percentage change)



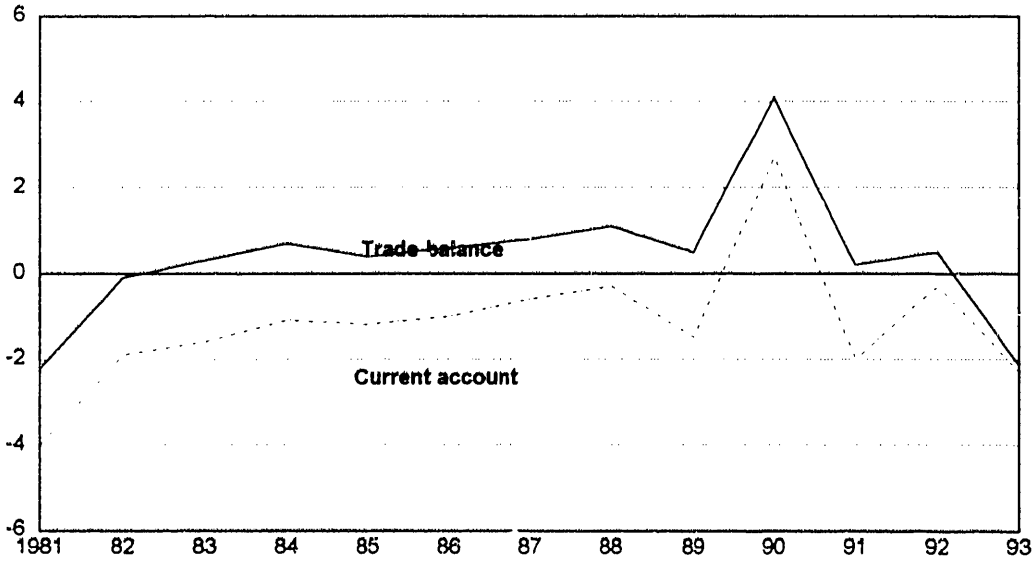
B. Consumer Prices
(Percentage change)



C. Central government balance*
(In percent of GDP)



D. External accounts
(In billions of US dollars)



Source: IMF, Republic of Poland, Staff Report, March 1994.
*This graph depicts the Central Government Balance, while Table 2 gives the General Govt. Balance.

21. There was a significant curtailment of government expenditures in 1990, to a level of less than 40 per cent of GDP, but in subsequent years expenditure has been stable and averaged around 49 per cent of GDP between 1991 and 1993. There has, however, been a significant change in the composition of government expenditures. Factor income payments grew from 6.2 per cent of GDP in 1990 to 11.8 per cent of GDP in 1993, owing to an increase both in interest payments and in wages and salaries. Interest expenditures increased to 4 per cent of GDP in 1993 from negligible levels in 1990, reflecting both the need for the Government to pay competitive rates of interest as a consequence of financial sector reform, and the growing stock of public debt. The increase in Government wage payments from less than 6 per cent of GDP to almost 8 per cent was attributable largely to increases in social security contributions for state employees. The decline in direct Government demand was attributable largely to a reduction in capital expenditures, from almost 3 per cent of GDP in 1990 to 1.5 per cent of GDP in 1993. Producer subsidies declined dramatically from 3.4 per cent of GDP in 1990 to less than 1 per cent in 1992. Income transfers increased from 14.5 per cent of GDP in 1990 to 22.4 per cent of GDP in 1992, with a pronounced shift from consumer subsidies to social expenditures including pensions. The latter are likely to continue to increase due to demographic changes.

Table 2 - Poland - Major revenues and expenditure components of the general government, 1990-93
(In percent of GDP)

	1990	1991	Preliminary 1992	Estimate 1993
Revenues	43.0	41.5	44.0	45.5
Tax revenues	35.6	34.5	37.4	39.1
Enterprise income tax	14.0	6.1	4.6	5.3
Personal income taxes	3.0	2.4	7.4	9.1
Turnover taxes and excises[1]	6.3	7.4	9.0	10.6
Social security contributions	7.4	9.9	10.7	9.9
Customs duties (state budget)	0.6	2.1	2.3	2.1
Other	4.3	7.0	3.8	2.1
Capital revenues	--	0.2	0.4	0.5
Other	7.4	6.8	6.2	5.9
Expenditures[2]	39.8	48.0	50.7	48.4
State budget expenditures[3]	35.6	42.3	44.0	46.0
Factor incomes	6.2	8.9	11.5	11.8
Wages and salaries	5.8	7.4	8.3	7.9
Interest payments	0.4	1.5	3.2	3.9
Direct government demand	7.3	7.9	6.0	6.0
Purchases of goods and services	4.5	5.7	4.4	4.5
Capital expenditures	2.8	2.2	1.7	1.5
Producer subsidies	3.4	1.7	0.8	...
Income transfers	14.5	20.7	22.4	...
Consumer subsidies	3.9	3.4	2.5	...
Social security benefits	10.6	17.3	19.9	20.4
Pensions[4]	8.1	12.2	14.8	15.0
Unemployment benefits	0.2	1.2	1.7	1.2
Other	2.3	3.9	3.4	4.2
Other state budget expenditures	4.2	3.0	3.2	...
Outside of the state budget	4.2	5.7	6.7	2.4
Balance	3.1	-6.5	-6.7	-2.9

1 1993 data include revenues from the VAT which replaced turnover taxes in July 1993.
2 On a domestic commitment basis, i.e., interest payments on external debt are recorded on a cash basis.
3 Consolidated to include the accounts of the three major social insurance funds (FUS, the Pension Fund for Farmers (KRUS), and the Labor Fund).
4 Includes pension payments by FUS, KRUS, and the pension scheme for the military and police, that was separated from FUS starting in 1993.
Source: IMF.

Money and credit

22. In the last few years, significant achievements in the monetary sector include the reduction in inflation, a move to indirect instruments of monetary control, the development of a money market and a government securities market and the initiation of banking sector reform. There remain, nevertheless, several areas of weakness: inflation is still high; the effectiveness of monetary policy continues to be hampered by structural problems and institutional rigidities; the level of monetization is relatively low; long-credit for firms is scarce; and the banking system is still fragile.

23. Domestic credit expansion has been driven largely by the need to finance the government budget deficit. Domestic bank financing of the deficit amounted to Zl 35.2 trillion in 1993. Deficit financing from banks contributed to about half of the growth of money supply in 1991-92, and about a quarter in 1993. The bulk of the financing has been obtained directly from the National Bank of Poland, making central bank credit to Government the chief source of base money expansion. On the other hand, credit to non-government declined in real terms by 13 per cent in 1992 and by 4 per cent in 1993. Perceiving lending to firms as risky, commercial banks have concentrated on investing in Government securities, leading to a hardening of the budget constraint faced by firms.

24. As far as the demand for money is concerned, the sharp reduction in inflation and interest rate deregulation have played an important role in inducing larger holdings of bank deposits in zlotys by households. There have, however, been shifts from domestic money to foreign currency deposits in 1993, due to the widening of the interest rate differential between deposits in U.S. dollars and deposits in zlotys caused by the reduction in the NBP's refinance rate in February 1993. In May 1994 the NBP's refinance rate was further reduced by 2 percentage points. The ratio of foreign currency deposits to broad money, which had been stable at about 25 per cent in 1992 rose to nearly 30 per cent at the end of 1993.

25. Banks lending rates have generally been positive in real terms. The NBP's refinance rate and the 13-week treasury bill rate were both positive in 1992, but turned negative in 1993. Deposit rates have been almost consistently negative in real terms. The spread between commercial banks' average lending rates and deposit rates has been quite wide, which is attributable to inadequate competition between banks, factors related to taxes and certain inefficiencies in the system.

26. The decline in inflation in 1991-93, relative to the very high rates in 1989-90, points to the broad success of monetary policy and the policy of using the exchange rate as a nominal anchor, which have made inflation reduction possible despite the extension of significant amounts of credit to finance government budget deficits. The percentage change in consumer prices was over 580 per cent in 1990, but had declined to 35 per cent in 1993. A slight increase in the rate of inflation towards the end of 1993 was attributable more to factors such as the seasonal rise in food prices and wages and the devaluation in August 1993 rather than a more rapid monetary expansion

Exchange rate

27. In Poland, at the start of the economic reform in January 1990, a fixed exchange rate regime was introduced to brake emerging hyperinflationary pressures, with the parity fixed at a level designed to restore and maintain international competitiveness. The foreign exchange market for current account transactions was unified at the rate of Zl 9,500 per U.S. dollar, which involved a 31.6 per cent devaluation of the official rate. As the nominal exchange rate was maintained at a fixed level, the real effective exchange rate (REER) appreciated during 1990 due to the continued high (though decelerating) inflation rates. In response to the loss of international competitiveness, there was a further devaluation in May 1991 of 16.8 per cent against the dollar. In October 1991, the authorities switched

to a crawling peg exchange rate arrangement - with the rate of crawl preannounced at 1.8 per cent per month against a basket of currencies. The rate of crawl was set to be lower than the difference between Polish inflation and the average inflation in those countries whose currencies were included in the basket. There have been two further devaluations, by 10.7 per cent in February 1992 and 7.4 per cent in August 1993, due to concerns over the deterioration in the country's balance of payments and a fall in hard currency reserves. In August 1993, the rate of crawl was reduced to 1.6 per cent per month, consistent with the emphasis on reducing inflation.

IV. Balance of Payments

28. Poland's balance of payments has been dominated by developments in the trade accounts. While imports have expanded in each year between 1989 and 1993, exports, after a sustained increase until 1992, declined in 1993, leading to a deficit on trade account. Furthermore, inflow of foreign capital, until recently has been deterred, in part, by the heavy debt burden carried over from the pre-reform period, the delays in normalizing relations with commercial bank creditors, and the uncertainty regarding implementation of regulations. The weakness of the capital account has meant that Poland has not been able to run significant current account deficits. Thus foreign savings have not played a significant role during the crucial post-reform period.

Current account

29. Since the early 1980s, Poland has had a deficit on the current account in every year except 1990 (Chart 1D). In 1990, the year in which reform was initiated, there was a significant curtailment of economic activity and consequently a reduction in imports, leading to a large positive trade balance. As the economy has recovered, so have imports. The sluggish growth in exports, combined with the surge in imports led to a trade deficit in 1993 of 2.3 billion U.S. dollars, and a current account deficit of virtually the same magnitude (Table 3). The receipts and payments of nonfactor services have virtually offset each other in the last few years. A major outflow has been net interest payments, though the amount declined from 1.7 billion U.S. dollars in 1992 to 1.4 billion U.S. dollars in 1993. Net transfers from abroad, dominated by private transfers, have been a fluctuating positive inflow, amounting to over 900 million U.S dollars in 1993.

30. The major external impetus to the change in the structure of Poland's economy was the collapse of the CMEA. The price shock resulted in a deterioration in Poland's inter-regional terms of trade of about 30 per cent in 1991 (Table 4), with the price of petroleum imports from the former Soviet Union estimated to have increased by 118 per cent. Trade with the former CMEA countries fell from around $9 billion in 1989 to $2.3 billion in 1993. The decline in volume terms was even more pronounced. At the same time, there was a dramatic increase in trade with countries other than former CMEA countries; exports increased by 60.8 per cent and imports by 53 per cent in 1990-91 and a further 13 per cent and 40 per cent, respectively, in 1992-93.

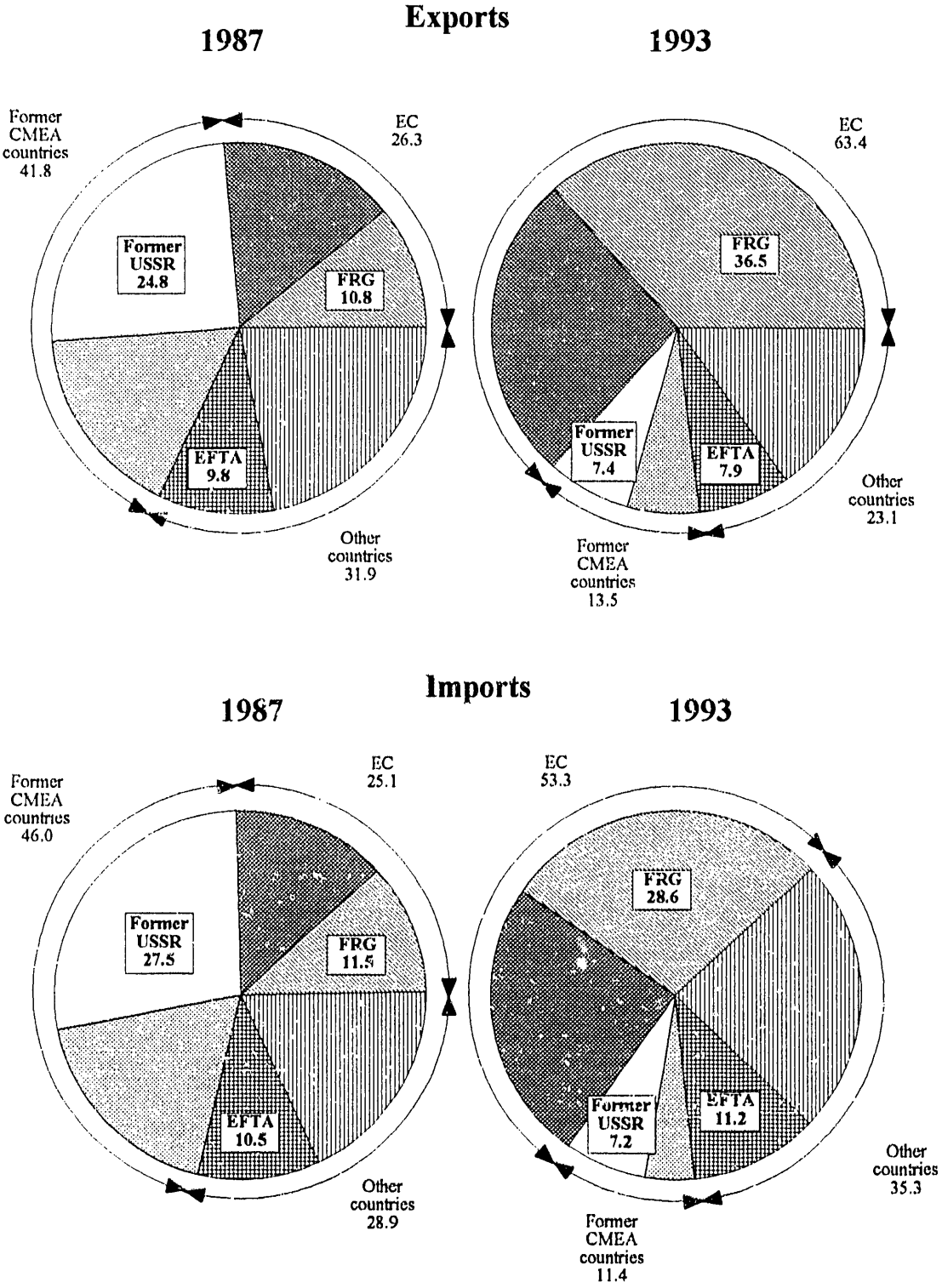
Table 3 - Poland - Balance of Payments
(In millions of US dollars)

	1989	1990	1991	1992	Estimate 1993
Current account					
Trade balance	240	2,214	51	512	-2,293
Exports	7,575	10,863	12,760	13,997	13,585
Imports	7,335	8,649	12,709	13,485	15,878
of which: Oil and gas	...	...	2,553	2,261	1,655
Nonfactor services (net)	-228	-150	237	344	369
Receipts	767	1,327	1,577	1,612	1,846
Payments	995	1,477	1,341	1,268	1,477
Interest (net)	-3,087	-3,329	-2,862	-1,740	-1,392
Receipts	...	...	541	527	400
Payments due	3,469	3,910	3,403	2,267	1,792
of which: paid	...	474	885	1,097	827
Transfers (net)	1,232	1,933	353	528	929
Private	1,144	1,676	308	230	821
Official (including debt converted)	88	257	45	298	108
Investment income	...	...	...	85	139
Transfer of profits	...	...	...	...	39
CURRENT ACCOUNT BALANCE	-1,843	668	-2,222	-270	-2,287
Capital Account					
Medium- and long-term capital (net)	-1,442	-2,526	-6,059	-292	-471
Disbursements	226	428	786	562	922
Amortization due	1,668	2,954	6,845	854	1,393
of which: paid	...	369	347	443	903
Credit extended	...	42	13	-1	11
Direct investment	36	10	117	284	580
Short term capital	-125	-236	-1,254	598	1,095
CAPITAL ACCOUNT BALANCE	-1,531	-2,710	-7,183	589	1,215
Error and omissions	...	360	-713	38	92
Valuation adjustment	...	...	-58	-254	217
OVERALL BALANCE	-3,374	-1,682	-10,176	102	-764
Net reserves	-356	-4,442	1,317	-1,614	-634
Debt relief	382	9,054	4,382	202	...

1 Does not include a possible commercial bank debt reduction operation in 1994.
Source: IMF.

31. The striking change in the regional distribution of Poland's trade is revealed in Chart 2. In 1987, 42 per cent of Poland's exports were to the former CMEA countries, while in 1993, the percentage had declined to 13.5 per cent. The EC became the major destination of Poland's exports with its share increasing over the same period from 26.3 per cent to 63.4 per cent, of which Germany accounted for 36.5 per cent. The share of the former CMEA in imports also declined dramatically: from 46 per cent in 1987 to 11.4 per cent in 1993, while the share of the EC more than doubled from 25 per cent to over 53 per cent. The EFTA countries have also seen an increase in their share of both exports and imports.

Chart 2
Distribution of Poland's trade by main regions, 1987-93
Per cent



Source: Government of Poland.

32. Though the structure of trade still reflects the inheritance from the old CMEA trade regime, there is some evidence of a shift towards new products. Between 1991 and 1993, the share of manufactured goods in total exports increased from 54.5 per cent to 68 per cent, while the share of energy and raw materials declined from 17 per cent to 14 per cent, and that of agriculture declined from 18 per cent to 10.2 per cent (Table 5). Within manufacturing there has been a shift away from machinery and transportation equipment towards miscellaneous and lighter manufacturing products. In 1993, besides traditional exports such as coal, iron and steel, refined copper products, wood products and ships, there were also non-traditional products such as cars, garments and furniture. As far as the factor intensity of exports is concerned, there has been a decline in the importance of natural resource intensive exports, from 55 per cent of total exports in 1991 to less than 43 per cent in 1993, while the share of unskilled labour intensive exports increased from 18 per cent to 27 per cent and that of exports intensive in capital, technical and skilled labour increased from 27 per cent to 30 per cent.

Table 4 - Poland - Changes in the value, price and volume of exports and imports, 1988-93[1]
(In percentage)

	1989	1990	1991	1992	1993
CMEA trade[2,3]					
EXPORTS					
Value	-2.2	19.2	-58.3	-17.1	-30.0
Price	2.2	3.8	43.3	3.4	-6.8
Volume	-4.3	14.8	-70.9	-19.8	-24.9
IMPORTS					
Value	-6.6	-33.4	-14.7	-18.8	-16.3
Price	-3.2	-1.8	104.1	1.6	-1.2
Volume	-3.6	-32.2	-58.2	-20.1	-15.3
TERMS OF TRADE	5.6	5.7	-29.8	1.8	-5.7
Non-CMEA trade[3]					
EXPORTS					
Value	2.6	48.3	5.7	9.1	...
Price	2.4	-0.4	-2.2	3.4	-6.8
Volume	0.2	48.9	8.0	5.5	7.3
IMPORTS					
Value	14.2	17.7	29.8	8.4	23.7
Price	-0.6	6.5	-3.1	2.3	-6.1
Volume	14.9	10.5	33.9	6.0	31.7
TERMS OF TRADE	3.0	-6.5	0.9	1.1	-0.7

1 Based on payments basis data; unit prices for 1991 based on invoice data, for 1992 and 1993 from the WEO.
2 Up to 1990, CMEA trade covers ruble trade only. For 1991, trade with former CMEA partners under all arrangements have been taken into account and changes in value and price relate to magnitudes expressed in US dollars, with transferable ruble transactions converted at the commercial cross rates.
3 Includes transaction under bilateral payments agreements.

Source: IMF.

33. In imports, the overwhelming share is industrial goods (87.6 per cent in 1993), including both manufactured goods and energy and raw materials, with agricultural imports much less important (a little over 12 per cent in the last two years) (Table 6). The largest share has been of mechanical and electrical machinery (24 per cent of total imports in 1993), followed by mineral products (12.6 per cent), chemical products (11.3 per cent) and textile products (9.2 per cent). Other significant imports include base metal products, plastics and vegetable products. As far as the factor intensity of imports is concerned, the share of natural resource intensive products has declined from nearly 43 per cent in 1991 to less than 36 per cent in 1993. The share of imports intensive in unskilled labour increased

from less than 9 per cent to 14 per cent, while the share of imports intensive in capital, technical or skilled labour increased slightly from 48.7 per cent to 50.3 per cent.

Table 5 - Poland - Commodity composition of merchandise exports
(Percentage shares and annual change)

	Shares			Change
	1991	1992	1993	1991-93
Animal products	7.3	5.3	3.8	-3.5
Vegetable products	6.0	5.6	3.1	-3.0
Fats and oils	0.3	0.2	0.1	-0.1
Prepared foodstuffs	4.3	3.6	3.2	-1.2
Mineral products	15.0	13.8	11.7	-3.2
Chemical products	8.9	7.3	5.9	-3.0
Plastics	2.2	2.7	2.3	0.2
Leather products	1.1	1.0	1.0	0.0
Wood products	4.4	4.7	5.0	0.6
Wood pulp products	1.0	1.4	1.4	0.3
Textile products	4.4	7.2	12.8	8.4
Footwear	0.9	1.0	2.2	1.3
Stone products	2.9	1.9	1.8	-1.1
Precious materials	1.0	0.8	0.8	-0.2
Base metal products	19.0	19.5	17.6	-1.4
Mechanical and electrical machinery	9.4	11.1	10.3	0.9
Transport equipment	5.2	8.2	11.0	5.8
Optical products	1.0	0.7	0.6	-0.4
Arms	0.2	0.2	0.1	-0.2
Miscellaneous manufactured products	3.2	3.9	5.0	1.8
Art	2.2	0.0	0.2	-2.0
Factor intensity				
Natural resource intensive	55.0	51.2	42.7	-12.3
Unskilled labour intensive	18.0	18.7	27.1	9.0
Capital/technical/skilled labour intensive	26.9	30.2	30.2	3.3
Agriculture	17.9	14.7	10.2	-7.7
Industrial	82.1	85.3	89.8	7.7
Manufacturing	54.5	61.8	67.9	13.4
Energy and raw material	17.0	16.0	13.9	-3.1
Other	10.6	7.6	8.1	-2.5

Source: IMF.

34. Transport services accounted for 45 per cent of exports of commercial services, and for 37 per cent of imports of commercial services in 1992 - the latest year for which disaggregated data are available. Within exports of transport services, shipment services were by far the most important item, accounting for over 70 per cent of transport services in 1992. Between 1990 and 1992, both imports and exports of other commercial services, which include inter alia insurance, engineering, construction, telecommunication, advertising and financial services, increased nearly three-fold.

Capital account

35. The capital account has been in deficit in each of the years between 1989 and 1991, but recorded surpluses in 1992 and 1993 (Table 3). There is some evidence that policies to attract foreign capital are beginning to be effective. The major sources of capital flows into Poland have been international financial institutions, especially the World Bank. Since 1991, they have disbursed over $1.2 billion, with the World Bank accounting for over 90 per cent of the total and the European Investment Bank

the bulk of the remainder. The other major source of medium-term capital inflows have been suppliers and commercial credits of a relatively short maturity (2-3 years) and mostly linked to trade. During the three year period 1991-93, such inflows have increased from $0.4 billion to $0.6 billion per year. The relatively shorter-term maturity of these flows has begun to diminish the net impact of these flows as amortization payments increased significantly in 1993 to $0.9 billion from $0.3 billion in 1991. Foreign direct investment, though still small in magnitude, is now beginning to be attracted to Poland by its low-cost labour and large domestic market, despite the problems noted above. Inflows of direct investment have increased from a low of $10 million in 1990 to $580 million in 1993.[8] Other indications that Poland may now be gaining access to some new forms of spontaneous capital flow are the small amounts of foreign portfolio investments in the Warsaw Stock Exchange and the Government securities market.

36. The international reserve position has improved: the stock of international reserves, consisting of official external reserves and other foreign assets in convertible currencies, at the end of 1993 was over $2 billion higher than at the end of 1990 (Chart 3). Since 1991, Poland has not conducted any trade in non-convertible currencies.

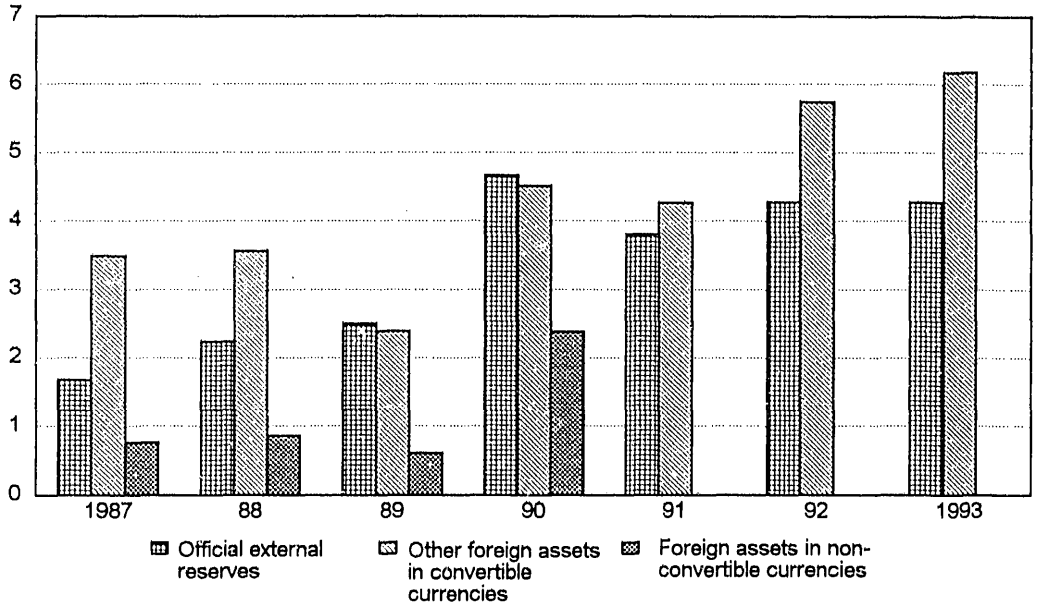
Table 6 - Poland - Commodity composition of merchandise imports
(Percentage shares and annual change)

	Shares			Change
	1991	1992	1993	1991-93
Animal products	2.6	2.7	2.1	-0.5
Vegetable products	3.8	4.2	5.5	1.7
Fats and oils	0.6	0.8	0.7	0.1
Prepared foodstuffs	6.8	4.7	4.0	-2.8
Mineral products	21.4	19.2	12.6	-8.8
Chemical products	8.3	11.6	11.3	3.0
Plastics	3.4	4.9	5.2	1.8
Leather products	0.4	0.2	0.7	0.2
Wood products	0.2	0.3	0.4	0.2
Wood pulp products	2.5	4.0	4.0	1.5
Textile products	6.0	4.3	9.2	3.2
Footwear	0.9	0.6	0.9	0.0
Stone products	1.5	1.6	1.7	0.1
Precious materials	0.1	0.1	0.1	-0.1
Base metal products	4.2	5.2	6.0	1.7
Mechanical and electrical machinery	24.6	25.4	23.9	-0.7
Transport equipment	7.8	5.0	6.6	-1.2
Optical products	2.7	3.1	3.2	0.5
Arms	1.8	1.9	0.1	-1.8
Miscellaneous manufactured products	0.0	0.1	1.8	1.8
Art	0.2	0.0	0.1	-0.1
Factor intensity				
Natural resource intensive	42.6	41.0	35.7	-6.9
Unskilled labour intensive	8.7	7.0	14.0	5.2
Capital/technical/skilled labour intensive	48.7	52.0	50.3	1.7
Agriculture	13.9	12.4	12.4	-1.5
Industrial	86.1	87.6	87.6	1.5
Manufacturing	59.7	62.2	68.2	8.4
Energy and raw material	24.0	23.3	16.7	-7.4
Other	2.3	2.1	2.8	0.5

Source: IMF.

[8]According to Polish authorities, at the end of 1993 foreign capital (through FDI) was engaged in more than 15 thousand enterprises, mostly in the form of joint ventures. The stock of direct foreign investment (at the end of 1993) was: US$3.5 billion and there were commitments for additional investment for US$4.6 billions.

Chart 3 External Reserves and Other Foreign Assets, 1987-93
(In billions of US dollars)



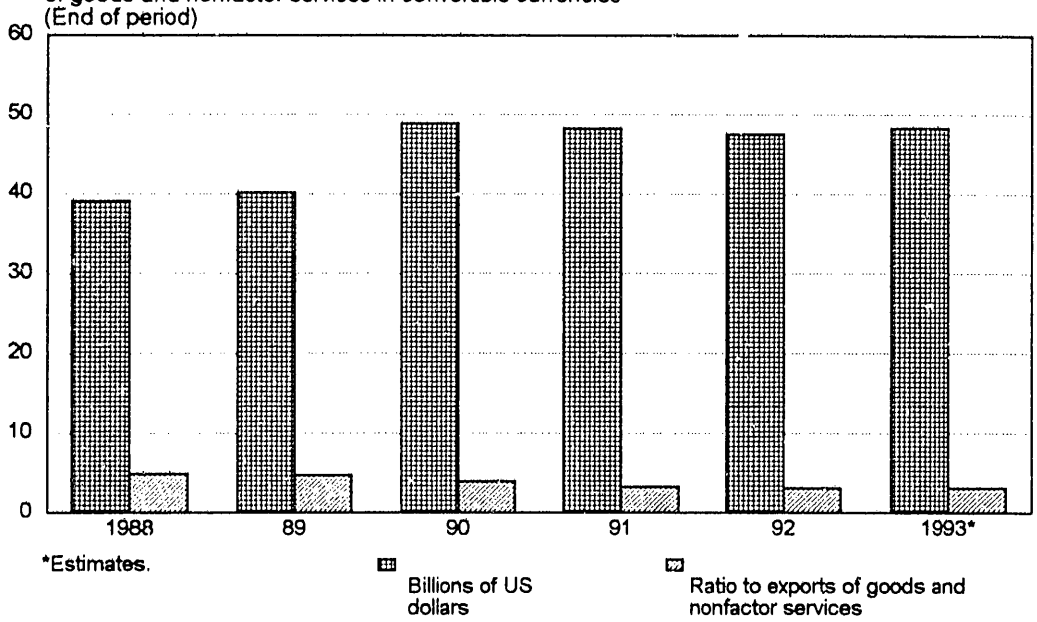
Source: IMF.

Foreign indebtedness

37. Poland's difficulty in attracting spontaneous private capital flows reflects in part its large debt burden which may act as a disincentive as investors fear increased taxation for servicing the debt. Poland's total external debt stood at $48 billion at the end of 1993, approximately 57 per cent of GDP and three times the earnings from exports of goods and non-factor services (Chart 4). Debt to Paris Club and commercial bank creditors accounts for about 61 per cent and 26 per cent, respectively, of the total external debt. The resulting debt service ratio stood at 21.5 per cent on an accrual basis and 11.2 per cent on a cash basis in 1993 (Chart 5), with the main component of the difference accounted for by the accumulation of arrears to commercial bank creditors.

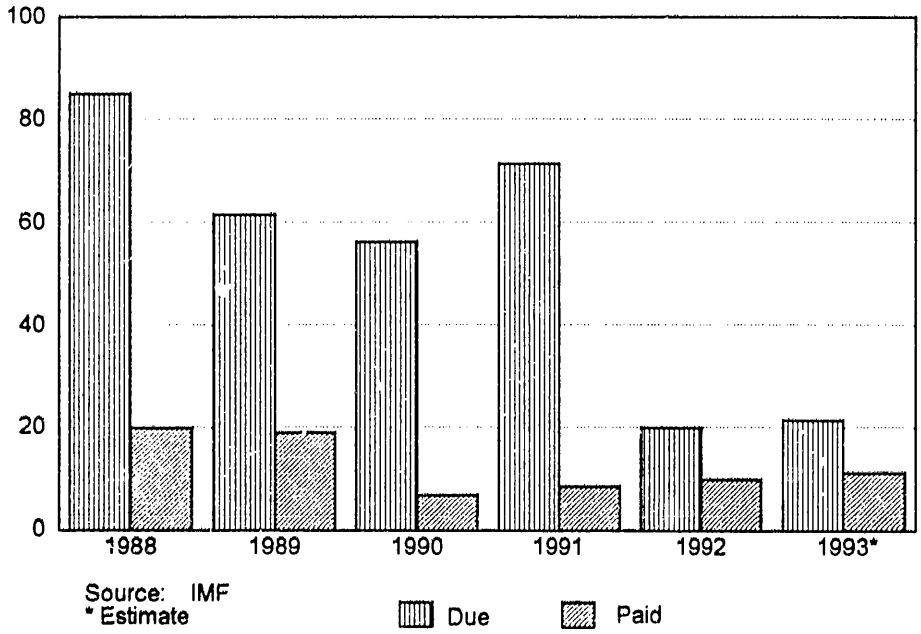
38. In March 1991, the Paris Club granted Poland debt and debt service reduction on exceptional terms for a middle-income country. This agreement reduced interest due to 20 per cent of the original contractual interest until March 1994 and pushed amortization past 1994. Thereafter, it provided debt reduction equivalent to 50 per cent in present value terms. On 10 March 1994, Poland reached agreement with its commercial bank creditors on a debt and debt service reduction, and an unprecedented reduction on interest arrears. The overall debt reduction will depend on the allocation among various options, as well as interest rate movements. The agreement should greatly increase Poland's access to international capital markets. The second tranche of the Paris Club debt reduction agreement was implemented in April 1994.

Chart 4 External debt: in billions of US dollars and ratio to export of goods and nonfactor services in convertible currencies
(End of period)



Source: IMF.

Chart 5 External debt service ratio
(Percentage of exports of goods and nonfactor services in convertible currencies)



Source: IMF
* Estimate