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

1. The Committee consulted with Poland on 27 and 28 June 1994, 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/317

   Background paper by the Secretariat
   BOP/W/154

   Notification by Poland under paragraph 3 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes
   L/7461

   International Monetary Fund, Background Paper,
   Republic of Poland, dated 16 March 1994.

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.

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

5. Members of the Committee welcomed the improvements in Poland’s macroeconomic situation since the last consultation. The reduction of the fiscal deficit and of inflation, and the progress made towards sustainable economic growth was specifically mentioned. Members recognized, however, that Poland’s external and fiscal balances remained fragile, and that its current account and especially trade balance had deteriorated significantly.

6. Committee members stated that the decision to extend the import surcharge indicated the existence of long-term structural, including fiscal problems in the Polish economy. Several members emphasized that it would be in Poland’s interest, as well as consistent with Article XII of GATT, to take measures which expanded, rather than contracted, foreign trade. They questioned the economic rationale behind
the import surcharge, which was not considered to be an efficient method for relieving balance-of-payments problems and which they feared might become a permanent measure. It was stressed that trade measures under Article XII of the GATT could be used only for balance-of-payments purposes. The need for a review of the situation within a year was seen.

7. Members of the Committee stated that the increase of foreign direct investments could contribute substantially to the establishment of a sound external balance of the country; it was important for Poland to make its economic environment more attractive for foreign capital inflows.

8. Members of the Committee recognized that changes in Poland’s debt servicing obligations had an important impact on its external balance. Details were requested on the level of Poland’s debt servicing obligations in the coming years and on expected developments in the country’s foreign reserve situation. Poland was asked for forecasts of its medium-term economic and foreign trade development especially in the light of the asymmetry between Poland’s and its main trade partners’ economic growth rates.

(ii) System, methods and effects of import restrictions

9. Members of the Committee, while recognizing that Poland’s balance-of-payments situation would have been more tenuous in the absence of the surcharge, expressed disappointment that the surcharge had been maintained, that it had not been reduced to 3 per cent in 1994 and would not be eliminated by the end of 1994 as originally announced. Doubts were expressed concerning the efficacy of the surcharge itself, which might weaken the outward-looking thrust of Polish economic policies. Members of the Committee asked Poland to indicate the impact of the surcharge on import flows. Several members stated that the country’s economic situation must be reviewed during the next year, and that any decision on the continuation of the measure should depend on the outcome of this review.

Replies by Poland

10. In reply to questions raised under (i) and (ii), the representative of Poland stated that the fragility of the country’s external balance was due to a number of factors such as a high and increasing debt burden, structural trade deficits, the low level of foreign capital inflows and the need to secure the liquidity of dollar accounts held by some households (some US$8 billion). Poland intended to meet all its debt service obligations. The country was expected to increase its activity in international financial markets in 1996. Foreign direct investments were at the level of US$300-800 million per annum, which indicated that, at present, western European countries were not deeply interested in investing in Poland. Foreign reserves of the country were sufficient, covering 3 months of imports, however the situation was expected to remain fragile in coming years.

11. Poland’s economy was expected to grow rapidly. According to Polish official estimates, annual growth of GDP would be 4 to 5 per cent over the next three years. This would create heavy pressure on the foreign trade sector. Between 1994 and 1997, exports were expected to grow by an overall 33 per cent while the rate of increase in imports was estimated to be some 20 per cent. This would result in a trade deficit declining from over US$2 billion in 1993 to about US$1 billion by 1997.

12. Poland wanted to maintain its liberal trade system. The country was not in position to provide more export incentives. The import surcharge had a significant impact on import flows. However, it could be difficult to identify its exact impact. It was sure, however, that without it the trade deficit of Poland would have been higher. Budgetary income from the import surcharge was significant, reaching 1.1 per cent of GDP.
13. The surcharge, including the rate of 6 per cent for 1994 and 5 per cent for 1995, had been introduced under a law, adopted by the Parliament. Poland indicated the intention of lowering the surcharge to 3 per cent in 1996 and eliminating it entirely by the end of that year.

Conclusions

14. The Committee noted that, since the last consultation, Poland’s macroeconomic situation had improved significantly; the fiscal deficit had been reduced, inflation was down and Poland was moving towards sustainable growth. However, the external and fiscal balances remained fragile.

15. The Committee noted the statements by Poland that the debt service burden would increase, potentially straining reserves, and that the fiscal deficit could deteriorate in the short term, due in part to Poland’s determination to improve its credit-worthiness by meeting debt-servicing requirements in full. On the other hand, prospects for external trade appeared to have improved, with greater potential for export growth coming from the supply side and from a recovery in Poland’s main trading partners. The Committee welcomed Poland’s renewed commitment to a liberal trade system, which would also encourage increased foreign capital inflows.

16. The Committee noted that Poland regarded the level of its international reserves as satisfactory at the moment but expected the ratio of reserves to imports to decline.

17. The Committee noted Poland’s statement that its balance-of-payments situation would have been more tenuous in the absence of the surcharge. Members expressed doubts concerning the efficacy of the surcharge and stressed that such a measure should be viewed only as a temporary means to address external imbalances. It was indicated that the surcharge might have a retrograde effect on trade and weaken the outward-looking thrust of Polish economic policies.

18. The Committee expressed disappointment that the surcharge had been maintained and that it had not been reduced to 3 per cent in 1994, and that it would not be eliminated by the end of 1994 as originally planned. It emphasised that, under Article XII of GATT, trade measures were to be used only for balance-of-payments reasons.

19. The Committee noted Poland’s new commitment to reducing the surcharge to 5 per cent in 1995 and 3 per cent in 1996, and to eliminating it by the end of 1996. Given the improvements in Poland’s economic situation and the prospects for faster recovery, the Committee considered that a more rapid phase-out could well be possible. The Committee therefore welcomed Poland’s readiness to review the situation with it in the spring of 1995.
ANNEX I

Opening Statement by the Representative
of the Republic of Poland

Pursuant to consultation provisions of Article XII:4 of the General Agreement, the Government of Poland wishes to present its case to members of this Committee and, through them, to other GATT contracting parties. 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 second time.

On March 31 and 2 April 1993 I had already an opportunity to explain to you the reasons for the introduction of the surcharge. Following the consultation, the Committee issued a statement in which it noted that, I quote, "the import surcharge of 6 per cent was introduced by Poland as a temporary measure, in view of perceived imminent threat of further deterioration in the balance-of-payments situation linked to the drought 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; that it was implemented in a non-discriminatory manner; and welcomed the firm intention of the Polish authorities to eliminate the surcharge by the end of 1994". The Government of Poland welcomed the helpful stand taken by the Committee.

However, as we already explained in our Notification of 10 May 1994, new circumstances are forcing the Government of Poland to change its original intention to eliminate the surcharge by the end of 1994.

In my opening statement to you I intend to provide full explanations concerning this change of circumstances. My purpose is also to clarify our present intention concerning the timetable for elimination of the surcharge.

Some fairly extensive materials have been provided for the benefit of this meeting by the GATT Secretariat and by the International Monetary Fund. I shall therefore refrain from any general review of economic conditions and reform policies of Poland. However, I shall make references to those conditions and policies which are directly linked to the issue at hand.

The original need for the surcharge

20. In our original Notification of December 1992 and in my earlier opening statement of 31 March 1993, Poland stated that the measure was taken "to forestall the imminent threat of a serious decline in Poland's foreign exchange reserves".

21. The main cause was stated to be an unusually severe drought in 1992, the effects of which were expected to be particularly strong in 1993 and 1994. We provided detailed evidence concerning the sharp fall of the Polish agricultural output in 1992, and its considerable negative impact on the balance of payments in 1992 and expected impact in 1993 and 1994.

22. Latest data confirm our original estimates. In 1992 the total volume of agriculture output dropped by 13 per cent compared to 1991 and by 28.6 per cent compared to 1989. The recovery in 1993 was only by 1.9 per cent compared to 1992, so the volume of output was still 27.2 per cent below that for 1989. In the years 1989-1992, Poland's balance of trade for agricultural products and processed food had been declining, but was still positive. Since November 1992 the balance has been negative in both product categories and for nearly every month.
23. According to our current data, given in Table 3 of this statement, in 1991 agricultural and food exports accounted for 19 per cent of the total exports of Poland. With a value of US$ 2.46 billion, these exports exceeded the value of imports by about US$ 0.3 billion. Latest estimates show that Poland's net exports in this category fell by about US$ 0.3 billion in 1992 and by a further US$ 0.55 billion in 1993. Both agricultural output and exports of agricultural and food products are, in 1994, expected to be about as low as in 1993.

24. In my opening statement of 31 March 1993 I said that net agricultural and food exports "are expected to drop by a further US$ 0.5 billion in the year 1993 and continue at this level in 1994". That forecast has unfortunately proved to be impressively accurate with respect to 1993 and, on current evidence, is likely to be accurate for 1994.

25. It is worth mentioning that, apart from the drop of output, Polish studies show that an additional significant reason of this substantial deterioration in the balance of trade for agricultural and food products has been the introduction of restrictions with respect to some categories of Polish goods, such as berries, animals, meat and meat products.

The importance of the surcharge

26. The most important effect of the surcharge should have been on the balance of payments, with side effects on the fiscal imbalance and the domestic price level. The monthly trade and price statistics show, however, no clear impacts of the measure on imports and prices.

27. We expected the measure to induce some pre-emptive imports, but also to have a dumping impact after it took effect. In the event, the trade balance continued to be strongly negative after the introduction of the surcharge, as if the measure was too small to be effective. Indeed, the balance of trade deteriorated so much in the first half of 1993 that the authorities were forced to devalue the zloty on 27 August 1993, by 8 per cent. The surcharge must have helped to contain the balance of payments problem, but it is clear that its impact was overshadowed by new and unforeseen phenomena which started to operate in early 1993.

28. The surcharge also helped Poland to meet the performance criteria agreed between Poland and the IMF for 1993, thus clearing the way for implementation of the second phase of the debt reduction agreement with the Paris Club, and in this indirect way helping to improve significantly the country's external position.
The new factors

29. The key and startling development for the Polish authorities has been that, after growing rapidly during the first two years of transition, the growth of exports slowed down considerably from about mid-1992. Indeed, on a payments basis recorded earnings declined by 2.9 per cent in 1993. Adjustments for changes in cross exchange rates and terms of trade would improve somewhat the export performance in volume terms, but would not change the fundamental fact that imports have continued to grow much faster. As a result, despite the surcharge and the devaluation, the registered trade balance deteriorated by about 2.8 billion US$ in 1993, or about 20 per cent of total exports.

30. These startling developments led us to search and identify the new factors which have operated forcefully since mid-1992 but which were yet not apparent to us at the time Poland introduced the surcharge.

In our view, these factors are above all the following three:

(i) The asymmetry factor: a strong recovery in Poland and an unusually deep and long recession in the outside world, especially Western Europe;
(ii) The inheritance-related structural factor: poor non-price competitiveness of Polish exports;
(iii) The transition-related structural factor, inducing rapid growth of imports.

31. The asymmetry factor is now self evident and I am proposing not to discuss it in any detail. The presence of factor (II), poor non-price competitiveness, is supported by evidence indicating that most Polish exports are still so-called traditional products. The sharp trade liberalisation, the large up-front devaluation and the large fall of domestic demand in 1990-1991 released some of the traditional products for exports, giving rise to the initial big surge of exports. But the export of such products would and did quickly reach a ceiling. Measured in terms of real effective exchange rates, the level of price competitiveness was, during 1992-93, about the same as in 1991, while in terms of unit labour costs, competitiveness has in fact improved. This supports the view that there are structural causes of the current weakness in the growth of Polish exports. Such causes can only be lessened gradually, with the expansion of the private sector and a wider restructuring effort of the entire enterprise sector.

32. This restructuring effort is now underway. Investment imports already comprise about 20 per cent of the total imports and are increasing rapidly. Imports of non-energy intermediate inputs represent about 50 per cent of total imports and have also been strongly increasing. These two categories of imports should in due course help to upgrade the quality of Polish outputs and lead to a recovery of exports. Nevertheless, we now expect the improvement in Poland’s balance of payments to be more gradual than we originally assumed.
The special factor

33. In our earlier opening statement I also drew your attention to the presence in Poland of a "special factor" of considerable importance in the context of this consultation. I was referring to the unusually large threat to international monetary reserves posed by the fragility of the macroeconomic equilibrium in most countries in transition.

34. Despite the earlier radical reforms, the impressive successes in stabilising the economy, the continuing reform efforts and the strong recovery, the factor is still present in Poland. This is indicated by the high velocity of money circulation, the high monetary multiplier linking base money and total money, the high portion of money held in the form of dollar deposits, the low propensity to save, the large bad debts of the banking sector, the large reliance of the budget on bank financing, and a large public debt, especially foreign debt. All this gives rise to a very serious credibility problem for the macroeconomic policies of the authorities. To meet the problem, the Polish authorities have no option but, among other things, to ensure that the level of international reserves remains high most of the time and, on average, significantly above the minimum required for the orderly conduct of trade and financial transactions.

35. Since late 1993 the level of reserves has been increasing despite the current account deficit. The evidence indicates that Poland has been the recipient of short term capital which cannot be relied upon to remain in the country. The inflow of long term capital, such as foreign direct investment, is still fairly limited.

36. The large foreign currency deposits of the population, now almost US$ 8 billion, are an additional reason for maintaining a high level of official reserves in order to instil confidence and forestall any significant capital flight.

37. Finally, as a part of the special factor, there is the proximity of Poland to the countries of the former Soviet Union. The Polish authorities, in deciding the floor level of our international reserves, have to take into account the risks associated with the large political and economic uncertainties which continue to be present in some of the countries. The significance of this factor has, in our view, increased during the period since our meeting on 31 March 1993.

The external debt problem

38. The balance-of-payments position is also affected by the large external debt. The agreement of April 1991 with the Paris Club official creditors and the recent outline agreement of February 1994 with the London Club commercial creditors would have reduced the net present value of the debt stock by some 20 US$ billion. Despite the reductions, Poland's debt-to-GDP ratio would remain above 50 per cent and the debt-to-export ratio above 275 per cent. Therefore by the two World Bank classification criteria, Poland would remain a severely indebted middle-income country.

39. To finance the agreement with the London Club, Poland is expected to make a substantial capital payment this year, of which up to US$ 1 billion may have to come from its official reserves. Moreover, the agreement is expected to cost Poland, in the form of full debt servicing, the amounts varying between 440 and 550 mln US$ per annum in the years 1994-2002. Debt service payments on the Paris Club debt are expected to amount to US$ 541 million in 1994 and are scheduled to double in dollar terms over the next five years. The ratio of interest actually paid with respect to all foreign debt to exports will increase from 6.4 per cent in 1993 to 10.7 per cent in 1994. The proportion will be in the range between 11 to 13 per cent in the years 1995-1997, and thus remain significantly higher than the average of 4.5 per cent for countries that have avoided debt service difficulties.
40. The new Stand-by Agreement with the IMF reached this month for the second half of 1994 and the year 1995 clears the way for the implementation of the outline agreement with the London Club creditors of February this year. In this way, before the end of 1994 Poland should have financial relations with all Western creditors fully normalised. We are also hoping for an early agreement on mutual financial obligations with Russia.

41. Full normalisation of financial relations with all outside partners is and will be a great asset for us and a major step in Polish transition reforms. It is our paramount objective to keep adequate international reserves and conduct sound economic policies so that Poland is always in a position to honour fully its external financial obligations.

The intended timetable for the surcharge

42. Poland recognises the exceptional nature of trade restrictions of any kind for balance of payments purposes. My Government continues to be fully committed to trade liberalisation policies. The rate of effective tariff protection, as measured by the ratio of import duties collected to imports, is this year about 11.9 per cent. This ratio is expected to decline during the next several years.

43. The proposed reduction of the surcharge from 6 per cent this year to 5 per cent in 1995 will thus reduce the combined import charges from about 18.6 per cent to 16.5 per cent of the value of imports.

44. The Polish price liberalisation reforms are well known as one of the most comprehensive in Central Europe. In particular the prices for tradables are firmly locked to international prices, administered prices are few, and the levels of subsidies to enterprises, including changes in tax arrears, are less than 2 per cent of GDP and are among the lowest in Europe.

45. With regard to the surcharge, we very much regret having to depart from the original intention, even though this departure is forced upon us by unforeseen circumstances beyond our control.

46. The Government’s present intention is to reduce the surcharge to 5 per cent in 1995, 3 per cent in 1996, and to discontinue it form 1997. However, given the large uncertainties, the Government takes the view that it cannot commit itself, at this stage, to this or any other timetable. By the same token, in the course of next twelve months or so, the BOP position may improve sufficiently for the Government to consider a faster reduction of the surcharge than that contemplated at present. In any case, and this I would like to stress, the Government remains committed to bringing down the combined border protection substantially every year in the course of next several years.

47. 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 and for your willingness to accommodate us with respect to the date of this meeting. I would also like to thank the Secretariat of the GATT and the IMF officials, both in Washington and Geneva, for their helpful co-operation in preparing this review.

48. 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.
Table 1
Poland

Balance of payments in convertible currencies - on payments basis, official reserves and the amount of foreign debt
(US$ millions).

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<tr>
<td>Exports</td>
<td>10623</td>
<td>2823</td>
<td>3268</td>
<td>3179</td>
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<td>Imports</td>
<td>8170</td>
<td>3081</td>
<td>3342</td>
<td>2695</td>
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<td>Current account 1049</td>
<td>-1134</td>
<td>-531</td>
<td>533</td>
<td>-227</td>
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<td>Overall balance</td>
<td>2280</td>
<td>-189</td>
<td>-726</td>
<td>474</td>
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<td>Foreign debt</td>
<td>48.475</td>
<td>45.225</td>
<td>44.766</td>
<td>45.091</td>
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1. End of period.
2. In convertible currencies only.

Table 2
Poland

Net International Reserves: quarters changes
(US$ millions).

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1. Within period.
Table 3
Poland

Trade in food and agricultural products
(US$ millions)

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<tr>
<td>Exports</td>
<td>2207</td>
<td>2464</td>
<td>2005</td>
<td>1712</td>
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<tr>
<td>Imports</td>
<td>975</td>
<td>2136</td>
<td>1957</td>
<td>2210</td>
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<tr>
<td>Net exports</td>
<td>1250</td>
<td>328</td>
<td>48</td>
<td>-498</td>
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* Forecasts.
POLAND
Foreign trade turnover in 1993 and I, II, III and IV of 1994
Payments basis

Month
POLAND
Foreign trade turnover in 1992
Payments basis

- Export
- Import
- Current account

Month

In millions of US$
ANNEX II

Statement by the IMF Representative

Since March/April 1993, when the Committee on Balance of Payments Restrictions last consulted with Poland, further major progress has been made in restructuring the economy and moving it toward sustainable and satisfactory growth. The positive turnaround in economic activity that emerged in 1992 has since continued, with real GDP increasing by 4 per cent in 1993 and poised for a 4½ per cent growth rate in 1994. This positive growth performance came in good part from the increasing vibrancy of the private sector, which now accounts for three-fifths of employment as compared with one third four years ago. In addition, important gains in efficiency were achieved in the state enterprise sector, which contributed heavily to the increase in industrial production of about 6 per cent, largely through steady increases in productivity. The solid growth performance was flanked by major progress toward better macroeconomic balance, with the fiscal deficit declining from 6½ per cent of GDP in 1992 to 3 per cent in 1993 and the 12 month-rate of inflation falling over the period from 44½ per cent to 37½ per cent, with a further fall to 23 per cent projected for 1994.

Despite these markedly positive results, performance was uneven over the period, especially on the inflation side, and the battle to regain fiscal balance has not yet been won. Accordingly, any doubts either about the steadfastness of government policy or the trend of economic developments tend to trigger higher inflation expectations and consequent precautionary behaviour. This was at the root of the demand and price pressures that emerged in the first half of 1993 and again at the end of the year. Developments at midyear resulted in a significant loss of international reserves, leading to an 8 per cent devaluation of the zloty in August 1993.

While in the second half of the year demand and output trends confirmed that earlier demand strains had been transitory, questions arose regarding further consolidation on the inflation side, particularly with respect to incomes policy. The latter were spurred by signs of heightened labour market tensions and a surge in wage settlements at the end of the year. However, inflation expectations once again abated with the new government’s determination to continue on the path of economic stabilization. Thus, consumer demand, while remaining strong, stabilized in early 1994, and the inflation rate, as measured by the consumer price index, slowed from an annual rate of 37.6 per cent in December 1993 to just over 30 per cent in March 1994.

Fiscal and monetary policy have been important components in stabilizing the economy at a relatively high rate of activity. The 1994 budget projects a deficit equal to 3.9 per cent of GDP, one percentage point higher than in 1993 mainly due to higher interest payments on government debt. The primary surplus, however, would increase from ½ per cent of GDP in 1993 to 1 per cent of GDP in 1994. Government dissavings has been brought down by 4 percentage points of nominal GDP (from just over 5 per cent in 1991 to about 1 per cent in 1993). In line with the projected enlargement of the 1994 budget deficit, government dissavings is expected to pick up to about 2 per cent of nominal GDP in 1994 before returning to the trend toward a positive balance in subsequent years.

The improvement in the government savings balance appears to have been accompanied by a deterioration on the non-government side. As the latter is derived as a residual, there are obvious questions about the conclusions that can be drawn from these numbers. However, this development is perhaps not unexpected given the fall in real incomes and the imposition of hard budget constraints on government enterprises. For 1994, an increase in non-government savings
has been projected. The fact that these savings trends appear to reflect the structural evolution in the economy, however, does not diminish the need to strengthen both the institutional framework and the incentive structure to increase national savings. Accordingly, the authorities are putting emphasis on the restructuring of the social security system to continue to improve the government’s savings performance and seek to deepen the financial sector both to improve intermediation and to create sound savings instruments. Monetary policy is playing its rôle in the process to sustain improvements in the international reserve position and in the attractiveness of the zloty. In this regard, the recent 1-2 percentage point cut in the basic interest rates of the National Bank of Poland accords with the recent developments of international reserves, inflation and the currency composition of broad money.

Despite all the positive achievements so far, the fiscal and external balances remain precarious. The current account deficit, at 2.7 per cent of GDP in 1993-94, represents some risks given the low level of Poland’s international reserves after financing a debt reduction operation with commercial creditors. Inflows on capital account help secure the position, but are dependent upon, inter alia, the success of maintaining financial stability. This, in turn, would require further consolidation efforts on the fiscal side, especially with regard to further success in enhancing revenue collection and in reshaping the social security system. The ongoing privatization effort and the restructuring of state-owned enterprises, including commercial banks, depend in part for their success on the continued working of incomes policy.

No substantive changes have been made to the exchange system since last year. The authorities are preparing a new foreign exchange law that is intended to eliminate remaining restrictions of payments and transfers maintained under the transitional provisions of Article XIV. In addition, they are studying modalities to eliminate the segmentation between the official and kantor markets for foreign exchange, and thus eliminate the multiple currency practice that exists under Article VIII. The segmentation arises from the kantors’ inability to purchase foreign exchange from commercial banks. There are no restrictions on sales. Over the past two years, the kantor rate has typically been at a premium relative to the official rate.

On the trade front, Poland’s access to neighbouring country markets has been expanded with the entering into force, on an interim basis, of agreements with CEFTA and EFTA in March 1993 and November 1993, respectively, and the decision by the European Council to speed up the reduction of import duties and the increase in quotas under the Association Agreement (formally approved in February 1994).

For its part, in July 1993 Poland revised its tariff structure with the objective of lowering duties on imported raw materials and semi-finished products. The average trade weighted tariff fell by about 1 per cent, to 11.6 per cent (preliminary 1993 weights), but the effective rate of protection increased for a number of products and tariff dispersion also increased. Effective protection was likely further increased by more frequent recourse to preferential tariff quotas for inputs, a tax on sugar content, and licensing requirements on imports of some agricultural products. The Government intends to introduce several export promotion measures in 1994. These include tax relief, preferential credits, preferential investment allowances, attractive refinancing credits for institutions financing exports, and a small recapitalization (equivalent to about US$15 million) of the Export Credit Insurance Corporation.

At the time of Poland’s last consultation with the Committee on Balance of Payments Restrictions, the Fund noted that adherence by the Government to its programme should lead to a strengthening of the balance of payments and the fiscal situation, which in turn should permit the withdrawal of the import surcharge as scheduled and the removal of remaining import restrictions.
However, as noted above, despite the significant progress on many fronts, Poland's external and fiscal position remains fragile. In the circumstances, the authorities have decided against reducing the rate of the import surcharge from 6 to 3 per cent for 1994 and to extend it into 1995. The authorities recognize, nevertheless, that the surcharge weakens the outward-looking, pro-export thrust of their policies. Although the authorities intend to phase down the surcharge between now and the end of 1996, at which time they intend to eliminate it, it is clear that circumstances argue for keeping the situation under constant review as earlier elimination is desirable.