

WORLD TRADE ORGANIZATION

RESTRICTED

WT/BOP/G/4

4 July 1997

(97-2797)

Committee on Balance-of-Payments Restrictions

Original: English

1997 CONSULTATIONS WITH THE REPUBLIC OF BULGARIA UNDER ARTICLE XII OF THE GATT 1994 AND THE RELATED UNDERSTANDING

Basic Document Supplied by the Republic of Bulgaria

I. LEGAL AND ADMINISTRATIVE BASIS OF THE IMPORT RESTRICTION

1. Acting in conformity with the relevant provisions of Article XII of the General Agreement on Tariffs and Trade 1994, the Declaration on Trade Measures Taken for Balance-of-Payments Purposes of 1979 and the Understanding on the Balance-of-Payments Provisions of the GATT 1994, the Government of the Republic of Bulgaria has introduced a temporary import surcharge in June 1996 in order to forestall an imminent threat of a serious decline in foreign exchange reserves and balance-of-payments difficulties.
2. The import surcharge was introduced pursuant to Regulation of the Council of Ministers No. 118 of 30 May 1996 (State Gazette No.48 of 1996), with effect from 4 June 1996.
3. The Republic of Bulgaria submitted information on the introduction of the temporary surcharge to the Working Party on the Accession of Bulgaria (contained in Document WT/ACC/BGR/5 of 20 September 1996). Following its WTO accession, Bulgaria notified the introduction of the measure under paragraph 9 of the Understanding on the Balance-of-Payments Provisions of the GATT 1994 in Document WT/BOP/N/18 of 27 March 1997.

II. METHODS USED IN RESTRICTING IMPORTS

4. The Government of the Republic of Bulgaria is of the opinion that the method used in restricting imports and the administration of the measure is in compliance with the relevant provisions of the GATT 1994, the Declaration on Trade Measures Taken for Balance-of-Payments Purposes of 1979 and the Understanding on the Balance-of-Payments Provisions of the GATT 1994.
5. A uniform surcharge of 5 per cent is levied on imports intended for home use. It is calculated on the customs value of the imported goods.
6. The application of the import surcharge does not prevent the importations of commercial samples or prevent compliance with patent, trade mark, copyright or similar procedures and is considered not to damage the commercial or economic interests of any other WTO Member.

III. PLAN FOR THE PROGRESSIVE RELAXATION AND ELIMINATION OF THE RESTRICTION

7. The timetable for the progressive reduction and elimination of the surcharge is as follows:

- from 4 June 1996 till 30 June 1997 - 5 percentage points
- from 1 July 1997 till 30 June 1998 - 4 percentage points
- from 1 July 1998 till 30 June 1999 - 2 percentage points
- from 1 July 1999 till 30 June 2000 - 1 percentage points
- elimination from 1 July 2000.

IV. TREATMENT OF IMPORTS FROM DIFFERENT SOURCES INCLUDING INFORMATION ON THE USE OF BILATERAL AGREEMENTS

8. The import surcharge is applied in a non-discriminatory manner to imported goods irrespective of their origin. It covers imports from all countries, including developing and least-developed ones, as well as from trading partners commercial relations with which are based on the provisions of Article XXIV of the GATT 1994.

V. COMMODITIES, OR GROUPS OF COMMODITIES, AFFECTED BY THE VARIOUS FORMS OF IMPORTS RESTRICTIONS

9. The surcharge applies to all goods imported with the following exceptions:

- some essential products, specified in Annex 1, meeting basic consumption needs or contributing to Bulgaria's efforts to improve its balance-of-payments situation;
- capital goods as provided for in the Law on the Economic Activity of Foreign Persons and on the Protection of Foreign Investments;
- cases provided for in the Customs Law and the Regulation for the implementation of the Customs Law, such as goods in transit and temporarily imported goods; diplomatic goods, commercial samples, domestic goods re-expedited from abroad, donation to the Red Cross, nuclear fuel, etc.

VI. EFFECTS OF THE IMPORT RESTRICTION ON TRADE

10. After considering different options aiming at forestalling the imminent threat of a serious decline in Bulgaria's foreign exchange reserves, the Government has chosen the measure that least distorts trade. In accordance with the Understanding on the Balance-of-Payments Provisions of the GATT 1994, the import surcharge as a price-based measure is considered to have less disruptive effect on trade than alternative quantitative restrictions or other similar measures, since it will not interfere with the policies aimed at granting all traders equal opportunity to engage in international commerce.

11. The measure is applied only to control the general level of imports. Because of its comprehensive trade coverage, the surcharge is not used for the purpose of protecting any specific industry or sector of the economy. However, in order to minimize any incidental protective effects,

the import surcharge is administered in a non-discriminatory and transparent manner, as required by the relevant GATT 1994 provisions.

12. The restrictive impact on trade is confined to what is considered necessary for meeting the stated objective of the measure, as provided for in the GATT 1994. Depending on the strength of Bulgaria's external position, the Government will strive to accelerate the phasing out of the surcharge.

VII. GENERAL POLICY IN THE USE OF RESTRICTIONS FOR BALANCE-OF-PAYMENTS REASONS

13. The intention of the Government of the Republic of Bulgaria is to pursue reform programme through economic measures which expand, rather than contract international trade. In this respect, the Government is committed to phase-out the import surcharge in accordance with the timetable envisaged.

14. The economic background against which the import surcharge was introduced is described in documents WT/ACC/BGR/5 and WT/BOP/N/18.

15. The Bulgarian economy suffered major setbacks during 1996 characterised by a severe foreign exchange and banking crisis, a sharp decline in economic activity and real money demand, high public indebtedness, and an unsustainable fiscal path. The depth of the financial crisis was reflected in the economic outcomes for 1996: real GDP fell by an estimated 9 per cent and, from end-1995 to end-1996, the Bulgarian lev depreciated from 71 to 487 per US\$, and 12-month inflation accelerated from 33 to 311 per cent. The current account has posted a small surplus (0.4 per cent of GDP) and the trade balance improved slightly, but export and import volumes declined sharply by 12 per cent. The drop in exports is attributed to weak foreign demand, the agricultural drought, and the disruption in banking and enterprise sectors as a result of the financial and economic crisis. Imports declined mainly due to the drop in real GDP, the real depreciation of the exchange rate during the year, and financial difficulties in the energy sector.

16. The eruption of the banking crisis in the spring of 1996 dealt a severe blow to the Bulgarian economy. Fifteen banks, holding about 31 per cent of household deposits outside the State Savings Bank and 23 per cent of total enterprise deposits, were placed under conservatorship in two waves and petitions were filed for their bankruptcy. At the beginning of 1997, two banks were declared bankrupt. Capital outflows and withdrawals from the banking system contributed to a sharp decline in official reserves (excluding gold) from US\$1.2 billion to US\$0.5 billion, equivalent to about one month of imports of goods and non-factor services. Despite these adverse circumstances, Bulgaria remained current on its external debt service and a primary fiscal surplus (excluding BNB transfers) of over 8 per cent of GDP was achieved; however, the collapse of real lev money demand (by 65 per cent through the year) and the ensuing higher inflation and nominal interest rates pushed the overall deficit up to 11 per cent of GDP, from less than 6 per cent of GDP in 1995.

17. The lev fell from just under 500 per U.S. dollar at end-December 1996 to 3,000 per U.S. dollar by mid-February 1997 before rebounding at about 1,500 per U.S. dollar in mid-March. The consequences of the depreciation were an acceleration of inflation and a collapse of living standards: inflation jumped to 43.8 per cent in January and 243 per cent in February - the highest monthly rate since the beginning of Bulgaria's transition. Pensions fell to US\$ 5-7 per month and wages in the budget sector to below US\$10 per month. Even with the measures taken by the caretaker Government, social conditions remained dire.

18. Against this background, the macroeconomic framework for 1997 is premised on a gradual restoration of confidence in a highly uncertain environment. Following the sharp decline in trade during the first quarter of 1997, the adoption of stabilization measures and structural reforms is expected to lead to modest growth of exports and imports for the year as a whole.

19. A currency board arrangement will be established, effective July 1, 1997. A new Law on the Bulgarian National Bank (BNB) has been adopted by Parliament. In the period up to July 1, 1997, the BNB will operate as a de facto currency board, keeping the exchange rate at the level of the peg through unsterilized intervention and without extending credit to the banking system or the government. The German Mark has been chosen as the peg currency and the Bulgarian lev is pegged at a rate of 1 000 leva per 1 DM.

20. The successful implementation of the macroeconomic stabilization programme of the Government, supported by the IMF, the high level of foreign debt (99.1 per cent of GDP for 1996) and debt service payments (10.8 per cent of GDP) call for the necessity to continue in 1997 the measures for further normal servicing of debt obligations. Foreign debt payments for the period up to year 2000 remain at a very high level. Interests paid in 1996 amount to 5.6 per cent of GDP.

21. For the medium term, the basic strategy of the Government is one of fostering export and investment led growth by establishing and sustaining financial stability, hard budget constraints, and supply side adjustment. As part of this strategy, financial and incomes policies under the currency board arrangement will be set with a view to preserving cost competitiveness.

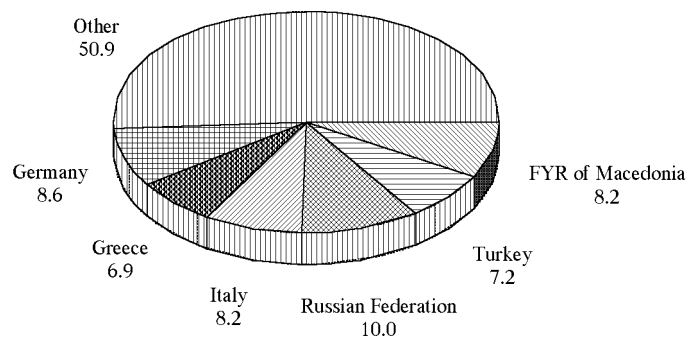
ANNEX 1

Description of goods	Tariff Item No.
Crude oils	ex 2709 00
Natural gas	2711 11 00 0
	2711 21 00 0
Electrical energy	2716 00 00 0
Coal and briquettes	2701
Lignite	2702
Coke and semi-coke of coal or lignite	2704 00
Nuclear fuel	ex 2844 20
Copper ores and concentrates	2603 00 00 0
Unwrought aluminium	7601
Chemical wood pulp	4703
	4704
Polyvinyl chloride	ex 3904
Cotton	5201 00
Medicaments	3003
	3004
Raw cane sugar	ex 1701
Wheat	1001
Maize for forage	1005 90 00 1
Wheat flour	ex 1101 00 00 0

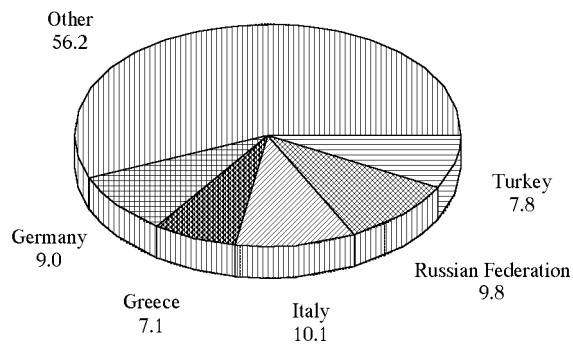
ANNEX 2

Chart 1
Share of main trading partners in Bulgaria's exports
(Per cent)

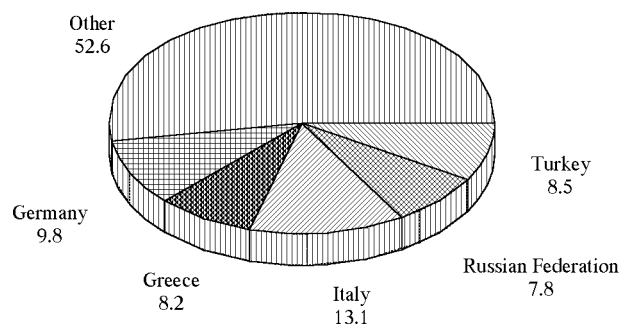
1995



1996



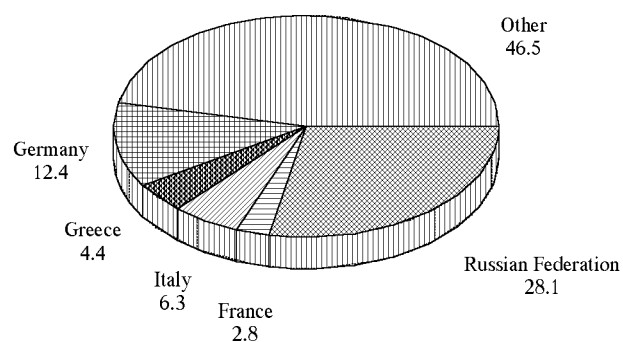
January-April 1997



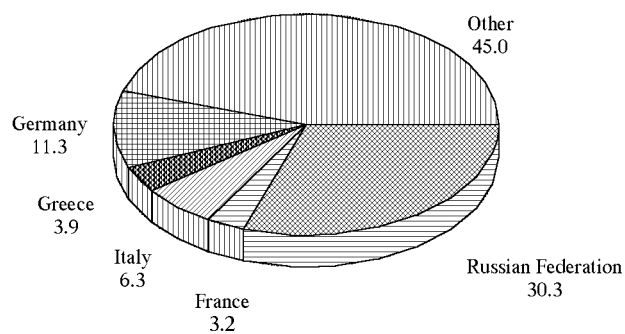
Source: For 1995 - NSI, final data; for 1996/97 - Ministry of Finance, preliminary data.

Chart 2
Share of main trading partners in Bulgaria's imports
(Per cent)

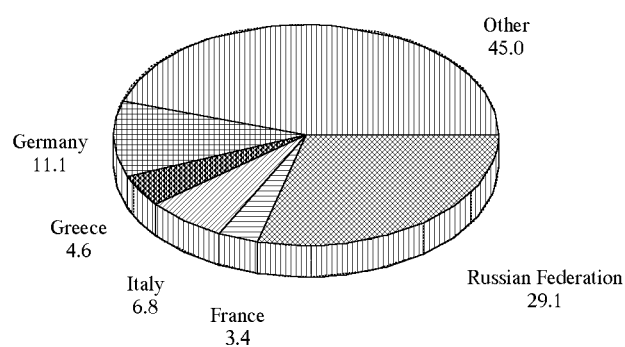
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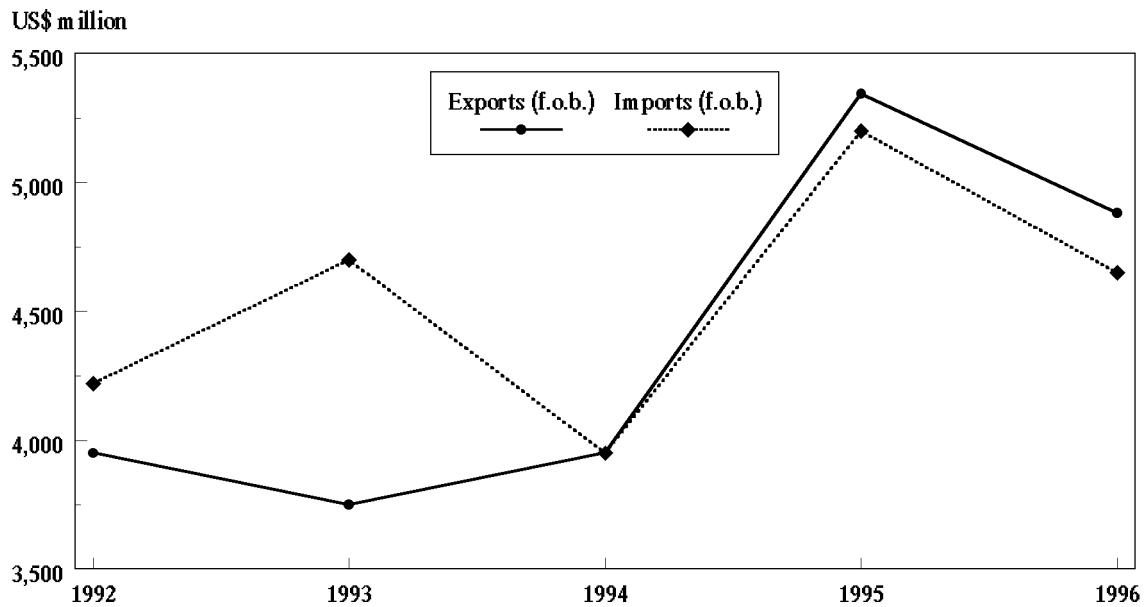


January-April 1997



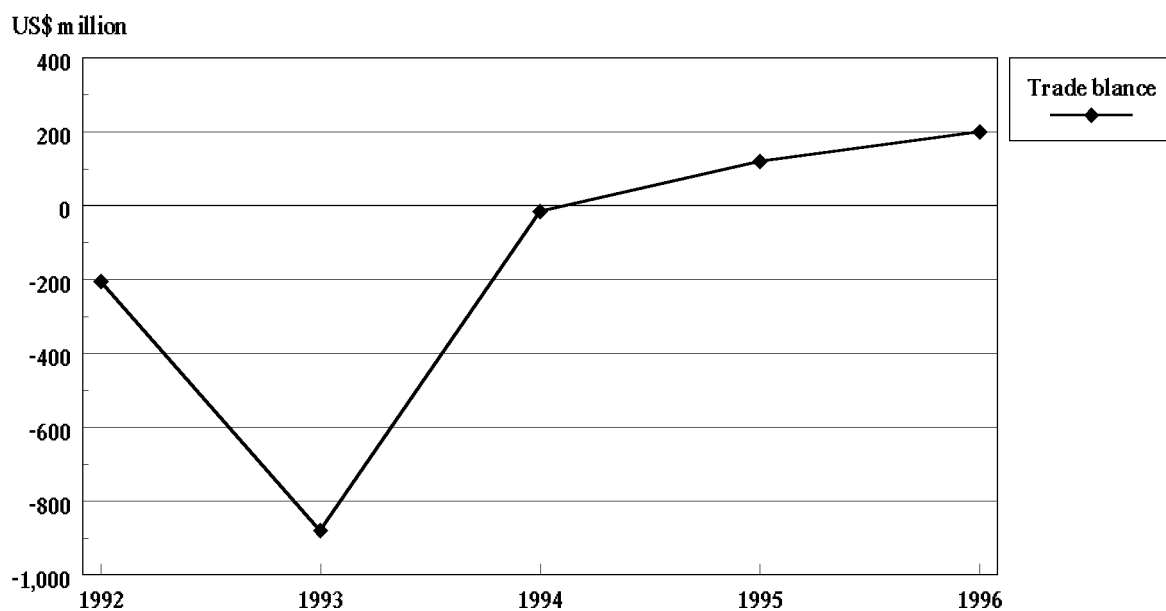
Source: For 1995 - NSI, final data; for 1996/97 - Ministry of Finance, preliminary data.

Chart 3
Exports and imports, 1992-96



Source: For 1992-95 - NSI, final data; for 1996 - Ministry of Finance World, preliminary data.

Chart 4
Trade balance, 1992-96



Source: For 1992-95 - NSI, final data; for 1996 - Ministry of Finance World, preliminary data.

Table 1
Bulgaria's Foreign Trade by Trading Partners

IMPORTS

No	Countries	1995	1996	Jan-April 1997	Index
		US\$ mill.	US\$ mill.	US\$ mill.	1996/1995
1	EU countries including	2097.8	1762.2	439.2	84.0%
	Germany	697.0	567.3	131.7	81.4%
	Italy	326.6	316.1	80.7	96.8%
	Greece	248.7	195.4	54.0	78.6%
	France	157.3	162.2	39.8	103.1%
	Austria	156.9	121.6	30.1	77.5%
	Great Britain	147.4	102.9	33.6	69.8%
	Holland	111.0	90.6	20.6	81.6%
2	EFTA countries	104.8	85.3	21.3	81.4%
3	Others OECD countries including	311.6	272.2	77.3	87.4%
	USA	119.1	110.4	33.6	92.8%
	Turkey	99.8	95.6	30.4	95.8%
4	Balkan countries	244.7	162.9	26.1	66.6%
5	CEFTA countries	178.1	158.9	47.8	89.2%
6	Former USSR countries including	1869.2	1694.2	388.8	951.5%
	Russia	1583.9	1526.2	344.8	96.4%
	Ukraine	188.1	118.7	31.7	63.1%
7	Other countries	832.3	905.2	185.4	108.8%
	Total Imports /CIF/	5638.5	5040.9	1186.7	89.4%

EXPORTS

No	Countries	1995	1996	Jan-April 1997	Index
		US\$ mill.	US\$ mill.	US\$ mill.	1996/1995
1	EU countries including	2012.0	1909.2	694.8	94.9%
	Italy	436.0	491.7	204.7	112.8%
	Germany	457.8	441.0	151.9	96.3%
	Greece	367.7	347.2	128.4	94.4%
	Great Britain	167.2	140.7	32.9	84.2%
	France	152.9	127.3	39.0	83.3%
	Spain	133.8	111.3	39.9	83.2%
	Holland	102.5	79.6	20.6	77.6%
2	EFTA countries	82.6	49.4	12.3	59.8%
3	Others OECD countries including	592.3	552.2	208.8	93.2%
	Turkey	385.1	383.1	132.7	99.5%
	USA	162.3	112.4	34.1	69.3%
4	Balkan countries including	692.8	512.9	92.0	74.0%
	Yugoslavia	85.5	231.0	31.7	270.3%
	FYR of Macedonia	436.2	148.1	26.1	34.0%
	Romania	95.6	75.3	17.5	78.8%
5	CEFTA countries	97.3	94.7	35.1	97.3%
6	Former USSR countries including	922.8	948.2	277.2	102.8%
	Russia	536.1	479.2	121.2	89.4%
	Ukraine	190.7	166.1	48.7	87.1%
	Moldova	43.1	90.6	24.1	210.3%
	Georgia	0.0	78.6	44.6	0.0%
7	Other countries including	945.7	814.8	237.3	86.2%
	Syrian Arab Republic	69.9	74.0	n.a.	105.8%
	TOTAL EXPORTS /FOB/	5345.4	4881.4	1557.5	91.3%

Source: For 1995 - NSI, final data.
For 1996 and 1997- Ministry of Finance, preliminary data

Table 2**Bulgaria - Imports by main categories, 1995-1996**

Commodity groups	1995 (%)	1996 (%)
Consumer goods	12.6	9.9
Raw materials	39.0	35.1
Investment goods	19.7	17.5
Mineral fuels, oils and electricity	28.8	36.3
Total	100	100

Source: For 1995 - NSI, final data
For 1996 - Ministry of Finance, preliminary data

Table 3**Bulgaria - Trade composition, 1995-1996****EXPORTS**

Commodity groups	1995 (%)	1996 (%)
1. Chemical products, plastics and rubber	18.4	20.0
2. Animal and vegetable products, food, drinks and tobacco products	21.9	18.7
3. Base metals and articles of base metals	19.6	17.7
4. Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods	12.8	14.7
5. Machines, transport facilities, appliances and tools	14.1	15.2
6. Mineral products and fuels	8.3	9.1
7. Wood, paper, earthenware and glass products	4.8	4.6
Total	100	100

IMPORTS

Commodity groups	1995 (%)	1996 (%)
1. Mineral products and fuels	31.5	39.2
2. Machines, transport facilities, appliances and tools	22.3	19.5
3. Chemical products, plastics and rubber	14.2	12.5
4. Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods	11.4	11.7
5. Animal and vegetable products, food, drinks and tobacco products	8.1	7.3
6. Base metals and articles of base metals	7.0	5.3
7. Wood, paper, earthenware and glass products	5.4	4.4
Total	100	100

Source: For 1995 - NSI, final data
For 1996 - Ministry of Finance, preliminary data

ANNEX 3

Table 1
Bulgaria - Balance of Payments, 1996 - 1997

	1996					1997
	IQ	IIQ	IIIQ	IVQ	Total	IQ
Current Account 1/	-175.3	54.4	152.5	9.3	40.8	224.2
Goods, net 2/ 13/	-32.8	74.8	137.4	28.6	208.0	355.2
credit	1191.6	1222.2	1221.4	1246.2	4881.4	1180.8
debit	-1224.4	-1147.4	-1084.0	-1217.6	-4673.4	-825.6
Services, net 3/	-23.5	-23.7	163.6	7.1	123.5	-29.8
credit	268.1	276.6	471.5	349.2	1365.5	237.6
debit	-291.6	-300.3	-307.9	-342.1	-1241.9	-267.4
Income, net 4/	-166.2	-27.6	-165.0	-36.3	-395.1	-137.4
credit	54.6	26.9	58.9	40.5	181.0	66.0
debit	-220.8	-54.6	-223.9	-76.9	-576.1	-203.4
Current transfers, net	47.1	30.8	16.5	9.9	104.4	36.2
credit	73.2	56.5	53.8	48.2	231.8	54.7
debit 5/	-26.1	-25.7	-37.3	-38.4	-127.4	-18.5
Capital and financial account 1/ 6/	217.1	-119.5	39.4	-43.5	93.6	-92.2
Capital account	0.0	0.0	65.9	0.0	65.9	0.0
Capital transfers, net	0.0	0.0	65.9	0.0	65.9	0.0
Financial account	217.1	-119.5	-26.5	-43.5	27.6	-92.2
Direct investment	76.4	12.4	10.2	40.8	139.8	40.4
Abroad	21.7	-0.9	-0.5	-0.3	19.9	0.0
In reporting country 7/	54.8	13.3	10.7	41.1	119.9	40.5
Portfolio investment	-37.2	-21.6	-121.2	11.4	-168.6	20.5
Assets	-12.4	-31.7	-23.0	20.8	-46.3	-4.7
Liabilities	-24.8	10.1	-98.2	-9.4	-122.3	25.2
Other investment	-414.1	-179.9	-17.7	-83.0	-694.8	-118.0
Assets	-325.5	-166.0	-94.5	-65.7	-651.7	-64.9
Trade credits, net			-0.1	-0.9	-1.0	-0.1
Loans 8/	89.3	78.6	90.9	80.4	339.2	90.5
Currency and deposits 9/	18.9	135.1	-62.6	18.1	109.5	-96.0
Other assets 10/	-433.7	-379.7	-122.8	-163.2	-1099.4	-59.3
Liabilities	-88.6	-14.0	76.8	-17.3	-43.1	-53.1
Trade credits, net			0.6	-0.3	0.2	0.9
Loans	-129.5	-109.3	42.4	-1.2	-197.5	-68.6
Currency and deposits	10.5	21.1	12.3	4.9	48.8	-2.9
Other liabilities 11/ 12/	30.4	74.3	21.5	-20.7	105.4	17.5
Reserves (increase: -)	592.0	69.6	102.3	-12.7	751.2	-35.1
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights	24.3	-8.3	4.7	-2.9	17.8	1.8
Reserve position in the Fund	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange	567.7	77.9	97.6	-9.8	733.4	-36.9
Net Errors and Omissions	-41.7	65.1	-191.9	34.2	-134.4	-132.0

Table 1 (cont'd)

* In accordance with IMF 5th edition of the Balance of Payments Manual.

- 1/ The data for 1996 are preliminary.
- 2/ Customs data provided by the Computing Center of the Ministry of Finance.
- 3/ Includes transport, travel and other services.
- 4/ Tourist data are provided by the NSI and estimated by BNB. Actual receipts of interests, since 1996 - due receipts. Interest payments are on a due basis Since third quarter of 1996 including compensation of employees.
- 5/ Including data provided by the Agency for Foreign Aid and Bulgarian Red Cross.
- 6/ For assets, a (-) denotes an increase in holdings and a positive figure represents a decrease.
- 7/ Data on direct investment in Bulgaria are provided by the Ministry of Finance and the Agency for Privatization.
- 8/ Includes gas deliveries under the Jamburg agreement.
- 9/ Includes DMBs deposits held in nonresident banks.
- 10/ Includes change in the deposits of resident households and private companies and other short-term assets.
- 11/ Includes clearing account repayments to former CMEA countries.
- 12/ Including rescheduled payments and arrears.
- 13/ Settlement data received from commercial banks:

Goods, net	-172.2	-0.1	104.8	155.3	87.9	151.7
Credit	1433.6	1301.1	1039.6	978.5	4752.7	866.1
Debit	-1605.8	-1301.2	-934.8	-823.1	-4664.9	-714.5

Source: BNB.