

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

DRAFT

REPORT ON THE 1984 CONSULTATION WITH HUNGARY

1. The Committee consulted with Hungary on 22 May 1984, in accordance with its terms of reference, pursuant to Article XII of the General Agreement and the 1979 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. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation, in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/243)
Secretariat Background Paper	(BOP/W/79)
Trade Measures taken for Balance-of-Payments Purposes	(L/5363 and Addenda 1-3)
IMF Recent Economic Developments, dated 23 December 1983	

Opening Statement by the Representative of Hungary

3. In his opening statement, the representative of Hungary referred to the economic conditions in 1982 which had first led his authorities to introduce restrictive measures for balance-of-payments purposes. He recalled the conclusions of the Committee at the last consultation in 1982 (BOP/R/131, paragraph 19). The principal objective of Hungary's economic policy in 1983 and 1984 had been to achieve and sustain an improved current account position in convertible currencies. Hungary had relied primarily on restrictive internal measures to limit domestic demand, as the external economic and trading environment remained unfavourable. The measures aimed at keeping down real consumption through curbs on wage increases, higher social security contributions, higher rates of price increases accompanied by significant reductions in consumer price subsidies. Measures were also taken to curtail the volume of fixed investment. In addition, the forint had been devalued by 7 per cent in 1983 and a further 3 per cent in early 1984 to promote a more rational use of imports and improve the competitive position of Hungarian exporters on international markets. As a result of these measures, GNP increased only slightly in 1983, and domestic demand decreased by 2 to 3 per cent; industrial output increased by only 1 per cent. Agricultural production was set back by a severe drought. Exports settled in convertible currencies increased slightly in volume but remained unchanged in United States dollar terms, while imports settled in convertible currencies increased somewhat in volume but decreased in dollar value. The positive convertible currency trade balance of US\$877 million on a balance-of-payments basis, while approximately US\$100 million higher than the previous year, fell short of expectations due primarily to a US\$200 million export loss caused by the effects of drought, unfavourable world price developments, and persistent protectionist measures abroad. The current account balance in convertible currencies showed a surplus of US\$297 million, an improvement of US\$360 million over the previous year.

4. Despite unfavourable developments in the external environment, the Hungarian authorities had made progress towards easing the import restrictions introduced in 1982. In January 1984, the number of import quotas had been reduced from 12 to 6 and the 20 per cent import surcharge on components had been eliminated as of 1 April 1984. The key objective in 1984 continued to be the further improvement of Hungary's external balance, through the regulation and further reduction of domestic demand. The authorities were making every effort to reach a stage when restrictive import measures would no longer be necessary. In order to accomplish this, the confidence of international financial circles must be maintained. On the other hand, internal policies of the Hungarian authorities should be matched by corresponding trade policy efforts by Hungary's major partners with a view to liberalising and facilitating market access for Hungarian products.

Statement by the Representative of the International Monetary Fund

5. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the text of which is attached as Annex I.

Balance-of-Payments Position and Prospects; Alternative Measures to Restore Equilibrium

6. Members welcomed the improvement which had taken place in the trade and current account balances of Hungary with convertible currency areas, and the easing in restrictions which had taken place in 1984. One member stated that in his view, the consultation could be used as an opportunity to identify areas where its trading partners might take action to improve its market access. In this connection, the Chairman recalled that all internal and external factors were to be taken into account in Article XII consultations, as set out in paragraph 2 of the 1970 procedures (BISD 18S/49).

7. One member noted that reductions in private and public consumption of $\frac{1}{2}$ per cent and $1\frac{1}{2}$ per cent, as well as a cut of over 8 per cent in gross fixed investment, were envisaged in the 1984 Hungarian plan. This was the fifth consecutive year in which the main burden of adjustment fell on investment. He asked what measures were envisaged to ensure that such cuts would not have an adverse effect on future GDP and export growth. He also noted that the main external objective for 1984 was to improve the convertible currency current account balance principally through an increase in the trade surplus, and asked what products and markets were envisaged as contributing to this increase. He also asked for greater detail to be provided on the amount of government subsidies and on plans to reduce them.

8. In reply, the representative of Hungary stated that the possible long-term adverse effects of cutbacks in investment were alleviated by ensuring that scarce capital resources were channelled to more efficient firms or projects with a higher than average rate of return. Disbursements of credits were concentrated in the export and energy-saving sectors. Products to be exported should be determined by the enterprises on the basis of their assessment of market possibilities. As to the subsidies contained in the budget, he stated that roughly half of them were devoted to consumption subsidies and half to the restructuring of industry. The objective was to reduce the share of subsidies within budgetary expenditures, but caution must be exercised in reducing consumption subsidies because of social considerations.

9. Some members expressed the view that a complex array of factors had led to the present balance-of-payments situation, and commented on Hungary's comparative trade performance vis-à-vis convertible currency areas and other areas. In their opinion, subsidies extended for exports to Eastern trading area countries might indicate that such exports were not particularly profitable. They called attention to the increasing trade deficits with other Eastern trading area countries, as against the recovery of the trade balance with convertible currency areas. Hungary's exports to these members had grown by 8 per cent during 1983, and the trade deficit with them had been halved. Hence they expressed surprise that so much of

Hungary's basic document for the consultation should be devoted to measures affecting its exports to them. While welcoming the improvement in the Hungarian economic situation and the reduction in Hungary's import restrictions, they noted that the remaining restrictions still covered a significant proportion of trade.

10. The Hungarian representative stated in reply that the subsidies referred to were made necessary by the different price-setting methods of Hungary's trading partners in non-convertible currency areas. Regarding the measures taken by Hungary's trading partners affecting Hungarian exports, mentioned in document BOP/243, he stressed that the importance given to particular measures described in that document was due to the importance of that market for Hungary's exports.

11. One member, referring to the difference between trade patterns with convertible currency areas and clearing arrangement countries noted that the trade deficit with clearing arrangement countries was financed at minimal interest rates and over long maturity periods, and indeed trade had increased most with these countries.

12. One member asked how Hungary would be able both to maintain its debt servicing requirement, estimated at US\$2 billion in 1984 as well as an adequate level of foreign exchange reserves, equal to five months' imports, given a projected current account surplus of US\$400 million. He also enquired about the likely effect of the removal of the 20 per cent surcharge on Hungarian imports. The Hungarian representative replied that these objectives could be achieved partly through borrowings from the International Monetary Fund and the World Bank and from the international money market, and partly through import credits. Net Hungarian indebtedness was expected to be reduced by some US\$400 million in 1984, equivalent to the projected current account surplus. As to the effect of the removal of the surcharge, the representative of Hungary drew attention

to the fact that this, or the phasing out of other import restrictive measures, would not necessarily result in a rise in imports, since measures taken to contain domestic demand would be expected to have an effect on the volume of imports, due to the high import content of investment and current consumption.

System, Method and Effects of Restrictive Import Measures

13. In the context of recent improvements in Hungary's balance-of-payments situation, and bearing in mind the provisions of Paragraph 1(c) of the 1979 Declaration, a number of members asked Hungary to announce a time schedule for the removal of remaining restrictions, including quotas on consumer goods imports, and a return to automatic import licensing.

14. One member asked what value of trade was involved in the annual import quota for consumer goods from convertible currency sources, as well as a detailed product breakdown of the quotas. He also asked when Hungary could consider reverting to a system of automatic licensing. In addition, he wished to know Hungary's intentions with regard to allowing more firms to import directly rather than through specialized foreign trading companies.

15. The representative of Hungary replied that it was his authorities' intention to phase out all restrictions and to revert to a system of automatic licensing as soon as possible, although he could make no firm commitment as to a timetable. The consumer goods quotas had been notified to the Group on Quantitative Restrictions and Other Non-Tariff Measures and was included in the documentation issued by this Group (NTM/W/6/Rev.1). Data on the value of quotas for 1981, 1982 and 1983 had been provided in the Part IV Consultation background note for Hungary (COM.TD/W/385). In relation to the decentralization of foreign trade, the Hungarian representative noted that there were currently some 220 companies authorized to carry out foreign trading activities on a permanent basis, and several hundred ad hoc authorizations were granted last year. It was the intention of the Hungarian authorities to continue to widen the number and scope of such activities.

16. A question was posed regarding figures provided by the secretariat, in paragraph 29 of BOP/W/79, on the estimated trade effects resulting from the reduction of import quotas and the elimination of the import surcharge. In clarification, it was stated that trade covered by import quotas had been reduced by some US\$120 million at 1983 values; approximately US\$406 million, or some 7 per cent of 1983 imports, thus remained subject to quotas in 1984, after allowing for recent quota increases. Imports affected by the import surcharge by Hungary stood at US\$512 million in 1983.

17. The Hungarian representative reiterated that his authorities were making every effort to reach a stage when restrictive import measures would no longer be necessary; however, the external trading environment was not under the control of the Hungarian authorities and he expressed the hope that the external environment would be improved in a way which would facilitate Hungarian adjustment efforts.

Conclusions

18. The Committee noted that since the last consultation Hungary's balance-of-payments situation had improved as a result of the demand management measures taken, despite some continuing negative external factors. The Committee welcomed the efforts made by Hungary to ease the restrictions introduced in 1982, in particular the lifting of the 20 per cent import surcharge on 1 April 1984 and the partial elimination of quantitative restrictions, and noted the transparency of the measures taken. Taking into account the various internal and external factors affecting Hungary's balance-of-payments position, the Committee reiterated the hope that in the light of progress achieved in internal adjustment,

Hungary would soon be in a position to announce a timetable for the phasing out of the remaining restrictions and the return to automatic licensing, in accordance with Paragraph 1(c) of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

Annex I

Statement by the Representative of the
International Monetary Fund

[To be added]