

# WORLD TRADE ORGANIZATION

RESTRICTED

**WT/BOP/13**

11 September 1996

(96-3502)

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## **Committee on Balance-of-Payments Restrictions**

### **1996 CONSULTATION WITH HUNGARY UNDER THE BALANCE OF PAYMENTS PROVISIONS OF THE GATT 1994 AND THE RELATED UNDERSTANDING**

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#### Background

The Hungarian Government introduced in 1995 a set of measures to contain unfavourable economic tendencies. They included a surcharge of 8 per cent on imports to Hungary with the effect from 20 March 1995. This measure was duly notified to WTO. Text of the Notification was circulated in document WT/BOP/N/2/.

The WTO and GATT 1947 Committees on Balance of Payments Restrictions carried out consultations jointly with representatives of the Hungarian Government on 26 and 30 June 1995. They recognised that Hungary had introduced the import surcharge to address the imminent threat of a serious decline in its balance of payments. The surcharge formed part of an economic stabilisation package aimed at correcting current account and fiscal imbalances. They recognised also that the measure was price based, uniform and non discriminatory, that the surcharge applied to all imports except primary energy products and that it was reimbursable on investment machinery. The Committees noted Hungary's intention to reduce import surcharge progressively beginning not later than 1 January 1997 and to eliminate it by 1 July 1997. /Report on the 1995 Consultation with Hungary; WT/BOP/R/3./

#### Results of the economic stabilisation measures

In consequence of the measures taken as a package the further deterioration of external imbalances and budget deficit was arrested in 1995 and considerable improvement was achieved. Both an improved foreign trade balance, and considerable reduction of budget deficit in 1995 as well as outstanding foreign direct investment performance relieved the immediate pressure on the balance of payment. FDI, including privatisation revenues amounted 4.453 billion USD. The capital account in 1995 had a medium and long-term capital inflow of USD 7.131 billion, which is 1,7 billion more than in 1994. The gross foreign debt of Hungary at the end of 1995 amounted to USD 31.655 bn. an increase of USD 3134 bn over the prior year /out of which USD 712 Millions. was due to cross exchange rate changes/. Among gross claims international reserves increased by 5.241 Bn. in 1995 and totalled USD 12 Bn. Net foreign debt was USD 16.817 i.e. 2.439 Bn. less than a year before.

Current account deficit was reduced to 2480 Million USD in 1995 from that of 3911 Million USD in 1994.

While prior to the introduction of the complex measures, including surcharge, low export performance and a dynamic import growth was experienced a flattening rate of import growth and

accelerated exports characterised the economy in the months after the measures taken. Foreign trade balance improvement of over 1,2 Billion USD played an outstanding role in the consolidation. /Data on Hungarian foreign trade are contained in Annex 1. Data on balance of payments are contained in Annex 2./

Due to the complex nature of the stabilisation steps it is impossible to evaluate the impact of individual measures. Undoubtedly there is a strong correlation between the surcharge and slowing down import growth. At the same time the dynamism of exports performance and decelerating imports was likely due also to reduced purchasing power of the population as well as of the government sector, the crawling devaluation system of the national currency and other factors.

#### Further experiences and perspectives

During the first half of 1996 the positive tendencies continued however growth rate of exports slowed. Foreign trade deficit further decreased but in contrast to 1995 a decline in imports appeared in the second quarter. The modest increase in imports of the first quarter was partly due to the a higher energy import in consequence of more severe winter conditions. In spite of this increase it is to be noted that energy efficiency of the economy is improved over the years as a result of both eliminating energy intensive metallurgical, chemical production and improving technology. In exports rate of growth surpassed the average in manufacturing and engineering sectors. Share of agricultural products somewhat declined though this is mainly consequence of introducing restriction on wheat exports. 1996 crop is well below that of the last year. /1996 foreign trade data: Annex 3./

Trade performance reflects some of the structural changes in the economy. Such changes are also manifested by the fact that 70 per cent of exports are carried out by fully or jointly owned foreign companies.

Price increases in 1995 were considerably higher than a year before, due to administrative price and tax increases and also due to fast growing world market prices. Inflation in 1995 was pushed by cost increase whereas in 1994 it was demand pulled. Industrial producer prices increased by 28.9. per cent and consumer prices by 28.2 p.c. Rate of inflation is subdued in 1996, however to a lesser extent than envisaged. Monthly deceleration of price increase is experienced.

The importance of gradual elimination of the import surcharge is duly recognised by the Hungarian authorities. The surcharge, a price based measure to reduce the volume of imports contributes to the general contraction in macroeconomic demand. However, the increase in the cost of production may reduce the competitiveness of the domestic production.

The gradual reduction of the level of the import surcharge, thus relative improvements in competitiveness coincide with the economic recovery in Hungary's major export markets that is forecasted for 1997. This may further improve the export performance of the Hungarian economy. The share of exports in net sales of enterprises has already increased from 13.4% in 1993 to 16.6% in 1995 and strong export performance is expected in 1996, as well.

The gradual elimination of the import surcharge will further curtail state revenues. However, cuts in Government expenditures and increase in state revenues arising from the economic recovery is expected to compensate the discontinued income. Furthermore, the gradual elimination of the import surcharge may calm the inflationary pressure on the Forint.

Hungary remains committed to its intention reflected in the report of the 1995 consultations to gradually eliminate the surcharge by 1 July 1997. As a first step the surcharge was reduced by 1 percentage points i.e. to 7 p.c. as of 1 July 1996. In accordance with the decision of the Government a further 1 percentage point cut is going to take effect from 1 October 1996.

## ANNEX I

## FOREIGN TRADE BY COMMODITY GROUPS

1994	EXPORTS		IMPORTS	
	Value 000 \$	p.c. over previous years	Value 000 \$	p.c. over previous years
Fuels, energy	351,633	118.0	1,599,706	100.8
Materials	3,900,190	120.9	5,370,326	127.4
Machinery	1,286,044	112.3	3,282,070	101.7
Consumer goods	2,859,406	126.9	3,205,230	120.5
Food	2,190,319	116.2	992,020	134.2
Total	10,587,591	120.2	14,449,352	116.2

  

1995	EXPORTS		IMPORTS	
	Value 000 \$	p.c. over previous years	Value 000 \$	p.c. over previous years
Fuels, energy	308,984	87.9	1,662,996	104.0
Materials	5,084,700	130.4	6,541,565	121.8
Machinery	1,058,632	113.4	3,109,547	94.7
Consumer goods	3,211,944	112.3	3,235,666	100.9
Food	2,802,772	128.0	916,520	92.4
Total	1,286,703	121.5	15,466,293	107.0

## ANNEX 2

## BALANCE OF PAYMENTS OF HUNGARY IN CONVERTIBLE CURRENCIES

Denomination	1993	1994	1995
Exports*	8.1	7.6	12.8
Imports*	11.3	11.2	15.3
Trade balance	(3.3)	(3.6)	(2.4)
Services and income			
Freight and shipment, net	(106.0)	(176.0)	(186.0)
Government expenditures, net	(17.0)	(12.0)	(13.0)
Services, net	(104.0)	(55.0)	195.0
Travel,			
receipts	1.2	1.4	1.7
expenditures	739.0	925.0	1.1
net	442.0	503.0	659.0
Direct investment income, net	(56.0)	(117.0)	(194.0)
Investment income			
receipts	456.0	661.0	758.0
expenditures	1.6	2.0	2.4
net	(1.1)	(1.3)	(1.6)
Labour and property income net	(6.0)	(43.0)	(52.0)
Unrequired transfers, net	732.0	909.0	1.1
Other payments, net	38.0	1.0	25.0
CURRENT ACCOUNT BALANCE	(3.5)	(3.9)	(2.5)
Capital account	3.5	3.9	2.5
Medium and long-term capital	5.6	2.3	5.6
Assets, net **	237.0	36.0	118.0
Liabilities, net	3.1	1.2	1.1
Inflow	6.4	5.4	7.1
Outflow	3.3	4.3	6.1
Direct investment income			
in Hungary, net	2.3	1.1	4.5
abroad, net**	(11.0)	(49.0)	(43.0)
BASIC BALANCE	2.2	(1.6)	3.1
Short-term capital	459.0	960.0	1.4
Assets**	(165.0)	189.0	(9.0)
Liabilities	624.0	771.0	1.4
OVERAL BALANCE	2.6	(656.0)	4.5
Changes of reserves**	(2.6)	656.0	(4.5)

Source: NBH

\* Trade data is on settlement basis

\*\* increase

## ANNEX 3

## FOREIGN TRADE TURNOVER

JANUARY-JUNE 1996

	EXPORTS			IMPORTS			BALANCE	
	1995	1996	1996/95	1995	1996	1996/95	1995	1996
I. Quarter	2720.7	3022.1	111.10%	3713.8	3790.7	102.10%	-983.1	-768.7
April	929.4	1040.4	111.90%	1344.4	1263.4	94.00%	-415	-223
May	1084.7	1063.7	98.10%	1379.4	1263.8	91.60%	-294.7	-200.1
June	1070.9	1002.6	93.60%	1336	1265	94.70%	-265.1	-262.4
II. Quarter	3085	3106.7	100.70%	4059.8	3792.2	93.40%	-974.8	-685.6
January-June	5806.7	6128.8	105.60%	7773.6	7582.9	97.50%	-1967.8	-1454.2

## COMPOSITION OF FOREIGN TRADE

JANUARY-JUNE 1996

	EXPORTS		IMPORTS		TRADE BALANCE
	Value	per cent of 1995	Value	per cent of 1995	Value
Agriculture incl. food, beverages, tobacco	987.3	97.4	375.5	88.3	611.8
Raw materials	307.3	102.9	327.1	92.1	-19.8
Energy	247.4	118.5	943.4	107.9	-696
Manufactures	2973.9	107	3702.6	99.4	-728.7
Machinery and equipment	1612.9	107.2	2234.4	93.3	-621.5
TOTAL	6128.8	105.6	7583	97.5	-1454.2