

INTERNATIONAL MONETARY FUND

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TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Survey of the Economy of Poland

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International Monetary Fund

Research Department

SURVEY OF THE ECONOMY OF POLAND

Prepared by M. R. Wyczalkowski

Approved by Ernest Sturc

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1. Territory and Population

Poland's prewar territory was 388,600 square kilometres. Of this, 181,000 square kilometres were ceded after the end of the war to U.S.S.R. while 104,000 square kilometres were acquired in the West and North (East Prussia and eastern parts of prewar German territory). The net result of these changes is that present Polish territory is 310,112 square kilometres or about 20 per cent less than before the war.

Poland's prewar population (August 1939) was about 35.4 million. At present it amounts to about 24 million or 68 per cent of the prewar figure. This decrease is due to war losses estimated at 6.1 million and to the cession to U.S.S.R. of the eastern part of Poland. A certain number of Polish citizens are still in D.P.'s camps in Germany, Austria, and also in Great Britain and U.S.S.R.

On February 14, 1946, the day of the first post-war population census, there were 23.9 million people in Poland (of whom 45.8 per cent were men and 54.2 per cent women). The population consisted approximately of:

Poles	21.0 millions	87.8%
Germans	2.3	9.6%
Others (mainly Ukrainians and White Russians)	0.6	2.6%
	<u>23.9</u>	<u>100. %</u>

The national structure of the population was, however, changing during 1946 and 1947. Germans have been repatriated to Germany, Ukrainians and White Russians to U.S.S.R., and Poles have been repatriated to Poland from U.S.S.R. and from other countries, especially from Germany. Up to the end of February, 1947, repatriation to or from Poland had affected about 5.4 million people or 27 per cent of the total population. By the end of February, 1947, the number of Germans decreased to 2.8 per cent of the population, while the number of Poles increased to 96.6 per cent of the population.

This is a great contrast to the prewar national composition of the population, when Poles constituted only about 70 per cent of the total population; Ukrainians and White Russians about 17 per cent; Germans about 2.6 per cent and others about 10.4 per cent. Repatriation is still going on, e.g., from the beginning of repatriation to the end of February, 1947, only

about 2 million Poles returned to Poland from U.S.S.R. while the prewar number of Poles in the ceded eastern provinces was 4 million out of a total of about 10.6 million. Almost all the Poles in the prewar Lithuanian territory, about 300,000, are also returning to Poland. Out of a total of about 4.3 million Poles, up to the end of February, 1947, only about 2 million had been repatriated to Poland. This, however, does not mean that the remaining 2.3 million will still be repatriated. During the German occupation a large number of people inhabiting the territories in question were taken West as slave labor, killed, or dispersed all over the world.

It seems reasonable to assume that only about 1.1 million people will still be repatriated to Poland, (some of whom have already been repatriated during the period between the end of February, 1947, and the time of writing this survey), both from the West and the East. On the other hand, it may also be assumed that about 400,000 out of 635,000 Germans will still be repatriated to Germany. After repatriation is completed, the population of Poland will, without taking natural increase into account, be somewhat above 24 million.

Apart from repatriation, there has been an extensive migration of people within the present Polish frontiers. People displaced by Germans have returned to their homes, and others have travelled to find their families or new jobs. A significant number of people, mainly people repatriated from abroad, was involved in the shift of population to the newly acquired territories. The following table shows the changes in the population of the newly acquired territories and of its national composition.

(In thousands)

	1939	February 14, 1946		February 28, 1947	
Total	8,600	4,822	100 %	5,130	100 %
Poles	.	2,760	57.3%	4,700	87.7%
Germans	.	2,036	42.3%	430	12.3%
Others		26	0.4%	.x/	

x/ Included in the figures indicating Polish and German population.

Both the population of these territories and the ratio of Poles to total population have been recently increased by a further shift of Polish population to the West and the repatriation of Germans. According to the Government's program an additional 1½ million Poles are to be transferred to the new Western territories.

The density of population with the breakdown between new Western and old territories is shown below.

Density of Population

	(Number of people per sq. km.)		
	<u>1939</u>	<u>February 14, 1946</u>	<u>February 28, 1947^{1/}</u>
Prewar Polish territory	91		
Present Polish territory			
excluding newly			
acquired territories	119.2	92.6	90.0
Present Polish territory	108.7	77	77.0
New western territories	82.7	46.4	49.3 ^{2/}

- 1/ Estimated annual national increase of population of 1 per cent taken into account.
- 2/ The density of population of Lower Silesia is at present almost at the prewar level, while in the northern parts of the new territories, it is much below the average of 49.3 per sq. km.

In 1931, 65 per cent of the working population were engaged in agriculture, forestry and fishing; 17 per cent in industry, mining and craftsmanship; 5 per cent in trade and 13 per cent in other occupations. There are no corresponding statistics for 1939, but it is known that there had been only an insignificant shift of population towards industry and trade. The war and post-war changes in the territory of the country have however caused a considerable change in the occupational structure of the population.

Poland has lost eastern territories which were mainly agricultural and gained highly industrialized areas in the West. On the other hand, an overwhelming proportion of people killed by the enemy during the occupation were industrial workers, artisans, tradesmen and members of other non-agricultural professions; at the end of the war therefore the percentage of people occupied in agriculture was larger than before the war, even though the industrial capacity of the country was enlarged by the territorial changes. It was one of the first and most urgent tasks of the Government to encourage a speedy shift of workers from agriculture to industry, handicraft and trade, which began immediately after the war and is still going on.

Agricultural over-population, an insoluble problem for the prewar Polish economy, suddenly became a great reservoir of new industrial workers, tradesmen and artisans. To speed up the process the Government established in many towns and at every large industrial enterprise special schools for training of new artisans and industrial workers.

An indication of the success of this policy is the growing number of workers of Polish nationality in industry and their rising productivity.

How far these structural changes have progressed can be judged from the change of percentages of people living in towns and in the villages. In 1931, only 27 per cent of the population were living in towns, while on February 14, 1946, the percentage was 31.4, in spite of the destruction of towns which was more extensive than that of villages. At present, 18 months after the population census, this percentage is certainly higher.

2. Principal Features of the Economy

The effects of the territorial changes

The shift of boundaries made decisive changes in Poland's economic structure. The eastern ceded territories, except the southern part, are agricultural, while the western territories which have been added to Poland, except former East Prussia and a part of Pomerania, are highly industrialized. The network of railroads is better developed in the present territory than it was in prewar Poland; the road system is also much better.

The Oder supplies an important transport link between the sea and the coal and industrial region of Lower Silesia.

War destruction

Although the industrial capacity of the present Polish territory exceeds that of the prewar territory, extensive war destruction makes it impossible to measure the increase on the basis of a comparison between the prewar capacity of the prewar and the present territory of Poland.

None of the larger towns in the new western and northern territories escaped destruction, total or partial, and only one large city in old Polish territory--Krakow--was practically undamaged. The biggest cities: Warsaw, Gdansk (Danzig) and Wroclaw (Breslau) were almost completely destroyed. These three cities were large industrial centers with highly diversified industries.

According to the census of Polish industry of July, 1945, the average percentage of destruction of industrial buildings was 35.1, of power-producing motors and energy transforming installations - 52.1 and of other machines and technical equipment - 45.4. The corresponding percentages for newly acquired territories taken separately were 31.4, 53.4 and 46.1. The percentage of destruction in mining was 51.3, in foundry and smelting industry - 52.1, in electrotechnical industry - 58.2, in building industry - 59.6 and in textile industry - 39.1.

Agriculture also suffered extensive damage. Whole areas in Central Poland were destroyed. The soil could not be properly cultivated because of lack of draft animals, insufficient tractors and the unavailability of seeds. About 75 per cent of the cattle was lost.

The communication system suffered heavily. Bridges, railroads and locomotives, telephones and radio stations were destroyed or damaged. Port facilities were destroyed or removed. For example, the port of Stettin, essential for the export of coal, had been almost completely deprived of port equipment when taken over by the Polish authorities.

Nationalization

Under the Nationalization Law, almost all industrial enterprises employing more than 50 workers per shift have, since January 3, 1946, been nationalized. However, in seasonal industries, such as building, private enterprises may employ an unlimited number of workers. In some other (non-seasonal) industries 100, 150 or even 200 workers per shift may be employed. Moreover, the Nationalization Law does not apply to cooperative or municipally owned enterprises.

According to the industrial census of July, 1945, of 30,017 industrial enterprises employing five or more workers, 14,666 or 48.8 per cent, were state-owned, or enterprises under state administration (mostly ex-German enterprises, partly subject to sale to private individuals). These figures, however, do not indicate accurately the relative economic importance of the State and the free sectors of Polish industry. Enterprises employing less than five workers were not included in the statistics which thus understated the share of private enterprise. On the other hand, state enterprises are larger than private ones and an accurate indication of the comparative economic significance of the State sector of industry could be given only by reference to the total number of workers employed or total value of production. On this at present there are no data available.

Only few commercial enterprises have been nationalized. Since the Nationalization Law was put into effect, the Government established a few trading corporations and organizations to market a part of the production of state industry. At present, trade is almost entirely in the hands of private entrepreneurs or cooperatives.

Banking institutions were also partly nationalized. The most important banks were however owned, or controlled by the State, before the war. At present, of a total of eight banks, two are private, one cooperative and two municipal. The private banks have little importance as compared with state and cooperative banks.

Agriculture remained completely in private hands, except forests which, apart from small peasant holdings, have been nationalized.

Economic Organization

Central economic planning by the Government is limited by the existence of large private and cooperative sectors in the economy. Agriculture and internal trade are almost completely owned and managed by private entrepreneurs or by cooperatives, while in industry their share in production cannot be overlooked. The technique of coordination of the activity of the three sectors - state, private and cooperative - has not yet been fully developed, but principles according to which they ought to be coordinated as well as a system of central planning influencing the production of all three sectors has already assumed a more or less definite shape.

The most important principles in economic policy are as follows:

1. State enterprises are to be economic units run according to the rules of proper business calculation.
2. There has to be a uniform price level for all sectors of the economy. Prices should not be differentiated according to groups of buyers or sellers.

These principles do not exclude the possibility of maintaining for special reason a few deficit state enterprises, and of favoring some groups of the population by such direct methods as differentiating the prices of a few goods (e.g., sugar - produced only by state enterprises) and services (e.g., railway fares). These possibilities will be much wider than in the liberal-capitalistic economy, but nevertheless, as long as the above principles are applied they will be rather limited. The State entrepreneurs' decisions about production will be essentially directed by the choice of the consumers.

The State will have more power to regulate the distribution of that part of the national income, the use of which is left to the decision of individuals. The main factor deciding the distribution of national income is the limitation of the size of private enterprises by the Nationalization Law. Further adjustments in the distribution of income may be achieved by taxation policy.

Control over industry also allows the State easily to influence the distribution of the national income between consumption and investment. Practical policy in this respect will depend on the political organization of the State.

At present, the Polish economy is not fully organized on the basis of these principles. Precision in organization has so far been neither possible nor necessary to achieve a preliminary success. Nevertheless, the organization of the economy is gradually and steadily approaching the set-up which follows from the above principles.

State industry is under the supervision of the Ministry of Industry and Trade, except for a few industries administered by other ministries such as the Ministry of Agriculture, the Ministry of Reconstruction and the Ministry of Transportation. The state industry supervised by the Ministry of Industry and Trade is divided into industry of local importance, managed by local autonomous administrations, and industry of national importance, administered by the Ministry of Industry and Trade through the Central Administrations (Zarzady Centralne), and Associations of Industries (Zjednoczenia). There are 14 Central Administrations, each comprising a branch of industry, such as coal, textiles, building materials, foundry and smelting industry, etc., and also a few Central Selling-Buying Organizations serving the needs of the branches of industry concerned. Each Central Administration has under its supervision several Associations of Industry. The Associations supervise groups of enterprises belonging to the same sub-branch of industry, or the same kind of industry but situated in different regions of the country such as coal mines, divided into 11 associations. Sometimes territorial division into associations is combined with division according to branches.

At an early stage of the organization, the Central Administrations and the Associations had wide power over individual enterprises. They decided about technical organization, about sales and purchases and the scope of production. Only technological processes were left to the management of the individual enterprises. At present, the Central Administrations and Associations are considered as controlling and coordinating bodies (treated as separate enterprises), and marketing and other economic functions are left to the individual enterprises.

Private industrial and commercial enterprises are organized into voluntary territorial and branch associations and chambers of industry and commerce. Cooperatives have their own control and coordinating organizations.

The coordination of the activity of all branches of the national economy is the task of the Central Board of Planning. Full direct coordination may be applied only within the state sector. The incorporation of the cooperative sector into the national economic plan is fairly effective, but cooperation with the private sector is quite loose.

Production and investment plans are proposed by the Central Board of Planning on the basis of reports from industries concerning the productive capacity of individual state enterprises. Before the plan becomes law, it must be agreed with the economic ministries and approved by the Ministry of Finance and by the National Bank of Poland, controlling completely the Polish banking system. The general national economic plan must be approved by Parliament.

Agriculture

The post-war land reform law has decreed that all estates exceeding 50 hectares (124 acres) in the old Polish territory and 100 hectares in the new territory have to be divided into smaller farms. This task has been almost accomplished in the old territory, but in the new territories the parcellation is still in process. Out of 2,020,000 hectares, about 650,000 has still to be divided into smaller farms. The division of land in the new territories proceeds slower than in other parts of Poland because there new dwellings and essential farm buildings must be constructed before the land can be divided into smaller units and settled by farmers from the interior of the country.

By the end of 1946, 841,599 peasants (or about 3,366,396 persons, if families are included) had received new farms or new strips of land which added to the size of their old farms. By this method the average size of the peasant's farm has been increased. The aim of the reform to create farms of between 7 and 15 hectares is thus gradually being achieved. However, the aims of the land reform are not limited to the parcellation of large estates. Its most important task, which cannot be accomplished in a short period of time, is the consolidation of farms, which, especially in the southern parts of Poland, are often composed of many separated tiny strips of land making farms inefficient and wasteful insofar as the utilization of man power is concerned.

In production, the Government intends to encourage the shift from grain to cattle, hog and poultry breeding which was already in progress before the war. In the 30's Poland achieved a considerable success in developing the production of bacon, poultry, meat, seeds, etc. for export. Post-war plans indicate that a rapid development in this direction is intended. While all preparations are being made, the policy will not however have telling effects until the resettlement of the farm land is completed.

Industry

Except for coal deposits there are no rich mineral deposits or other extensive natural resources in present Polish territory. Besides coal, some deposits of iron, lead and zinc ores have however been gained as a result of the territorial changes, as well as resources of other minerals which, while of small quantity, are very important for the Polish industry.

Industrial production is at present much more diversified than before the war. Besides coal mining, the most important are the textile and clothing industry, machine and tools, electrotechnical, chemical and sugar industries. The technical equipment in Polish industry insofar as it was not destroyed during the war, is rather old and worn out. Replacements by new machines are very urgent. While industry is sufficiently supplied with unskilled labour, there is great shortage of skilled workers.

Consumption and Distribution

Per capita national income in prewar Poland was about \$100; in 1946 it was estimated to be about \$67.0 (1938 prices). This was achieved only with the help of UNRRA supplies which in that year amounted to 19 per cent of the national income.

The rationing system does not cover the total population. In June, 1946, only about 8 million people received ration cards, and even these did not receive a uniform allotment. The size of the ration was dependent on the occupational group to which the ration card holder belonged. During the first months of 1947, the number of card holders has been reduced considerably and rationing is gradually being eliminated. Except for a few groups (e.g. miners) the card allotments are not sufficient to cover minimum needs. Therefore, even ration card holders have to purchase goods on the free market.

As already stated, trade is in the hands of private entrepreneurs, or cooperatives, except for a few state commercial enterprises in the wholesale business. The system of distribution of goods was inefficient in 1945 and the first half of 1946. Transportation difficulties and lack of sufficient commercial enterprises were responsible for wide inter-regional price discrepancies. But the number of private enterprises and cooperatives is rapidly increasing and the situation is, at present, almost satisfactory.

3. Production

Agricultural Production

Agricultural production is handicapped by the extent to which arable land has been devastated by the war as well as by lack of horses, cattle and seeds. 1946 crop results were for wheat only 32 per cent, for rye 40 per cent, and for potatoes 49 per cent of the prewar production of the country's present territory.

The area sown is gradually increasing, though despite great efforts in 1946/47 only 60.6 per cent of the arable land was sown in that year.

Area Sown in Millions of Hectars

	<u>Arable Land</u>	<u>1944/45</u>		<u>1945/46</u>		<u>1946/47</u>	
		<u>Area Sown</u>	<u>Per- centage</u>	<u>Area Sown</u>	<u>Per- centage</u>	<u>Area Sown</u>	<u>Per- centage</u>
Total Poland	16.5	6.4	39.0	7.5	46.0	10.0	60.6

The crops this year, especially of sugar beets, have been fairly good in spite of hard winter and spring floods, but because the area sown was insufficient there will still be a deficit of grain, estimated at 800,000 tons. This is only partly a consumption deficit; much of it arises from the necessity of increasing the sown area in the next agricultural season.

Livestock is gradually increasing thanks to natural increase, commercial imports and imports by Polish repatriates from the U.S.S.R. This development is shown in the following table:

Livestock
(in thousand)

	<u>Dec 31 1938^{1/}</u>	<u>Dec 31 1945</u>		<u>Dec 31 1946</u>		<u>June 1947^{2/}</u>	
	<u>Number in Thousands</u>	<u>Number in Thousands</u>	<u>% in 1938</u>	<u>Number in Thousands</u>	<u>% in 1938</u>	<u>Number in Thousands</u>	<u>% in 1938</u>
Horses	3,916	1,420	36.2	1,852	47.2	2,000	51.0
Cattle	10,554	3,350	31.8	4,180	39.6	4,300	40.8
Hogs	7,525	1,702	22.6	2,990	39.7	3,750	49.8

1/ Prewar Polish territory.

2/ Estimates.

The comparison between prewar and post-war numbers of horses, cattle and hogs gives an exaggerated picture of the livestock deficiency, for it does not take into account the decrease of population and of territory. For a true picture we should inflate the figure for horses by the percentage corresponding to the decrease of territory and the figures for cattle and hogs by the percentage corresponding to the decrease of population. By this procedure the following percentages are arrived at: 63.8 for horses; 58.3 for cattle and 71.2 per cent for hogs.

These figures indicate that while there is still a serious shortage of horses and cattle, hogs may soon become an item of export.

Industrial Production

The recovery of industrial production has been rapid and continuous throughout the past two years. Since the end of 1946 the rate of increase of production has diminished but is still considerable. The slowing down of the recovery in industrial production is due to the fact that in many cases it reached a level beyond which it could rise only after additional and more substantial investments, mainly of a reconstruction character, had been made.

Some bottlenecks have developed as a result of difficulty in acquiring capital goods and raw materials (e.g., cotton) from abroad. The other cause for the decline in the rate of increase of production was the hard winter, which to a considerable extent disrupted the work of the transportation system. The main limiting factor in the development of industrial production is lack of machinery and tools. Many industrial plants cannot develop output, because of lack of some complementary machines. The import of capital goods covers only a small percentage of needs, either because of lack of foreign credits, or because it is necessary to wait several months for the delivery of these goods.

The most favourable development has taken place in the production of basic commodities, as shown in the following table.

<u>Production of Selected Goods</u>								
Average monthly production in prewar Poland in 1938=100								
<u>Year and Month</u>	<u>Coal</u>	<u>Pig Iron</u>	<u>Electric Energy</u>	<u>Zinc</u>	<u>Cement</u>	<u>Railway Cars</u>	<u>Paper</u>	<u>Cotton Yarn</u>
1945								
April	29.4	11.2	33.8	23.3	8.4	-		8.9
June	58.6	9.2	.	26.7	21.0	150	9.1	22.6
September	77.4	39.2	.	37.8	25.9	150	22.2	28.4
December	91.9	47.3	37.9	41.1	24.5	192	40.8	23.5
1946								
March	118.8	85.1	145.0	42.2	61.5	832	66.1	62.7
June	111.2	83.8	122.6	41.1	104.2	1,232	65.6	53.8
September	130.9	82.4	141.7	43.3	107.7	1,852	85.6	71.1
December	132.5	75.7	174.6	45.6	92.3	2,000	88.7	67.6
1947								
January	144.1	74.9	175.2	48.9	39.2	2,347	80.8	73.3
February	100.0	72.2	161.0	43.3	30.8	.	63.4	69.6
March	151.1	88.2	177.3	48.3	55.5	2,203	93.6	64.9
April	146.6	91.9	157.7	45.7	55.5	.	96.5	.
May	140.6	98.8	.	68.0	..	2,562	.	.
June	144.4	.	.	.	.	.	.	.
July	160.7	.	.	.	.	.	.	.

Besides the production of railway cars, locomotives (in 1945 - 75, and in 1946 - 157, as compared with 20 in 1938), and electric energy, the most favourable development has been in coal mining - the export industry. The production of coal for the first half of 1947 was 27.2 million tons. Since the goal for 1947 is 57.5 million tons, 30.3 million tons have to be produced in the second half of 1947. Good results in this industry have been achieved through great efforts by the Government and the workers, whose productivity increased from 986 kg in April, 1945, to 873 kg in December, 1945, and to 1,160 kg per shift in July, 1947, (the surface workers being included in the calculation) in spite of insufficient technical equipment.

The development of the production of consumer goods has been slower than that of basic commodities and of investment goods. It should, however, be stressed that present Poland is much better equipped with basic industries than the prewar Poland. The more favourable development of production of investment goods may also be considered as a natural phenomenon of the reconstruction period. Tables presented below indicate the uneven development of basic goods, investment goods and consumer goods.

Indices of Industrial Production

A. Basic Goods^{1/} Average monthly production in prewar Poland in 1937=100.

1945			1946		
	April	25		March	87
	June	36		June	84
	September	51		September	99
	December	60		December	100
			1947		
				January	105
				February	97
				March	112

B. Investment and Consumer Goods^{2/} Average monthly production in prewar Poland in 1938 = 100.

	<u>Investment Goods</u>	<u>Consumer Goods</u>
1945		
	October	44.8
	December	49.7
1946		
	March	70.2
	June	79.2
	September	80.5
	December	85.1
		57.3
		63.7
		66.6
		71.3

^{1/} Calculated by the Central Statistical Office.

^{2/} Calculated by the Polish Institute for Economic Research.

4. Reconstruction Plan

The reconstruction plan, the "Polish National Economic Plan", covering four years from the beginning of 1946 to the end of 1949, was accepted by a vote of the National Council (Polish Provisional Parliament) in September, 1946. This plan sets general goals which are to be achieved on condition that resources necessary for the financing of the plan are available. More detailed plans are prepared for each year and for each quarter of the four-year period. The four-year period has been divided into two main sub-periods, one comprising only nine months of 1946 (the reconstruction work in the first quarter of that year was done under a provisional plan) and the

second, the three following years.

According to a resolution of the National Council the chief aims of the plan are: raising of the standard of living of the population above the prewar level, the economic unification of the new and old territories and a considerable change in the economic structure of the country in the direction of industrialization.

The planned development of the national income and of its components is presented on the following page.

It will be seen from these figures that per capita consumption should reach the level of 1938 by the end of 1948, and exceed it in 1949. The consumption of industrial goods is planned to increase more rapidly than that of agricultural products.

The planned increase of the production of industrial goods might be considered as unrealistically high, but present Poland is much better equipped industrially than before the war, while the basic for the comparison is the production in the prewar Polish territory.

A wide margin between total and consumed income per capita indicates a high percentage of investments in total national income. According to plan, the percentage of investments in the national income is 20 per cent in 1946 and 22.4, 19.5 and 19.3 per cent in the next three years. These percentages, however, were wrongly estimated, because the investments are to a great extent gross investments since amortization funds of state enterprises are included in investment resources. It is also assumed that in a few industries and in existing buildings and roads there will be only partial replacement during a certain part of the period of the economic plan.

The value of total investments stipulated by the plan for the years 1946, 1947 and 1948 amounts to about \$3.33 billion. Of this total approximately 20 per cent is to be financed by foreign credits. This requirement is the limiting factor of the reconstruction plan. Up to now no significant credits have been obtained and the reconstruction program for 1947 will probably not be fulfilled up to one hundred per cent. Some portion of the previous Polish gold holdings and the whole of the \$28 million U.S.S.R. loan of gold has to be spent on purchases of food instead of capital goods.

National Income
(calculated in prices of 1938)

Items	Unit	Years				
		1938	1946	1947	1948	1949
<u>National Income</u>						
Total	billion zlotys	17.70	8.8	12.53	16.40	20.67
	percentages	100	49.8	70.8	92.6	116.5
Per capita	zlotys	505.7	367.5	515.6	666.6	824.8
	percentages	100	72.7	101	131.8	163.1
<u>Consumed Income</u>						
Total	billion zlotys	15.40	7.02	9.73	13.20	16.67
	percentages	100	45.6	63.2	85.7	107.9
Per capita	zlotys	440.0	292.5	400.4	536.5	664.8
	percentages	100	66.5	91.0	121.9	151.1
<u>Agricultural Production</u> (including Forestry and Fishing)						
Total	billion zlotys	6.90	2.62	3.92	4.46	5.53
	percentages	100	38.0	56.8	64.6	80.1
Per capita	zlotys	197.10	109.1	161.3	181.3	221.2
	percentages	100	55.4	81.8	92.0	112.2
<u>Industrial Production</u> (including Mining and Handicraft)						
Total	billion zlotys	5.70	3.78	5.23	7.28	8.65
	percentages	100	66.7	91.8	127.7	151.8
Per capita	zlotys	162.9	158.3	215.2	295.9	346.0
	percentages	100	97.2	132.1	181.6	212.4
<u>Services</u> (Trade, Transport, etc.)						
Total	billion zlotys	5.10	2.40	3.38	4.66	6.49
	percentages	100	47.1	66.3	91.4	127.3
Per capita	zlotys	145.7	100.0	139.1	189.4	259.6
	percentages	100	68.6	95.5	130.0	178.2

The plan for nine months of 1946 provided for investments to the amount of 53.8 billion zlotys (the conversion into U.S. dollars is impossible because of the absence of a proper exchange rate), of which 13.4 billion were to be imported from abroad. The plan was fulfilled to 91.5 per cent in its financial aspect, while real investments amounted to 75.6 per cent of the planned investments (because of the increase of prices).

The 1946 plan was concentrated mainly on the reconstruction of communications. 1,982 km. of railroads and 1,053 km. of roads were reconstructed, and 228 km. of new roads were built; 16,066 m. of railway bridges and 10,525 m. of road bridges were rebuilt. The Vistula and Oder waterways were reconstructed to a great extent, the Oder-Glivice canal, important for coal export and ores import was rebuilt to 85 per cent. Five large and a number of smaller water reservoirs were reconstructed. A significant part of the plan to make Oder navigable throughout the year was accomplished. The reconstruction of Polish seaports also made good progress.

Investment in industry resulted in the increased monthly production shown in a preceding section. Investments in agriculture included the reconstruction of 70,500 farms in the most devastated areas of central Poland.

The plan for 1947 provided for total investment of 109.8 billion zlotys of which 21 billion would be financed by foreign loans. 26.5 per cent of the domestic financial resources to be spent on investment will be provided from state extraordinary revenues,* 63.9 per cent by bank credits and 9.6 per cent from the internal resources of state enterprises and other unspecified sources. Of the total of domestic resources, 34.8 per cent will be spent on industrial investments, 24.5 per cent will be invested in transport, 15.2 per cent in agriculture, forestry and fishing and 10 per cent in the housing program. About 3.8 per cent will be spent for making good the flood damage which occurred this year. Much attention will be paid to further reconstruction of seaports.

The financial plan for 1947 (in its domestic part) may be fulfilled one hundred per cent, but real investments will most probably be much below the planned targets. The reason is that the prices in the state sector of the economy are rapidly increasing under the plan of unification of the now existing double price level, while financial difficulties do not allow an increase of investment expenditures.

* What items of government revenue are to be included under this heading is not known. Presumably they will comprise the issue of new Treasury bills, sale of ex German enterprises to private entrepreneurs, etc.

5. Prices and Wages

As mentioned above, at present there is a double price system in Poland. Such a system was already practically in operation during the German occupation. After the liberation the Government established price lists for the state sector of the economy by multiplying prewar prices by the factor 6. Prices in the free market were not controlled and, after the monetary reform had been completed, were about 20 times higher than the level of controlled prices.

This complicated and confusing system still prevails, but the state controlled prices have been gradually increased in order to close the gap between the two levels, and by the end of 1946 free market prices were only about 5-6 times higher than controlled prices. In some branches of the economy uniform prices for state and free sectors have already been established. For example, agricultural goods (except sugar), building materials and chemical products are sold at uniform prices. The process of unification of prices has been speeded up since the spring of 1947.

Because of the double price system it is difficult to trace the development of the purchasing power of the zloty and of real wages. Real wages depend not only on money wages but also on card rations which vary for different groups of the population.

Throughout 1945 and the first three-quarters of 1946 real wages were increasing. According to some estimates they increased by 39 per cent during the period January-September, 1946. In the last quarter of 1946 they decreased slightly.

The increase in real wages took place in spite of increasing prices, because rising prices were more than balanced by growing production and money wages. The development of free market prices was as follows.

Cost of Living Index Numbers in Warsaw Constructed on
the Basis of Free Market Prices, Except of Rents^{1/}
1938=100

<u>1945</u>	April	11,500	<u>1946</u>	March	10,300	<u>1947</u>	January	13,600
	June	8,700		June	11,200		February	13,700
	Sept.	7,000		Sept.	10,900		March	14,300
	Dec.	9,100		Dec.	13,400		April	14,900
							May	15,600
							June	15,500 ^{2/}

^{1/} Calculated by the Central Statistical Office.

^{2/} Preliminary calculation.

The rapid increase of free market prices in March-May, 1947, has been checked by several financial and administrative devices. (See section 10.)

6. Foreign Trade

Organization

Foreign trade transactions are under complete state control. They are carried out by several trading organizations. State enterprises have their own trading institutions, one for each major branch of industry, and cooperative enterprises have one trading organization (Spolem). Private exporters and importers may trade through special agencies such as the Association of Polish Exporters and Importers, or individually, after they get a license from the Ministry of Industry and Trade.

During 1945, there was practically no trade originating from the private sector of the economy. In 1946, the private sector shared in trade to the extent of about 8 per cent. The first half of 1947 was a period of energetic organization of private trading institutions and of the Government's effort to stimulate export by private entrepreneurs. The list of goods which may be exported by these entrepreneurs has been gradually enlarged by the Government. Imports by the private sector are much more limited than exports because the Government is using foreign exchange proceeds from exports, mostly for purchases of goods important for the reconstruction of the country's economy.

Nearly all Poland's postwar trade transactions have been carried out under the terms of barter or clearing agreements. The prices and values of exports and imports are expressed in a stable foreign currency, mostly in U.S. dollars. Prices are those agreed in the market of a trade partner, or in the "world market". Payments arising from foreign trade transactions are settled by the Department of International Settlements of the National Bank of Poland. Transactions in foreign markets are settled in foreign currencies and Polish exporters and importers receive payments or pay to the Department of International Settlements (or to the account of this institution with a bank) only in zlotys. For the conversion of values expressed in a foreign currency into zloty values, rates, varying from commodity to commodity (or groups of commodities) and for different (domestic) buyers and sellers of the same goods, are applied.

The multiple exchange rates practice follows from the double price system and from the fact that the price structure of the state or the private and cooperative sectors is out of line with world market prices. Multiple exchange rates are essentially the factors for adjusting prices expressed in foreign currencies to zloty internal prices and are therefore arithmetic results of foreign and domestic prices, but in some cases they are also means of subsidy and taxation policy. For example, during 1945 and 1946 (the situation in 1947 is in this respect not yet known) the exchange rate of the zloty applied for exported coal was so high that the resulting export price of coal was below the domestic official price. The Government's profits from this operation were used for subsidizing the imports of essential capital goods or raw materials by other state enterprises, which meant in practice high exchange rates for the zloty applied to these imports.

The exchange rates applied to transactions of private and cooperative enterprises are much below those applied to the transactions of state enterprises, which follows from the fact that prices in the private sector are in general much above the prices in the state sector. The discrepancy between "free market rates" and "state controlled market rates", however, is gradually disappearing.

Development of the Foreign Trade

Poland's exports and imports for 1945, 1946 and for the first five months of 1947 are presented below.

Foreign Trade, 1945, 1946 and 1947^{x/}
(in millions of U.S. dollars)

Items of Exports	1945	1946	Jan.- May 1947	Items of Imports	1945	1946	Jan.- May 1947
Coal	27.7	80.3	.	Food and other consumption goods	112.1	237.6	.
Coke	1.1	14.9	.				
Other raw materials and half-finished industrial goods	4.3	19.9	.	Raw materials and producers' goods	31.9	117.5	.
Finished industrial goods	4.7	18.8	.	Capital equipment	24.1	105.0	.
Total	37.8	133.9	73.4	Total	168.1	460.1	159.3 ^{1/}
				of which:			
				1. UNRRA supplies	134.0 ^{2/}	270.7 ^{2/}	76.4 ^{2/}
				2. Reparations	--	19.6	.
				3. U.S. surplus	--	31.0	.
				4. Normal imports	34.1	138.8	82.9
Volume percentages of prewar exports	.	33.8	.	Volume percentages of prewar imports	.	158.6	.

^{x/} The composition of exports and imports partly based on estimates.

^{1/} UNRRA deliveries up to the end of June 1947 included. Reparations and U.S. surplus not included.

^{2/} The value of UNRRA deliveries calculated not c.i.f. but at prices paid by UNRRA in countries of origin of goods.

The value of exported coal requires a note of explanation. Of total exports of coal amounting in 1946 to 13.6 million tons, 5.7 millions were delivered to U.S.S.R. at specially agreed price. On the basis of various statistics supplied by the Polish Government and figures published in the "Statistical News" in Poland, this price may be calculated at \$1.25 per ton. In the calculation of the value of exported coal in 1946, this special price for 5.7 million tons of coal has been taken into account. According to Polish sources, the low price of "reparation coal" will be offset by free of cost deliveries of reparation goods from the quota to be paid by Germany to U.S.S.R., above the quantity previously agreed between Poland and U.S.S.R.

The most important trade partner of Poland has been the U.S.S.R., but as Polish trade with other countries develops, the share of that country in Polish trade (UNRRA deliveries excluded) is diminishing, falling from 92.2 per cent in 1945 to 62.7 per cent in 1946. The share of U.S.S.R. in Polish imports (U.S. surplus and UNRRA excluded) during the first four months of 1947 was 39.6 per cent. The next in importance has been Sweden whose share in the Polish trade of 1946 amounted to 13.2 per cent.

Imports in 1946 consisted mainly of grain and food, cotton, ores, machinery, liquid fuel and tobacco. The most important export items besides coal (about 72 per cent of the total value of exports if "reparation coal" is calculated at the market price) and coke were textiles, iron and steel, cement, zinc, lead and chemicals. Data concerning the composition of exports for the first five months of 1947 are not available, but it is known that the variety of exported goods was larger than in the previous year, coal remaining the most important item.

In future, when the task of reconstruction is nearer completion, Poland may become an important exporter of machinery, locomotives, railway cars, chemicals, and an exporter of optical and photographic materials, electric equipment, and highly processed agricultural products. The export of these goods has begun already.

According to the plan, Polish exports in 1947 would amount to \$294 million and imports to \$510 million (according to another estimate imports would amount to \$635 million). Imports, therefore, will depend to a great extent on foreign credits. It is stated above that the value of Polish exports for the first five months of 1947 amounted to only \$73.4 million. Export was hampered during the first four months of 1947 by a hard winter. The value of exports in May was \$21.4 million. It is still possible that the export goal for 1947 will be attained. Poland can export easily during this year about 18 million tons of coal. (Export in July amounted to 2.2 million tons.) Calculating 6.5 million tons of "reparation coal" at the price \$1.25 per ton and the rest at \$15 per ton, we arrive at the value of \$180.6 million. (It was, however, reported that the deliveries of reparation coal to U.S.S.R. may be much below 6.5 million tons.) The value of coke to be exported may be estimated at \$20 million. The remaining \$94 million will be composed of exports of textiles, metals, chemicals, cement, glass, timber products and sugar.

7. Balance of Payments

The available information is insufficient to give a complete picture of Poland's balance of payments in 1946, and, therefore, only a rudimentary and incomplete presentation is given in the following table.

Balance of Payments of Poland for 1946 (in millions of U.S. dollars)

Credit		Debit	
1. Merchandise	133.1	1. Merchandise:	
		Imports excluding UNRRA	189.5
2. Credit from Sweden	13.0	UNRRA supplies calculated at prices in supplying countries	270.6
3. U.S. Surplus property credit	31.0		
4. Grants from reparations	19.6	2. Services supplied by UNRRA (transport of goods to Poland, medical, advisory services, etc.)	67.7
5. Grants from UNRRA	338.3		
6. Credit from U.S.S.R. (delayed delivery of Polish goods to U.S.S.R. within a barter agreement)	31.7	3. Credit to trade partners other than U.S.S.R. (delayed deliveries of goods to Poland within barter agreements)	25.8
		4. Credit to U.S.S.R. (equal to the market value of "reparation coal" minus amount paid immediately for this coal)	45.7
	<u>566.7</u>		<u>599.3</u>

The value of remittances and receipts from transit services is not known. The value of UNRRA deliveries given in Polish statistics is that reported by UNRRA itself. This is not the c.i.f. value, but is calculated at prices charged to UNRRA by suppliers from countries delivering goods. To obtain c.i.f. value of goods delivered by UNRRA, transportation and insurance costs involved should be included. These costs are not known. The difference between total UNRRA expenditures and the value of goods delivered to all countries receiving UNRRA's help, amounting to about 26 per cent of the value of goods delivered, is, however, known. It represents costs of transportation, and various services, such as, advisory service, the services of doctors appointed by UNRRA and working in the countries in question, etc. These costs are represented in debit item 2 of the above balance of payments.

Besides an agreement with Sweden, Poland had in 1946 some trade agreements (with Switzerland, Denmark, France and Norway) which provided for credits, but for credits to be used exclusively for purchases in the country granting them. They were in fact provisions for deferred delivery of goods in barter agreements. There is no information concerning the extent to which they were used, but excess of Polish exports over imports from all countries concerned indicate that the use, if any, was limited to payments in advance to producers in those countries for future deliveries. Usually before these deliveries were made the delivery of Polish goods had already taken place.

Normal trade with U.S.S.R. was more favorable for Poland, because there was a passive balance of trade with that country (credit item 6). However, this was counterbalanced by the Polish credit to U.S.S.R. resulting from the Polish credit to U.S.S.R. resulting from the Polish deliveries of "reparation coal" (debit item 4). Reparation deliveries from Germany (from the Russian quota) valued at \$19.6 million may be considered as normal deliveries and should be distinguished from extra deliveries in exchange for "reparation coal". During the first half of 1947, larger deliveries of reparation goods from the Russian quota took place, which might be considered as a partial payment for Poland's 1946 "reparation coal" deliveries.

\$40 million credit from the Export-Import Bank was not utilized during 1946 and does not appear in the above balance of payments.

The balance of payments estimates for 1947, 1948 and 1949, are governed mainly by the requirements of the reconstruction plan, and have been constructed on the assumption that considerable short and long term credits from abroad of about \$1.1 billion, including \$600 million from the International Bank of Reconstruction and Development, will be obtained.

Poland has not so far succeeded in securing larger credits from abroad. Some credits have been obtained within trade agreements, but the balance of trade for the first five months of 1947 indicates that those credits were not utilized or utilized to an insignificant extent. The \$9.5 million excess of imports over exports may be explained by purchases of goods in U.S.A. and Canada for credits obtained on collateral of Polish gold rather than by the utilization of credits obtained within trade agreements.

8. Foreign Exchange Resources

Poland's gold and U.S. dollar holdings on September 12, 1946, were as follows (in millions of U.S. dollars):

<u>Gold</u>		
Bank of England	28.7	
Federal Reserve Bank, New York	27.5	
Bank of Canada	13.4	
Banque de France	0.8	
Bank of International Settlements	<u>0.1</u>	70.5
 <u>U.S. Dollars</u>		
Deposits with the U.S. banks		<u>1.0</u>
Total gold and dollar holdings		71.5
 <u>Liabilities</u>		
Bank of International Settlements	0.4	
Liability against the Government of the United Kingdom according to an agreement of July 1946. By September 12, 1946, the agreement was not yet ratified by the British Parliament.	<u>12.2</u> ^{1/}	<u>12.6</u>
Net Assets		<u>58.9</u>

There was also an unsettled claim against Rumania for gold in the value of about \$3 million as well as insignificant dollar balances of the National Bank of Poland and of the Commercial Bank in Warsaw in the United States.

In the course of 1947 Poland obtained a loan of \$28 million in gold from the U.S.S.R. (Since the middle of August 1947, this gold is being shipped to the United States and either sold or used as collateral for credits which are being used for current payments of bought goods.) In 1947 \$26 million of gold deposited with the Federal Reserve Bank in New York and \$13 million of gold deposited with the Bank of Canada were used as collateral for credits obtained from these banks. By the end of July 1947 about \$19 million of these credits had been utilized.

Therefore, it can be estimated that the gold and United States and Canadian dollar holdings of Poland as of the end of July 1947 are as follows:

Previous gold holdings	\$58.3 million
Loan in gold from USSR	<u>28.0 million</u>
	\$86.3 million
Contribution to the International Bank for Reconstruction and Development	<u>1.9 million</u>
	\$84.4 million
US and Canadian dollar holdings	<u>20.6 million</u>
	\$105.0 million

^{1/} On June 24, 1947 the above-mentioned financial agreement with the U.K. was ratified by British Parliament. According to its stipulation to Poland paid \$12.2 million to U.K. in complete settlement of debts resulting from the financing of the Polish Government and armed forces during the war,

To arrive at the figure of foreign exchange resources at Poland's free disposal as of the end of July 1947, gold in the value of \$39 million pledged as collateral against loans, and gold to be used for subscription to the Fund, probably in the value of \$5.1 million should be subtracted. Freely disposable gold and foreign exchange of Poland at the end of July 1947, calculated in this way therefore is:

Gold holdings	\$40.3 million
U.S. and Canadian dollars	<u>20.6</u> million
	\$60.9 million

The present holdings of gold and dollar balances are not known. There is particularly no information available as to how much gold from the U.S.S.R. loan has already been shipped to the United States and what part of the shipped gold was sold and what part pledged as collateral against new loans.

9. Foreign Exchange Market

According to the provisions of the foreign exchange control introduced on April 26, 1936, no private foreign exchange market may legally exist in Poland.

All payments arising from foreign trade transactions concluded under the terms of clearing or barter agreements are settled by the Department of International Settlements of the National Bank of Poland. Foreign importers and exporters make or receive payments only in foreign currencies, and Polish exporters and importers only in zlotys.

Transactions in foreign exchange are concluded through authorized banks or other institutions such as the Travel Agency "Orbis", under the strict supervision of the Foreign Exchange Commission, the executive agency administering the foreign exchange control law.

Unless exceptions are allowed by the Foreign Exchange Commission, the following transactions and commitments are prohibited:

1. Dealings in foreign exchange and foreign bank notes on the domestic market.
2. Dealings in gold in any form except gold articles ready for use.
3. Remittances, forwarding, or exporting abroad and importing from abroad means of payments in any currency; purchasing and importing, or selling and exporting, foreign and domestic interest or dividend-bearing securities or coupons and saving bank passbooks. (Polish currency of no more than 1000 zlotys (\$10) may be taken abroad or brought from abroad without permission.)
4. Disposal by residents of Poland of any monetary claims, gold, securities, and any kind of property owned abroad.

5. Extension of credit to foreigners, guarantees of repayment of such credits, and repayment of previously secured credits from abroad on the request of foreign creditors. However, the Polish currency equivalent of credits due abroad must be paid to the creditors' blocked or "free" accounts with an authorized bank in Poland. (The service of long-term foreign debts was partly suspended in 1936 and completely suspended after the war.)

The residents of Poland are obliged:

1. To surrender to the National Bank of Poland, or to an authorized bank, all foreign exchange proceeds of authorized exports.
2. To report to the National Bank of Poland or an authorized bank, and to offer for sale, property of any kind owned by them abroad. In practice, only the registration of property owned abroad has taken place; sales have not been enforced.

A supplementary decree of September 4, 1939, requiring Polish residents to offer for sale all foreign exchange, gold and foreign securities owned, did not become effective because executive regulations were not issued by the Minister of Finance. Moreover, according to the new regulation of December, 1946, free import of foreign exchange up to the equivalent of 100,000 zlotys (\$1000) is allowed. Any person may, therefore, now possess any amount of foreign exchange if acquired prior to the enactment of the foreign exchange control decree of 1936, or foreign exchange up to the equivalent of 100,000 zlotys, if imported after the above mentioned regulation of December, 1946, was issued.

The exchange rate at which all authorized transactions in foreign exchange were concluded was in 1946, 1 U.S. cent per zloty, the rate communicated to the Fund with the request for postponement of the discussion of the par value of the zloty. For remittances sent by the Joint Jewish Distribution Committee "Joint", for payments to UNRRA staff in Poland and for some services in Polish seaports, exchange rates lower than the official rate were applied.

Beginning June, 1947, the exchange rate for foreign tourists in Poland and for services in Polish seaports has been set at 0.4 cents per zloty.

Since the multiple exchange rates applied to foreign trade transactions have been rapidly falling as a consequence of an adjustment of state controlled prices to free market prices, within the program of elimination of the double price system, and since unification of prices is considered by the Polish Government to be a necessary prerequisite for a uniform exchange rate, it is reasonable to assume that the official exchange rate will be changed in the near future.

The problem of a new official exchange rate is now being discussed by the Polish Economic Committee of Ministers, and the adoption of a rate of 0.25 cents per zloty (400 zlotys per dollar) is being considered.

If prices in Poland are unified at the level of free market prices, and if the present level of these prices is maintained, the exchange rate which follows from the comparative purchasing power of the zloty in Poland and the U.S. dollar in U.S.A. would be about 0.2 cents per zloty (500 zlotys per dollar).

A substantial decrease of the official exchange rate would diminish the supply of foreign exchange (practically only U.S. dollars) on the black market. At present, the sources of supply on the black market are sales by foreign travelers and representatives in Poland, and remittances from abroad which are not transmitted through officially controlled channels. Foreign exchange and gold are bought mainly by emigrants, but also for hoarding and payments for illegal imports.

The fact that, in spite of an inflationary price movement during January-May 1947, the price of dollar bank notes was rather stable (and even decreased during May, when free market prices rose most sharply) indicates that the black market exchange rates are correlated with the circulation of money and with prices rather indirectly, through the profits of private entrepreneurs, and that up to now no real flight from domestic to foreign currency has developed.

The fall of the black market price of the dollar in July may be explained by the improvement of tax collection which limits the profits of private entrepreneurs, and by the corporation tax amnesty applied to profits made by private entrepreneurs prior to the date on which the amnesty was voted, June 2, 1947. Before that date the extra profits of private entrepreneurs accumulated through tax evasion were usually invested in U.S. dollars. Private entrepreneurs are now selling hoarded dollars and investing the proceeds in their enterprises.

The foreign exchange black market is very likely to exist in Poland even after a proper par value of the zloty is established, and there will be an agio on foreign exchange as compared with the official rates. This agio may even increase (at least temporarily) after a new lower official exchange rate is introduced, because the supply of foreign currency will diminish while the demand schedule may remain unchanged for some time. The Polish population is accustomed to hoarding dollars and for a long time will not change this habit; a demand will also remain for foreign currency for the illegal imports of semiluxury goods which are expensive in Poland, and of which legal imports will be restricted during the period of reconstruction.

Black Market Price of Dollar in Warsaw

Date		Average Black Market Price of Dollar Banknotes in Warsaw	
		<u>Zlotys per dollar</u>	<u>U.S. cents per zloty</u>
1945	April	227	0.4405
	June	163	0.6135
	September	279	0.3584
	December	460	0.2174
1946	March	457	0.2188
	June	475	0.2105
	September	790	0.1266
	December	950	0.1053
1947	January	1050 <u>1/</u>	0.0952 <u>1/</u>
	February	900 <u>1/</u>	0.1111 <u>1/</u>
	March	950 <u>1/</u>	0.1053 <u>1/</u>
	April	1100 <u>1/</u>	0.0909 <u>1/</u>
	May	1025 <u>1/</u>	0.0976 <u>1/</u>
	June		
	July (second half)	875 <u>1/</u>	0.1144 <u>1/</u>

1/ Unofficial estimates.

10. Money. Banking and Finance

Organization

The Polish Banking system is under complete Government control. The Polish monetary policy is directed by the Ministry of Finance and the Central Bank, according to the general policy determined by the national economic plan.

The Central Bank is the National Bank of Poland (Narodowy Bank Polski), a state institution. It is authorized to issue bank notes and sight deposits by discounting bills, granting credits on collateral and lending to the Treasury. The bills discounted must bear three or, in exceptional cases, two signatures and be payable within three months, or, in the case of agricultural credits, within nine months. The amount up to which the bank notes may be put into circulation, as well as the limit of Treasury indebtedness in the National Bank of Poland, is determined by the Council of Ministers.

The National Bank of Poland provides directly the following industries, including their central sales and supply organizations, with short-term credits: coal, foundry and smelting, textile, the industry producing rail-

way rolling stock and railway equipment, chemical, machinery industry, leather, sugar and oil industries. These industries receive medium and long-term credits from specialized banks. The credit needs of other industries and of commerce and agriculture are supplied not by the National Bank of Poland, but by specialized banks and by other credit institutions.

The number of banking institutions has been reduced as compared with the number existing before the war, but this is to be considered as a concentration of banks, not a reduction of their services, as each of the existing institutions has many provincial branches. At present, there are two state, two central municipal, one cooperative and two private banks. There are also many cooperative and municipal credit institutions and the Postal Savings Bank with a wide service for transfer of domestic funds. Each of these institutions or class of institutions has been entrusted with a definite line of activity.

Polish banks, and in particular the National Bank of Poland, have power to control all kinds of activity on the part of the enterprises, which they finance. Specialized banks supervise enterprises financed by them while the National Bank of Poland supervises not only the industries which it provides directly with short-term credits but, also, at its discretion, all other state and cooperative enterprises, and those private firms whose bills are rediscounted by it.

The obligation of all state and cooperative enterprises to keep the overwhelming proportion of their cash holdings in the form of banking accounts facilitates bank supervision. The only obligation of private entrepreneurs in this respect is to settle their transactions with the state and cooperative enterprises through bank accounts, and they are not requested to keep bank accounts for other settlements.

The Supply and Demand on Money

The exact amount of different currencies circulating on Poland's present territories before the liberation was not known. It was however estimated that the monetary reform of January - February 1945, reduced the supply of money by about 65 per cent.

The degree of deflation caused by the reform was much higher than the percentage of the reduction of circulation of money indicated because at the time of the reform the prices for the state-controlled sector were established at the level on average six times above the prewar level, prevailing also during the occupation, and also because the scope of the free market with prices much above the controlled prices, increased considerably as compared with the black market under the German occupation.

Free market prices did not respond immediately after the reduction of money supply, mainly because production was practically at a standstill. Later the fall of prices was checked by the financing of rehabilitation and reconstruction work by new issues of money.

Movements in the supply of money are shown below:

The Supply of Money
(in billions of zlotys)

End of Month	Total Money Supply (2/3/4)	Currency in Circulation	Sight Deposits in the National Bank of Poland	Deposits Subject to Check in Commercial Banks, Less Cash & Deposits kept with National Bank of Poland
	1	2	3	4
1945				
April		11.7		
May	14.1	12.4	0.9	0.8
June	15.7	13.6	1.2	0.9
July	17.5	14.8	1.5	1.2
August	20.3	16.7	2.1	1.5
September	24.0	19.1	2.8	2.1
October	27.9	21.6	3.6	2.7
November	32.0	23.7	5.0	3.3
December	35.2	26.3	5.0	3.9
1946				
January	38.3	27.0	5.8	5.5
February	41.1	28.1	7.1	5.9
March	46.0	29.9	8.1	8.0
April	50.3	32.4	9.3	8.6
May	55.6	35.3	10.5	10.8
June	59.5	36.7	11.0	11.8
July	66.5	39.8	11.8	14.9
August	76.4	44.2	13.1	19.1
September	83.1	47.5	15.6	20.0
October	91.4	52.6	18.5	20.3
November	94.6	57.1	19.1	18.4
December	102.5	60.1	23.6	18.8
1947				
January	.	59.7	20.6	.
February	.	63.5	19.1	.
March	.	66.6	18.0	.
April	.	68.3	19.3	.
May	.	67.5	20.8	.
June	.	67.5	19.4	.

The increase in circulation of money was partly due to the necessity for a technical adjustment of circulation to the deliberately increased state controlled prices. The remaining part of the increase in 1945 and in the

first quarter of 1946 was due to financing the deficits of the state budget, and, throughout the post-war period, to the financing of reconstruction. The total indebtedness of the State to the National Bank of Poland was 21.2 billion zlotys at the end of 1945, which amounted to 59 per cent of the total supply of money (66 per cent of the currency in circulation). It remained at the same level until the end of 1946 and by the end of June, 1947, decreased to 8.7 billion zlotys.

The development of credits granted by all banks, and of the share of the National Bank of Poland in these credits are shown below.

Credits of the Specialized Banks and
of the National Bank of Poland

End of Month	Total Credits 2/3/4	Credits Granted by Specialized Banks		Direct Short Term Credits Granted by National Bank of Poland	Credits Granted by Specialized Banks and Refinanced by National Bank of Poland	Percentage Relation of Credits Originated from Nat- ional Bank of Poland (4 / 5) to Total Credits
		Short Term Credits	Investment Credits			
	1	2	3	4	5	6
1945						
December	10,011		9,187	824	6,137	69.6
1946						
March	18,518	16,013	.	2,168	8,977	60.2
June	32,751	21,000	.	8,631	12,574	64.8
September	58,099	23,387	15,627	19,085	17,777	63.4
December	77,565	34,237	25,831	27,497	37,785	71.0
1947						
April	97,408	39,840	33,736	23,832	37,226	62.7
June	.	.	.	28,500	.	.

The source of that part of credits, granted by the specialized banks, which was not refinanced by the National Bank of Poland, was mainly deposits subject to check. The development of deposits is presented in the table below. Column 4 shows total deposits less deposits with the Postal Savings Bank, the resources of which are invested mainly in Government bonds and Treasury bills, and therefore cannot be considered as the basis of credits for enterprises.

Deposits in the Specialized Banks
(in millions of zlotys)

End of Month	Deposits Subject to Check	Time Deposits and Savings	Total Deposits	Total Deposits Less Deposits in Postal Savings Bank
	1	2	3	4
1945				
June	1,475	21	1,496	1,991
September	3,533	124	3,657	3,048
December	7,160	85	7,245	5,256
1946				
March	11,403	227	11,630	
June	16,45	924	13,379	
September	25,651	3,116	28,767	24,480
December	27,544	4,981	32,525	25,224
1947				
March	33,383	5,803	39,186	

The state and cooperative enterprises on the one hand and the private enterprises on the other hand, exercise demand for different kinds of money. The former keep their cash balances with the banks, private entrepreneurs in the form of bank notes. At the end of 1946 these cash balances were considerable, because of the high profits of private entrepreneurs, accumulated partly by evasion of taxation. Because of their origin entrepreneurs were afraid to direct them to legitimate investments. They were partly invested in U.S. dollars and partly held in cash.

During the last months of 1946 and especially during January-May 1947, private entrepreneur began to invest their cash balances in durable consumption goods, or in other goods which are readily saleable. The inflationary movement of prices began, and the monetary situation became very grave. The other cause of this inflationary movement was the losses of state enterprises due mainly to inaccurate calculations, complicated by the double price system.

To stop the inflation the Government applied several financial and administrative devices. The National Levy was imposed on all enterprises and individuals, and during the winter 1946/47 brought in 11 billion zlotys. The corporation income taxation scale was reduced and the efficiency of tax collection much improved. The financial scrutiny of enterprises performed by the banks became more strict and effective, and credit restrictions were imposed.

At the end of May, 1947, state control of free market prices and of inventories of goods of private enterprises was introduced. On June 2, 1947,

a tax amnesty, applied to profits made by private entrepreneurs prior to the date of the amnesty bill, was adopted. This directed the accumulated profits of private entrepreneurs to legitimate and, from the point of view of the national economy, sounder investments.

At the same time, the real value of investments was decreasing on account of the deliberate increase of controlled prices in the state sector of the economy. This policy has also considerably narrowed the margin between the state controlled and free market prices, thus partly eliminating the possibility of illegal transactions between state and private entrepreneurs which were to some extent the cause of high private profits and losses for the State.

It is reported that the above policy has been successful. The inflationary movement of free market prices was checked in the second half of May, and in June prices were decreasing.

Government Finance

During and after the period of gradual liberation, the financial requirements of the government were satisfied mainly through new currency issues. In 1944, before the monetary reform was carried out, most government expenditures related to the war. After the whole territory was liberated, the setting-up of a new administrative structure, the migration of population, rehabilitation of the economy, and the new economic reforms became more important sources of expenditure. All these expenses for the first months of 1945 were financed mainly by the State. As the result of Government expenditures and deficits for the period between mid-1944 and the end of 1945, the total state indebtedness to the National Bank of Poland increased as of the end of this period to 21.2 billion zlotys. This indebtedness remained on the same level until the end of 1946, and at the end of June, 1947, it decreased to 8.7 billion zlotys. Post-war Government domestic indebtedness is shown below. Gradually, as the fiscal system and collection of taxes were organized during 1945 and the production and sale of goods by state monopolies (alcohol, tobacco, salt, and matches) were developing, the revenues of the State began to increase and the extent to which its expenditures were covered by expanding currency circulation to decrease.

Post-War Government Indebtedness (in millions of zlotys)

	National Bank of Poland	Government Bonds <u>x/</u>	Treasury Bills
December 31, 1945	21,236	----	----
June 30, 1946	22,119	.	1,529
December 31, 1946	21,817	4,341	2,721
March 31, 1947	16,500	4,343	4,040
June 30, 1947	8,670	.	.

x/ Revenues from sales of Government bonds used only for the financing of investments.

Before April, 1946, budgets were constructed for a period of only three months, as it was impossible to estimate revenues and expenditures for any longer period. For the nine months of 1946, beginning April 1, two separate budgets were constructed: the ordinary budget, which comprised all traditional items, including running operational expenditures and revenues of state enterprises, and the other of investment expenditure.

Post-war state revenues and expenditures within the ordinary budget are presented below.

State Revenues and Expenditures
(in millions of zlotys)

	Total Revenues	Total Exp.	Expenditures Capital Exp.	Total Deficits or Surpluses
1945	8,831	23,871	5,809	- 15,060
1946	61,862 ^{1/}	62,566	2,801	- 704
Jan.-Mar. 1946	8,576	12,513	2,801	- 3,937
Apr.-Dec. 1946	53,286	50,053	---	+ 3,233
1947 ^{2/}	174,513 ^{1/}	174,401 ^{1/}	---	+ 112
Investment Plan for 1947	.	----	88,800 ^{3/}	.

^{1/} The already realized receipts for the National Levy amounting to 11 billion zlotys not included.

^{2/} Budget for 1947.

^{3/} Foreign credits not taken into account.

The rapid increase of state revenues and expenditures during the post-war period is to be explained by the widening of the scope of State activity, and by the increase of state-controlled prices and wages. Capital expenditures (investments) between January 1, 1945, and March 31, 1946, amounted to only 44 per cent of the total deficit, which means that ordinary budgetary expenditures were also not covered by revenues. The situation improved during the remaining part of 1946, at the end of which there was a revenue surplus of 3.2 billion zlotys, or 0.5 billion, if the revenues from the sale of Treasury bills are subtracted. The revenues of the State were developing favorably. In the first half of 1947, and there has been a surplus of revenues over expenditures, as shown below.

State Budget for 1947 and Actual Revenues and Expenditures for the first four months of 1947

Items	Budget for 1947	Actual receipts January-April 1947		Budget for 1947	Actual expenditures January-April 1947	
	in millions of zlotys	in millions of zlotys	in percent- ages of budgetary revenues	in millions of zlotys	in millions of zlotys	in percent- ages of budgetary expendi- tures
Administration (including taxes)	125,365 ^{1/}	31,713 ^{1/}	25	169,509	38,869	23
Enterprises	1,871	159	9	4,892	2,867	59
Monopolies	47,277	17,058	36	-	-	-
Total	174,513 ^{1/}	48,930 ^{1/}	28	174,401	41,735	24

^{1/} Actual proceeds from the "National Levy" of 11 billion zlotys not included.