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ON TARIFFS AND TRADE

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Balance of payments and reserves

Serious difficulties which emerged in the second half of 1992 in the balance-of-payments, and which required the introduction of import surcharge in December 1992, still persist, and Poland is facing the threat of a significant deterioration of its balance-of-payments position in 1994 as well as in the next few years.

One of the imminent threats to the balance-of-payments position is a permanent deficit of trade balance, present and projected, with increasing evidence of structural nature of this deficit. According to the payments statistics, the trade balance weakened considerably in the second half of 1992 and it was continuing to deteriorate throughout the whole 1993. At the end of that year it amounted to US$2,293 million. in contrast to the usual quarterly patter, the trade balance was also negative in the first quarter of 1994. Moreover, projections for the rest of this year show only slight decrease in trade balance deficit that is estimated to reach US$1,800 million at the end of 1994.

The 1993 trade deficit resulted from a slowdown in the growth of exports by 3 per cent in comparison to the 1992 data, partly because of the 1992 drought-induced serious weakening in agricultural output (the share of agricultural products exports decreased in total exports from 6.1 per cent in 1992 to 3.5 per cent in 1993), and partly due to the prolonged recession experienced by Poland's major trading partners principally in the European Union and particularly in Germany. On the other hand, the growth of imports was strong, by 18 per cent in comparison with 1992 figures, reflecting in part an increasing demand for investment goods (Poland's GDP increased in 1994 by 4 per cent), but also a higher demand for agricultural supplies (the share of agriculture products imports in total imports increased from 3.1 per cent in 1992 to 5.1 per cent in 1993. The imports of consumer durables slowed down, in response to the import surcharge.

The balance-of-payments position also continued to be adversely affected by external debt.

In 1990-1994 Poland managed to improve substantially its financial relations with official and private creditors. On 21 April 1992 a general agreement was signed with the Paris Club official creditors on the 50 per cent reduction in two stages of debt amounting to approximately two thirds of the total external debt.[2] In April 1994 the Paris Club, acting on the IMF Board recommendation, approved the second stage of official debt reduction by 20 per cent, conditional upon Poland meeting the performance criteria agreed with the IMF for 1993. Two years after the agreement with the Paris Club, in March 1994 a framework agreement was signed with private creditors of the London Club

[1]Material provided by the Polish authorities.

[2]For details of the agreement with the Paris Club see BOP/R/206 and Corr.1.

on the reduction of debt amounting to US$13.2 billion. The agreement includes provisions for at least 45.2 per cent debt reduction to be achieved during the next 30 years.

Despite debt reductions, Poland's debt-servicing payments - mostly interests due - remained high in 1992, (US$2,259 million) and in 1993 (US$ 1,829 million). Moreover, average burden of debt servicing, which amounted to around 8 per cent of total exports in 1992-1993, is expected to increase considerably in 1994 to 11 per cent of total exports with probably further expansion in the future. This is partly caused by the termination in 1994 of three-year "window of opportunity" (granted to Poland by the Paris Club with the burden of servicing official debt especially light, partly due to the need to implement the agreement with the London Club implying, among others, substantial up-front payments).

As for external reserves, both official and the total of the banking system, their levels remain adequate as stipulated by the IMF. Nevertheless, it is worth noting that official reserves declined substantially in the first quarter of 1993 and somewhat in the second quarter of that year. Net international reserves also declined during those periods by US$686 million. In August 1993 the Government of Poland decided to counteract these declines with a devaluation by 8 per cent of the domestic currency simultaneously lowering the monthly rate of crawling devaluation from 1.8 to 1.6 per cent. However, slight recovery of the reserves at the end of 1993, compensating for the previous losses resulted mainly from the unstable purchase of foreign currencies (US$1,750 million in 1993) and private transfers (US$821 million in 1993). As such it has not a sound background.

The development of Poland's position in terms of foreign trade, payments, official external reserves and debt is described in Table 1. Changes in net international reserves are reflected in Table 2.

The permanent trade balance deficit and the imminent burden of debt servicing are expected to exert strong negative impact on the overall balance-of-payments position and thus these developments may cause direct threat of a serious decline in Poland's official external reserves. The situation therefore would potentially produce adverse effects for the stabilization programme at the macro-economic level and through that on the whole restructuring processes.

Therefore, in order to forestall expected imminent threat of a serious decline in Poland's external reserves by the end of 1994 and in the next years, the Government of Poland intends to respond to this contingency by maintaining a comprehensive package of measures during the next few years.

One of the measures to be taken is the extension until 31 December 1997 of the presently applied temporary surcharge, levied on all imports.

Essential features of the surcharge

The surcharge will continue to be based on the Act on import tax adopted by Parliament on 25 November 1993 and published in Journal of Laws on 17 December 1993, No. 123, item 551, effective since 1 January 1994 until 31 December 1994.[3] The instrument to be used will be a separate border

[3]This surcharge has replaced the previous one introduced by a Decree of the Minister of Finance of 18 November 1992, published in Journal of Laws No 86, item 437, on 26 November 1992 effective since 17 December 1992 until 4 July 1993 that was extended by a Decree of the Council of Ministers of 8 June 1993, published in Journal of Laws on 22 June 1993, No. 51, item 235 effective since 5 July 1993.

tax levied on all imports (across the board)[4] It will amount to 5 per cent of the customs value of imported goods as defined by Article 1 and 8 of the Agreement on Implementation of Article VII, increased by due duty.[5] In practical terms, it will mean a decrease of the present surcharge by one percentage point. The surcharge will continue to be collected by the customs administration.

Alternative measures

In doing so the Government of Poland takes into consideration favourable experience gained with the implementation of the present surcharge, in particular its positive direct influence on trade balance and the fact that it is administratively less cumbersome than quantitative restrictions and is less likely to upset the established pattern of trade. In undertaking such action the Government of Poland recognizes also that no other viable alternative options will be available under the present circumstances for the following reasons:

First, the high level of existing external debt calls for restraint in seeking new credit facilities that could be used to support the balance of payments.

Second, a severe depletion of foreign exchange reserves has to be avoided - in order to maintain the debt-servicing schedule and safeguard the internal convertibility of the national currency that is crucial for the continuing liberalization of external trade and foreign investment in Poland.

Third, in any assessment of the underlying balance-of-payments-position of the country, proper consideration must be given to the lingering effects of a severe and prolonged recession and to the need for Poland to build up its international reserves as it faces very substantial payments to its international public and private creditors over the next few years.

Fourth, in carrying out its domestic economic policies, the Government of Poland has already employed a wide range of generally recognized instruments aimed at securing the balance-of-payments equilibrium by alternative means. In particular, Poland has been continuing to adjust the exchange rate of the national currency to domestic price developments through the mechanism of "crawling" devaluation. Moreover, the surcharge is considered to be a measure less inflationary than an equivalent one step devaluation of the exchange rate would have been. In the circumstances when the Government is trying to reduce the inflationary expectations, and indeed the inflation rate itself, the difference favours the surcharge.

GATT justification of the surcharge extension

The surcharge will be administered consistently with the procedures established under Article XII of the General Agreement and in accordance with the Declaration on the Trade Measures Taken for Balance-of-Payments Purposes adopted by CONTRACTING PARTIES in November 1979, including the procedures for examination.

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[4]Since 17 December 1992 the instrument used was an additional turnover tax until 4 July 1993, thereafter transformed into a separate customs duty (for legislative reasons).

[5]Turnover tax and customs duty surcharges amounted to 6 per cent of the customs value of imported goods as defined by Article 1 and 8 of the Agreement on Implementation of Article VII.

Poland's firm view, that a transparent, price based single surcharge as describes above meets the essential standards of consistency with the relevant GATT provisions and practices, is based, inter alia, on the following features of this measure:

(a) The restrictive impact on trade will be confined to what is considered necessary for meeting the stated objective of the measure, as provided for in Article XII:2(b).

(b) As required by Article XIII:1 of the General Agreement, the surcharge will be applied to all imports without preference of discrimination as regards the type of goods, sources of imports and the nature of bilateral relations with the countries of origin, rates, procedures and all other modalities of the measure. It will apply equally to all trade, including trading partners with whom Poland's commercial relations are based on Article XXIV of the General Agreement.

(c) Consequently, the surcharge with a comprehensive trade coverage is not intended to provide relief and protection to any specific industry or sector of the Polish economy. It therefore meets also, in this respect, one of the essential requirements set down in the preamble of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

(d) Despite prolongation, the surcharge is considered by the Government of Poland as a temporary measure to be relaxed, in comparison to the present one, by one percentage point. The Government of Poland envisages possibility of its further relaxation in subsequent years, if conditions permit, and the elimination of surcharge by the end of 1997.

(e) The Government of Poland considers that there is a "special factor" of primary importance - the strain on international monetary resources posed by the commitment to sustain and consolidate the transition reforms in a situation in which the credibility of the macroeconomic policy is not yet strong - the presence of which should be recognized in this context, as is stipulated in paragraph 2 of Article XII.

(f) Poland is ready to abide by the obligations to consult under Article XXII:4 and in accordance within the relevant GATT procedures.

Table 1
Poland - Balance of payments currencies - on cash basis, official reserves and the amount of foreign debt.
(US$ millions)

	1990	1991				
	I-IV	I	II	III	IV	I-IV
Exports	10,623	2,823	3,268	3,179	3,490	12,760
Imports	8,170	3,081	3,342	2,695	3,591	12,709
Balance of trade	2,453	-258	-74	484	-101	51
Current account	1,049	-1,134	-531	533	-227	-1,359
Overall balance	2,280	-189	-726	474	-747	-1,188
Official external reserves[1]	4,680	4,494	4,087	4,562	3,814	3,814
Foreign debt[2]	48,475	45,225	44,766	45,091	48,412	45,455

	1992					1993				
	I	II	III	IV	I-IV	I	II	III	IV	I-IV
Exports	3,310	3,545	3,513	3,629	13,997	3,040	3,348	3,471	3,726	13,585
Imports	2,925	2,984	3,440	4,136	13,485	3,410	4,103	4,261	4,104	15,878
Balance of trade	385	561	73	-507	512	-370	-755	-790	-378	-2,293
Current account	133	206	-60	-548	-269	-663	-969	-698	1	-2,329
Overall balance	12	311	232	-82	473	-524	-278	352	444	-6
Official external reserves[1]	3,826	4,137	4,369	4,287	4,287	3,763	3,486	3,837	4,281	4,281
Foreign debt[2]	48,196	50,289	47,044	47,044	47,044	47,540	47,377	48,414	47,246	47,246

1 End of period.
2 In convertible currencies only.

Table 2
Poland - Net International Reserves
(US$ millions)

	1990	1991			
		I	II	III	IV
Changes[1]	-733	-936	827	-435	-1,317

1992					1993				
I	II	III	IV	I-IV	I	II	III	IV	I-IV
104	836	991	-317	1,614	-456	-230	485	836	635

1 As from the end of the previous period.