I. General

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

2. Poland has notified, in document L/7164, the introduction of a temporary import surcharge under Article XII of the GATT, effective as of 17 December 1992, on all imported products except alcoholic beverages, tobacco products, fuels and automobiles. In its notification Poland stated that the measure was taken "to forestall the imminent threat of a serious decline in Poland's foreign exchange reserves". The surcharge is applied to imports from all sources. As stated in the notification, the temporary surcharge takes the form of a turnover tax "applied until the Value Added Tax comes into force in the second half of 1993. The surcharge will continue thereafter as a separate tax. The surcharge will be 6 per cent until the end of 1993 and 3 per cent in 1994. It will be discontinued from the beginning of 1995." It was also stated by Poland that the surcharge would be administered consistently with the procedures established under Article XII and the 1979 Declaration. Poland has expressed its readiness to consult under Article XII:4.

II. Overall economic reform in Poland

(a) Introduction

3. Since the beginning of 1990, Poland has undertaken a radical economic reform programme aimed at transformation into a market economy. The main
elements of the programme included an almost complete price liberalization; fiscal adjustment, involving sharp cuts in subsidies and spending; tight monetary policy; restrictive income policies; internal convertibility of the zloty; substantial trade liberalization; wide-ranging privatization, encouragement of the private sector and foreign investments; and reform of the financial system and establishment of a capital market. Central planning was eliminated.

(b) Trade Régime and Policy

Trade reform

4. As a result of the radical market economy reform, administrative management of foreign trade has been abolished and the country's foreign trade system has been liberalized to a considerable extent, with customs tariff now the main trade instrument. All economic units, including private ones, have the right to carry out foreign trade activities. Trade measures used in the former planned economy system have been abolished. Poland uses import licensing and other non price-based trade measures only sparingly. In 1991, the CMEA ceased to exist and Poland maintains a single trade régime, applicable to all its trading partners. Polish trade with former CMEA members is, in principle, now conducted in convertible currencies.

Import prohibition, import licensing and import quotas

5. Imports of pure alcohol and unflavoured vodka; cars with two stroke engines, two stroke engines greater than 250 cubic centimetres; passenger cars older than ten years and lorries older than six years, are prohibited.

6. In the context of Poland's transition to a market economy, the scope of import licensing has been drastically reduced. Before 1990, all imports were subject to licensing and the licensing system was the major instrument for regulating imports. Currently, the imports of the following items require licensing: beer; wine; alcoholic beverages with over 18 per cent alcohol content; cigarettes made of tobacco; dairy products; natural gas; oil; and engine fuels. The coverage of import licensing was extended recently, as licensing obligation on alcoholic beverages with over 18 per cent alcohol content and tobacco products was introduced at the beginning of 1992, and on natural gas, oil and engine fuels on 1 October 1991.

\[\text{For more detailed information regarding Poland's trade régime see document C/RM/S/31, Chapter IV.}\]

**Tariffs**

8. At the beginning of the reform process, the simple average tariff in Poland was 18.3 per cent. However, in 1990, within the framework of a tariff suspension programme, customs duties were suspended on about 50 per cent of all Polish tariff lines. As a result, the average tariff declined to 5.5 per cent. Since August 1991, a number of tariff rates have been changed and most tariff suspensions were terminated. In August 1991, the simple tariff average was 18.4 per cent. As a result of drought, in October 1992, the Government established new tariff suspensions for several grains and animal feeds, valid until 30 June 1993. Polish tariffs on industrial products will be gradually phased out over a ten year period based on free trade agreements concluded with the EC, EFTA, the Czech Republic, Hungary and Slovakia.

9. At present, Poland does not have any bound tariff rates. However, it had expressed its readiness to negotiate the binding of its new tariffs at levels commensurate with the principle of effective reciprocity. At present, Poland is engaged in tariff negotiations with a number of countries in the context of the renegotiation of its GATT protocol of accession.

10. Poland maintains zero tariff quotas for durum wheat, other varieties of wheat and barley. Based on the EC-Poland Interim Agreement, Poland introduced a duty-free tariff quota on cars. It has a duty-free quota on parts of assembly of new vehicles and equipment for factories involved in industrial assembly of new vehicles. A duty-free quota on electronics items is under consideration.

11. In October 1992, Poland announced the intention to introduce a variable import levy system on some agricultural products. The modalities of the system as well as its product coverage and the operating principles are under consideration.

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4 See Table IV.3 in document C/RM/31B.

5 Chapter IV (2)(iii) in document C/RM/31A.
12. As part of the stabilization and market-oriented reform programme, the Polish currency was devalued by 32 per cent on 1 January 1990 and became convertible for all trade and trade related transactions. It was pegged to the U.S. dollar. The peg remained in place until mid May 1991, serving as a nominal anchor for the macroeconomic stabilization effort, enforcing monetary discipline and restoring confidence in the domestic currency. On 17 May, the zloty was devalued and pegged to a basket of five currencies. Since 14 October 1991, the zloty has been on a crawling peg, under which it is depreciated by 9 zloty a day against the basket, subject to a maximum depreciation of 1.8 per cent a month. On 26 February 1992, the zloty was again devalued against the basket, with the subsequent midpoint rate against the U.S. dollar being Zl 13,238. Banks are free to set buying and selling rates for foreign currencies within margins of 2 per cent of the National Bank of Poland's middle rates.

13. Payments for trade and trade related transactions are freely permitted. Other invisible transactions are to be made under general or individual permits. Imports up to US$1 million may be financed on credit, of up to three years, under general permits issued by the President of the Polish National Bank. Export receipts must be repatriated, in general within two months. All Poland's bilateral payments agreements were effectively terminated at the end 1990, but some outstanding balances need to be settled. In principle, new agreements specify payments in convertible currencies.

14. All categories of capital transfers by resident natural persons require foreign exchange permits.

(d) The import surcharge

15. According to the Polish notification, the imminent threat to the balance of payments position of the country was substantially exacerbated by the actual and projected effects of an unusually severe drought in 1992. "The cumulative impact of the drought on the balance of payments is estimated to be about US$2.5 billion for the period 1992-1994 (US$0.5 billion in 1992, and US$1 billion annually in 1993 and 1994)."

16. Exceptions from the product coverage of the temporary import surcharge, as notified by Poland, "are due to the fact that the products concerned are already subject to relatively high border charges".

See Chapter III in document C/RM/31A.
III. Economic and trade developments

17. Poland's economy appears to be recovering from the severe adjustment shock experienced in 1990 and 1991, following the change of economic régime. Real GDP, which is estimated to have fallen by 11½ per cent in 1990 and a further 7 per cent in 1991, is believed to have resumed growth during 1992. Industrial production was stated by the Polish delegation, in the recent Trade Policy Review of Poland, to have increased by almost 4 per cent in 1992; similar performance was expected in 1993. Inflation, while still high, has declined from the peak of over 580 per cent reached in 1990 to around 50 per cent in 1992, reflecting the trend in money supply indicators. The budgetary balance has varied considerably in the last three years. In 1990, with reduced government expenditure on subsidies and higher revenue through new tax measures, the State budget achieved a surplus of 0.4 per cent of GDP. This was reversed in 1991, when revenue declined sharply and social expenditures rose; a deficit of some 6 per cent of GDP was registered.

18. Data published in International Financial Statistics for Poland's balance of payments up to the third quarter of 1992 (Table 1) show that the overall balance, which had been in substantial surplus in 1990 (the trough of the recession), swung into an equally large deficit for 1991 as a whole. The main component in this change was a sharp outflow of capital in the fourth quarter of 1991; however, the merchandise trade balance for the year also moved into deficit.

19. A comparison of the first nine months of 1992 with the same period of 1991 shows an expanding trade surplus. However, a sharp deterioration in the "other income" balance led to a widening of the current account deficit, and the capital account deficit was also considerably larger.

20. Poland's international reserve position declined markedly in the third quarter of 1991 but recovered in 1992 to stand at the equivalent of four months' imports by end-September.
Table 1
Poland - Balance of payments in all currencies, 1989-92 (3rd quarter)
(US$ million)

<table>
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<tbody>
<tr>
<td></td>
<td>(Jan.-</td>
<td>(Jan.-</td>
<td>(Sep.)</td>
<td>(Sep.)</td>
<td>(Sep.)</td>
</tr>
<tr>
<td>Merchandise exports, f.o.b.</td>
<td>12,869</td>
<td>15,837</td>
<td>14,393</td>
<td>9,855</td>
<td>10,403</td>
</tr>
<tr>
<td>Merchandise imports, f.o.b.</td>
<td>12,822</td>
<td>12,248</td>
<td>15,104</td>
<td>9,470</td>
<td>9,420</td>
</tr>
<tr>
<td>Merchandise trade balance</td>
<td>47</td>
<td>3,509</td>
<td>-711</td>
<td>385</td>
<td>983</td>
</tr>
<tr>
<td>Services balance</td>
<td>148</td>
<td>353</td>
<td>1,090</td>
<td>257</td>
<td>303</td>
</tr>
<tr>
<td>Income balance</td>
<td>-3,213</td>
<td>-3,386</td>
<td>-2,896</td>
<td>-1,830</td>
<td>-3,483</td>
</tr>
<tr>
<td>Private unrequited transfers</td>
<td>1,521</td>
<td>2,206</td>
<td>723</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-1,409</td>
<td>3,067</td>
<td>-2,146</td>
<td>-1,152</td>
<td>-1,945</td>
</tr>
<tr>
<td>Capital account, errors and omissions</td>
<td>-1,906</td>
<td>3,250</td>
<td>-4,371</td>
<td>14</td>
<td>-1,733</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-3,315</td>
<td>6,317</td>
<td>-6,517</td>
<td>-1,138</td>
<td>-3,678</td>
</tr>
<tr>
<td>Total reserves minus gold</td>
<td>2,314</td>
<td>4,492</td>
<td>3,632</td>
<td>4,375</td>
<td>4,183</td>
</tr>
<tr>
<td>(Months of imports)</td>
<td>2.2</td>
<td>4.4</td>
<td>2.9</td>
<td>4.1</td>
<td>4.0</td>
</tr>
</tbody>
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