

INTERNATIONAL MONETARY FUND

May 27, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Report on Poland

Attached is a confidential report on post-war Poland which Mr. Mladek has sent to the Managing Director with the request that it be circulated to the members of the Executive Board.

Att: (1)

Other Distribution
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INTERNATIONAL MONETARY FUND
Washington 6, D.C.

May 23, 1947

Dear Mr. Gutt:

I take pleasure in sending you my report to the Board on Poland. I will appreciate if it will be circulated among the members of the Board. I hope that the paper, especially the parts concerning the future policy of the Polish Government will receive the confidential treatment usually given such cases.

Very sincerely yours,

/s/

Dr. J. V. Mladek

Mr. Camille Gutt,
Managing Director,
International Monetary Fund,
1818 H Street, N.W.,
Washington 6, D. C.

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Introductory Note.

Poland is one of the countries which have asked for postponement of fixing their par values according to Article XX, Sec. 4 (d). The Polish Government has expected that discussions concerning the par value of its currency could be initiated in the Spring of 1947 and said so in a letter to the Managing Director. While this report is being written, a message from the Polish Government is on its way to announce to the Fund that a further postponement is requested. This decision of the Government was made after consultation with me in March, and I should say that I concurred fully with it.

This report is meant to explain the reasons behind the decision and they may be found in very summarized form in the last chapter entitled SUMMARY (page 38). More ample explanation is given in various parts of the report, especially in the chapter on Prices and Wages.

No attempt has been made to set forth in full all the Polish economic problems, although they may in the course of time bear on the development in the field which is of our concern. It has been my wish not to overburden this report with what has no direct relevance to the present situation. For instance, some elements have been omitted which will have to be taken up when we are going to consider the par value suitable for Poland. However, it seems impossible not to point out the basic changes in the Polish economy which have taken place during and after the war. It appears necessary all the more as this is the first report about postwar Poland to reach the Board.

Chapter I.

POLAND - Prewar and Present

Of all the countries that reappeared on the map of Europe after the war, Poland has undergone the most far-reaching changes. To a greater extent than any other country, it has changed its territory, its population, its economic resources; it has adopted a new political and economic system, and there are reasons to believe that even the psychological, social and political climate of Poland did not remain unchanged.

1) Changes in Territory and Population.

a) Territory.

TABLE no. 1

Prewar area	390,000 sq. km.
Territory lost	181,000 sq. km.
Territory gained	104,000 sq. km.
Net loss	77,000 sq. km., or about 20% of the entire territory.

The territory lost is a solid strip of land along the old Eastern frontier which, from the economic point of view, is inferior to the territory gained in the West, although not so much to that in the North. Comparison of lost and gained economic resources will be made later. Here there should be pointed out that the Western territories provide Poland with a new important waterway, the Oder, and an important port, Stettin, whereas before the war Poland had the advantage of only two ports, Gdynia and Gdansk.

b) Population.

TABLE No. 2

Population of Poland, 1939 and 1946
(in millions)

	<u>1939</u>	<u>1946</u>
1. Old territories.....	23.2	18.8
2. Eastern territories.....	<u>11.8</u>	—
Prewar Poland.....	<u>35.0</u>	
3. New territories.....	8.9	5.1
<u>Post-war Poland</u>		
Prewar population (1 / 3)...	32.1	
Present population.....		23.9

The population of the present Poland is 11 million less than that of prewar Poland. During the war 6.1 million Poles were lost through death or deportation, a great part of this number consisting of Jews exterminated by the Germans. Even in the territory of the present Poland there now live eight million less people than in 1939. The shift of population within the country and across its frontiers has been considerable and has not yet been terminated. The Byelorussian and Ukrainian population, whichever remained on the Western side of the Curzon line, have moved Eastwards; Poles belonging to the lost territory have moved and are still moving Westward, mainly into the newly acquired areas. Poles deported during the war to Germany have been coming back. The great majority of the German population, totalling some eight million, have departed Westwards to Germany. It is expected that finally when all these movements are finished, the population of Poland will amount to somewhat near the present figure, i.e. about 24 million inhabitants.

TABLE No. 3

Density of Population

Old territories.....	90 per sq. km.
Gained territories.....	50 per sq. km.
Expected average for the	
total territory.....	77-80 per sq. km.
Prewar average, 1939.....	90 per sq. km.

The population of Poland has become much more homogenous ethnically than it was before the war. There are practically no minorities.

2) Changes in Economic Resources.

a) Agriculture.

Some valuable land has been lost in the Southern part of what has been termed Eastern territory; quite a portion of the area ceded to the U.S.S.R. is, however, poor marshland. On the other hand, gains of well-farmed Northern stretches in the newly acquired Western territory are considerable, and on the whole it can be stated that the net loss of arable land is much less than the total loss of territory and does not seem to amount to more than 5% of the prewar arable area, while the output per acre is greater.

TABLE No. 4

Poland's Agricultural Potential after
Frontier Revision.

(Production figures in thousands of metric tons.)

	Production 1933/38 average	
	Boundaries	
	<u>Prewar</u>	<u>- Poland - Post-war</u>
Wheat.....	2.064	1.950
Rye.....	6.467	6.844
Barley.....	1.411	1.626
Oats.....	2.558	2.817
Potatoes.....	35.006	37.860
Sugar beet.....	2.806	5.967

The proportion of forests to the whole area of the country has not changed to any considerable extent.

Source: U.N.R.R.A., Foreign Trade, p. 13.

The decrease in population and the comparatively smaller loss of arable land, the higher employment capacity of industry, have a favorable effect on what used to be one of the fundamental problems of Polish economy before the war, i.e. surplus of agricultural population. Out of the prewar population totalling 35 million, some 20 million earned their livelihood working the land, and it was estimated that approximately 5 million were surplus. Considering the effect of the land reform, which

increases the amount of land available for settling purposes, it is estimated that the surplus of the agricultural population will dwindle to something like 450,000 people, or 100,000 families. It is expected that that many people will be easily absorbed by industry where the need for labor is considerable.

The agrarian reform is aiming at the creation of a farm unit which would enable greater numbers of the peasant population to settle down on their own while its size would still be economic. It has meant the subdivision of all estates over 120 acres in the old part of Poland and over 240 acres in the new territories. On the other hand it has caused the amalgamation of too small units which were a common case in Southern Poland. There was set a minimum of 10-12 acres for any farm unit, as compared with farms of the size 2-3 acres which were by no means exceptional.

b) Industry.

The main advantages gained by the changes of territory are to be found in the field of non-agricultural production. The Western territories are rich in resources and plants both of primary and secondary industrial production. By acquiring Silesia, Oderland and Pomerania, Poland has been converted from a predominantly agricultural country into an economic unit of vast industrial potentialities. Although it may be true that at present the numbers of population engaged in agriculture and industry are still in balance, undoubtedly there is every opportunity to employ the growing majority of the Polish population in industry.

In primary production, the dominant feature is the acquisition of a number of coal mines and accompanying plants which puts Poland among the most important European coal producing countries. Even if its total coal production is inferior to that of some big countries (like the U.K., and the U.S.S.R.) it is certain that Poland has a chance to remain among the greatest exporters of coal. Another acquisition is the zinc ore resources, while the oil fields in the Carpathian region, representing 77.2% of the total output, have been lost as were the deposits of potassium. Productive capacity as regards pig iron has increased by about 50%, as regards steel by about 70%. (Gains are summarized in TABLE No. 5)

In secondary production there is quite a wide range of gains in the engineering and chemical industry, paper manufacturing, and in sugar refining. The territorial changes have not deprived Poland of its textile industry while new plants were acquired in the West.

TABLE No. 5

ACTUAL PRODUCTION IN 1937
(IN THOUSAND OF TONS)

	Pre-War Poland	Territories Lost	Territories Gained	Present Poland
Coal	36,219.0	--	29,793.0	66,011.0 ^{1/}
Coke	2,328.0	--	3,229.0	5,557.0
Briquettes	17.4	--	368.6	386.0
Brown coal	18.4	1.0	7,594.0	7,611.4
Zinc and Lead	200.0	--	722.1	922.1
Iron Ore	791.6	--	73.1	864.7
Salt	590.0	65.8	--	524.2
Crude Oil	501.3	386.6	--	114.7 ^{2/}
Potassium Salts	521.5	521.5	--	--
Pig Iron	420.	--	420.	890.
Steel	300.	--	700.	1,000.

1/ Increase = 29,793,000.

2/ Loss in crude oil production = 77.2%

Source: U.N.R.R.A.

c) Transportation.

It has been mentioned that Poland acquired a new port and an important waterway. It should be noted that the Western areas are better equipped as regards transportation than are the territories lost. Both the railway and highway systems are superior. While before the war Poland possessed 18,300 kms. of standard gauge railways, the total length of the railway system now amounts to 22,000 kms. on a territory smaller by 20% (source: U.S.R.R.A., Transport, June, 1946, p. 5).

Chapter II.

1) Economic System of Poland

Poland has moved a long way towards socialism. At present, however, it seems difficult to define to which of the more familiar socialist schemes the Polish system is akin. The Nationalization Decrees have been passed only fifteen months ago and things are still shaping up; inevitably further development will be influenced by experience and will be subject to changes before it resumes a form which might claim some definitiveness. Summarizing very briefly the present stage of development, it may be said that most of the industrial production has become a government prerogative. Agriculture has remained essentially private with strong elements of free and voluntary cooperativism. In internal commerce, all three sectors - public, private, and cooperative - are taking active part without very clear delimitation lines. Similarly, all three elements are represented in credit and banking although here the private sector is weak. A great effort has been made to introduce to the Polish scheme a strong element of planning; a central plan has been elaborated which sets a developmental, reconstructive and productive framework for the years 1946-1948, while consumption is planned rather in outline as Poland has no complete rationing system such as is known in the U.K., Czechoslovakia, and in some other countries. The following paragraphs deal with the particular sectors of economy in somewhat more detail.

The Decree of January 3, 1946 reserved the Government the right to own and run industrial enterprises producing certain types of goods, as well as any plants capable of employing more than 50 workers in one shift. Some industries, like building and installation, have been excluded from State ownership and nationalization does not concern undertakings belonging to cooperatives and municipalities. All other types of enterprises "possessing exclusiveness" in any particular field of production important to the national economy, all enterprises in the fields of banking, warehousing, storage, and transloading contrivances could have been taken over by the Government upon a resolution of the Council of Ministers. Such a

decision, however, would have been taken by the end of 1946. The Council of Ministers may exclude certain individual enterprises or groups from nationalization, or rule that the size of a would-be nationalized enterprise should be greater than that employing 50 workers. The Decree promises indemnity to former owners of nationalized industries.

The same day on which the Nationalization Decree was passed, another bill was enacted concerning the protection of private enterprises. Undertakings not covered by the aforementioned Decree or taking-over resolutions of the Council of Ministers, remain private property and new enterprises can be set up. There will be no nationalization of such enterprises which outgrow the limit of fifty workers per shift.

Agriculture remains fundamentally in private hands, although the Government and municipalities were and are no negligible owners of land. The agrarian reform has divided big estates into smaller units thereby enlarging the number of agrarian owners. It should be noted that the reform in the territories of former Poland has affected not more than fourteen percent of the total cultivable land.

The structure of small farm units which have become standard in Poland, creates a fertile ground for the agrarian cooperative movement. This is by no means new in Poland, but it has now been resumed with more force and importance. Cooperatives are active both in supplying farmers with fodder, fertilizer, machinery and credit, and sometimes they help market the farmers' products.

Foreign trade is closely controlled by the Government with some private participation, while internal commerce presents a somewhat mixed picture. Products of the nationalized industries are canalized towards the Polish Commercial Center (a governmental agency) which in turn delivers them to private or cooperative wholesalers. There is also a cooperative center (Spolem). The two centers have a number of branches but have no monopolistic privileges. There is a vast sector of commerce run by private firms which intermingles with the Government and cooperative distributive systems. Retail trade remains for the most part in private hands.

But for two exceptions, banking rests with governmental agencies and cooperative institutions. This, however, presents no major change from what it used to be.

The part played by private banks in prewar Poland was rather limited. The inflation of 1923 swallowed up all financial resources and it took some time to develop a private banking system able to cope with at least part of the credit needs. The most important role has been assumed by the Government banks which more particularly became almost exclusive dealers in long-term credit.

Beginning with the central bank, it should be mentioned that the National Bank of Poland, unlike the old central bank, is not a joint stock company but a Staté bank. This fact seems to have no direct consequences in respect to the monetary policy. The main difference springs rather from the fact that direct supervision of credit of some

nationalized industries has been entrusted to the central bank. The National Bank of Poland seems to perform a dual function, that of a central bank of orthodox type and that of a commercial bank for nationalized industries.

The State banks created in prewar Poland are carrying on under the new system and are providing long-term credit for industries, for reconstruction and development of municipalities, and investment credit. Besides that they are granting short-term credits to those nationalized industries which are not directly financed by the Central Bank. There also is a bank which specializes in community credit.

One cooperative bank has been created out of the two existing and is to serve the vast range of credits coming within the scope of cooperative activities.

As in many other European countries, an important part of Poland's credit business is conducted by municipal savings banks and various local cooperative institutions. This was so before the war and no essential changes can be registered.

Most of the joint stock banks have died out during the war. The two which survived have been called upon to take care of the private sector of Polish economy.

2) National Economic Plan

It has been stated that there has been a strong tendency to establish a central planning in Poland. This has materialized in the four years' National Economic Plan covering the period from January 1st, 1946 to December 31st, 1949. It is "a general plan for the Polish economy embracing all detailed plans as well as setting up guiding principles for all branches and sectors of the national economy."

The cogency of the Plan is, of course, different for the three sectors of Polish economy. While the State sector is tied rather strictly by economic plans which are "issued by the competent State authorities" as subdivisions of the National Plan, the cooperative sector has economic plans of its own worked out "according to guiding principles of the National Economic Plan" and the private sector finds only a loose guidance in the Plan.

The chief aim of the Plan is "to raise the standard of living of the working population above the prewar level." Such an increase should obviously be achieved as a result of the greater share of industry and services in the national income of Poland.

"...In particular the consumption of goods and services must be increased," while "consumption of agricultural goods - foodstuffs - should reach the level of 1938 but with changes in its internal structure." It is foreseen that by the end of 1949 production of both agricultural and consumer goods should exceed the level of 1938. Agricultural production should reach index 110 (1937/38 = 100). The index of per capita production of consumer goods is expected to strike the figure 125 (1938 = 100). At the same time it is said that the index of per capita production of producer goods will be 250 - 1949 (1938 = 100). Fulfillment of these aims should give the income per head the following development:

TABLE No. 6

Income per head.

	<u>1938</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
	(Results sums/in zlotys of 1938/)				
Total income.....	505,7	367,5	515,6	666,6	842,8
Consumer income.....	440,0	292,5	400,4	536,5	664,8
	(Index numbers /Base 1938 = 100/)				
Total income.....	100,0	72,7	101,9	131,8	163,1
Consumer income.....	100,0	66,5	91,0	121,9	151,1

The figures indicate clearly that only in the third or fourth year will the national income reach the prewar standard, and that the targets set for the first two years are low. It should be noted, furthermore, that the Plan, in spite of highlighting the increase of consumption as its main aim, has inevitably started by promoting key production. Production of coal and its by-products has exceeded the prewar standard even in the very first two post-war years. This, of course, has been made possible by Poland's acquiring a great many new mines. Similarly the production of pig iron, steel and rolled products should very closely approach the prewar standard already in 1947. The consumption industries compare rather unfavorably. Textile and leather industries, building materials and food industry reach lower percentages of the prewar standard which fact assumes importance in the analysis of the present economic situation.

The national Plan relies on the high ratio of national income to be diverted to investments (see TABLE No. 7). It is expected that throughout the four year period the percentage of national income devoted to gross investments will be around 20%. It is a rather high ratio and while it may be borne more easily in 1948-9 when the total income is expected to reach and exceed the prewar standard, it has been and it is a somewhat difficult task in 1946 and 1947.

It should also be noted that the Plan presupposes that 15 to 20 percent of the total investment will be fulfilled by means of foreign capital.

TABLE NO. 7

I N V E S T M E N T S

	Unit	Years			
		1946	1947	1948	1949
A. PROPORTION OF INVESTMENTS TO NATIONAL INCOME					
	in billion				
National income	Zl. at 1938 prices	8,8	12,5	16,4	20,7
Investment outlays	"	1,8	2,8	3,2	4
Investment as % of the national income.....	%	20,1	22,4	19,5	19,3
B. INDEX NUMBERS OF INVESTMENT OUTLAYS					
TOTAL INVESTMENTS.....		100	156	178	222
Investments covered with proceeds from domestic resources..		100	163	198	251

Source: Polish National Economic Plan, Central Board of Planning, Warsaw 1946.

Chapter III.

Present Economic and Financial Situation.

The high potentialities of Poland pictured in the introductory chapter must not conceal the fact that Poland was among those countries which suffered the most destruction and devastation during the war, not to speak of the heavy depopulation. It is a steep road that leads from the present situation to the fulfillment of expectations.

1) Agriculture.

Polish estimates of the loss in agriculture alone exceed twenty billion prewar zlotys (almost four billion dollars). Whatever the value of such estimates may be, there is no doubt that the great number of farms destroyed or seriously damaged is obvious to anyone who visits Poland. In some districts the housing conditions have been reduced to real misery. An even more direct effect upon the agricultural production is noted from the appalling shortage of livestock, which during the war dwindled to 30 percent of the prewar numbers. The shortage of agricultural machinery and the bad shape of that which remained, added to the above impediments of Polish agricultural production in 1945. In spite of favorable weather conditions, the autumn crop of 1945 was 45% lower than the prewar average. Vast spaces laid untilled or insufficiently fertilized and harvesting was a rather imperfect performance due to the shortage of farm-hands, traction animals, agricultural implements and generally to the unsettled conditions in the country. Although labor conditions improved somewhat in 1946 and some progress has been made in repairing buildings and machinery, there still remain considerable bottlenecks, one of the main being the shortage of traction animals. It is mainly in the Western territories where the number of horses is dangerously low. In May 1946 the old Polish territories had already attained 64% of the prewar numbers while in the West only 13.4% of the prewar quantity could be registered. (It seems that generally the results in breeding are fairly good and the number of hogs, cattle and sheep has increased considerably. Nevertheless importation of breeding stock is still urgent.)

It seems that in view of the considerably increased effort in agriculture the 1946 harvest should have brought a noticeable improvement as compared with 1945. Unfortunately the result was once more disappointing, this time due to a deluge of field pests which swamped Poland during the critical season. (For harvest results see TABLE NO. 8)

TABLE No. 8

Crops of Cereals.
(in thousands of tons)

	<u>1938</u>	<u>1945</u>	<u>1946</u>
Wheat.....	2.171.9	523.41	579.6
Rye.....	7.253.4	2.863.22	2.677.2
Barley.....	1.371.3	604.67	701.5
Oats.....	2.656.5	1.040.	986.

Source: National Bank of Poland.

Much importance is attached in Poland to the results of agricultural production in 1947. 1,300,000 hectares have been added to the total of tilled and fertilized areas which should show favorably in the crops of August. It is expected that it should eliminate the need for imports of potatoes and cereals. There is, however, some anxiety as to how the long winter might affect the harvest, especially with respect to wheat. It is expected that there still will be a shortage of meat and fats even in 1948.

2) Industry.

The difficulties in organizing industrial production were tremendous at the beginning. Factories were found to be stripped of equipment and the destruction was heavy. It took an earnest effort to put most of them into working shape. Only a conscientious and persistent investment policy can bring them back to their full productivity. On the other hand, the time necessary for reconstruction enables Poland to accomplish the process of conversion of a part of the rural population into industrial labor and to develop skilled workers although even after some years lack of a technical staff may still be felt in some sectors.

Meanwhile, taking the four year Plan as a criterion, it must be acknowledged that the results of industrial production are satisfactory. Many sectors have surpassed the set targets. The key product of Polish economy - coal - is, of course, given the utmost attention and results are coming rather close to the prewar figures. Results are also good in most of the heavy industries (iron, steel) although here the Poles are confronted with some serious bottlenecks which can be removed only through appropriate development schemes. Some sectors, however, have finished a little short of their targets. Unfortunately these have been mostly the sectors producing for consumption which, as was said above, have low targets already set by the Plan.

As for the prospect in 1947, the industrial output is expected to rise according to the Plan, which would mean an increase of production in the consumption goods sectors of approximately 50% above the 1946 level. This is an increase which should be noticeable in the market although it can not be expected to satisfy fully the demand for goods. (Output of Industries, TABLES NO. 9 : 15.)

TABLE No. 9

PRODUCTION IN COAL INDUSTRY
INDEXES

<u>Month and Year</u>	<u>Coal</u>	<u>Coke</u>	<u>Briquets</u>
Monthly average 1937 or 38	100	100	100
Jan. 1946	113	115	177
Feb.	104	105	187
Mar.	119	125	247
Apr.	118	137	253
May	117	146	257
June	111	144	252
Jul.	129	153	308
Aug.	132	157	283
Sept.	131	154	262
Oct.	144	161	265
Nov.	140	160	265
Dec.	138	161	264
Jan. 1947	193	163	277

Source: National Bank of Poland

TABLE No. 10

IRON AND ZINC FOUNDRIES OUTPUT
INDEXES

Dates	Pig iron	Rolled products	Forged products	Castings	Zinc	Lead
Monthly average 1937 or 38	100	100	100	100	100	100
January 1946	86	57	208	17	49	47
February	78	61	203	18	44	44
March	105	69	291	20	48	47
April	108	62	239	19	47	47
May	107	65	238	20	48	47
June	104	64	201	20	48	47
July	107	62	220	23	59	47
August	110	70	213	24	60	50
September	102	73	193	24	59	49
October	109	81	259	25	63	57
November	101	83	252	25	61	57
December	98	77	213	15	61	57
January 1947	94	81	240	15	63	55

Source: National Bank of Poland

TABLE No. 11

OUTPUT OF ROLLING STOCK

Dates	Rolling Engines		Rolling Trucks	
	New	Repaired	New	Repaired
Monthly average 1937 or 38	2.3	--	33.2	--
April 1945	7	19		10
May	6	9	7	20
June	5	13	5	18
July	8	16	5	11
August	5	14	2	8
September	9	16	2	25
October	10	19	5	25
November	11	19	9	46
December	17	17	64	10
January 1946	14	14	100	30
February	14	14	137	10
March	13	15	266	10
April	12	15	330	44
May	13	7	406	27
June	7	4	409	37
July	8	4	414	34
August	10	1	633	26
September	14	1	615	19
October	17	2	349	20
November	20	2	622	5
December	12	1	633	9
January 1947	14	-	686	4

Source: National Bank of Poland

TABLE No. 12

LIME AND CEMENT OUTPUT
INDEXES

Monthly average 1938	Output April 1945	Output during 1946						1947 Jan.		
		Jan.	July	Aug.	Sept	Oct.	Nov.		Dec.	
Cement	100	11	46	140	151	144	137	100	123	35
Lime	100	--	23	69	62	50	42	39	39	27

Source: National Bank of Poland

TABLE No. 13

OUTPUT OF TEXTILES
INDEXES

<u>Dates</u>	<u>Yarn</u>	<u>Fabrics</u>
Monthly average 1937 or 38	100	100
January 1946	45	60
February	46	53
March	55	66
April	51	64
May	50	57
June	51	59
July	51	58
August	63	76
September	69	80
October	74	89
November	71	83
December	63	71
January 1947	70	75

Source: National Bank of Poland

OUTPUT OF LEATHER AND SHOES
INDEXES

	1945						1947					
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
Monthly average 1937												
Leather	100	4	6	12	20	21	20	14	12	12	12	13
Sole	100	2	3	3	3	3	3	3	3	3	2	1
Russian	100	13	25	31	38	26	25	23	18	16	16	16
Upper	100	68	139	184	189	228	285	324	260	261	261	246
Shoes 1)												

OUTPUT OF PAPER
INDEXES

Cellulose	100	6	39	40	59	54	70	76	84	83	86
Paper	100	--	36	51	79	79	89	98	93	91	85

1) The index is highly overrating as for the total production of shoes, for it refers to industrial plants only while a high proportion of shoes used to be produced by handicrafts.

Source: National Bank of Poland

TABLE No. 14

TABLE No. 15

OUTPUT OF SUGAR
INDEXES

	1938	1944/45	1945/46	1946/47
Number of factories	61	38	52	71
Sugar output	100	56	35	72

Source: National Bank of Poland

3) Transportation.

In 1945 transportation presented one of the most serious bottlenecks in Polish economy. An earnest effort was made to liquidate this obstacle and it may be stated that it was coped with successfully. Out of 16,000 kms. (10,000 miles) of destroyed railroads, one-half were repaired in 1946. Out of 73 kms. of destroyed bridges 60 kms. have been reconstructed, although most of them only provisionally. Daily railway loadings were: in September, 1945 - 4,961 tons, in January, 1946 - 8,090 tons, and in November, 1946 - 14,341 tons, which is less than the prewar figure for the present territory but equals the average figure for 1938 for the prewar territory of Poland. For obvious reasons the traffic in Polish ports was rather below the prewar standard (see TABLE No. 16).

A considerable help in transportation is the increased number of cars and lorries which have remained on Polish territory after the German withdrawal. However, this contribution will be short-lived as there are no sufficient facilities to keep the cars in good order and to repair them, most of them having a long mileage record.

4) National Income and Consumption.

The internal economic situation of Poland can therefore be summarized by the following findings. The production of industrial key goods such as coal, iron and steel, is increasing satisfactorily. On the other hand, agricultural and industrial production of foodstuffs, as well as industrial production of consumption goods, still has been insufficient throughout 1946 and the beginning of 1947. U.N.R.R.A. relief supplies have greatly helped the Polish economy through their acute misery. In spite of that, shortage of foodstuffs and even more, the shortage of industrial consumption goods remains one of the dominant features of the present situation.

A general improvement might be expected after the harvest - if it proves to be good - of 1947, while the production of industrial consumption goods may prove to be more, although far from completely satisfactory towards the end of the year.

The national income of Poland for 1946 is evaluated at 50% per head of the total income achieved in 1938.

5) Currency and Budget.

The development of currency in Poland during the war did not differ from that in a great many other occupied countries. The territory was split into several currency areas, all of which were subject to a serious inflation of currency.

TRANSPORTATION

SPECIFICATION	UNIT	1945												
		Dec.	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
RAILWAYS														
Passengers transported	1 000	18 821	11 983	13 651	16 562	17 156	18 058	17 643	20 175	21 630	20 672	19 980	20 597	20 350
Average daily loading	wagon	--	8,090	7 920	10 010	9 967	10 619	10 451	11 182	11 341	11 860	13 980	14 330	11 326
Transport of goods	mil.t.-km	1 863,7	1 700,6	1 518,4	1 624,4	1 809,9	2 293,6	2 370,4	2 389,4	2 398,0	2 419,1	2 338,9	2 101,0	1 917,3
SHIPPING														
	1000 NET													
Gdynia: entered	"	542,2	150,6	169,7	193,8	226,1	210,9	229 5	183,8	227,0	224,9	215,0	154,8	152,2
" cleared	"	542,2	151,0	173,1	205,7	227,6	205,6	217,4	183,4	255,1	214,1	184,3	164,7	138,4
Gdansk: entered	"	397,4	124,1	170,5	199,2	226,8	240,7	276,7	275,5	196,1	214,2	172,3	157,7	178,3
" cleared	"	395,6	123,2	153,0	208,7	221,1	242,8	276,1	261,2	219,5	208,9	184,0	150,3	175,1
Szczecin: entered	"					43,2	44,2	12,4		2,9	11,4			
" cleared	"					41,7	45,7	12,4		1,6	10,8			
MARIT. FREIGHT TRAFFIC														
Gdynia: entered	1 000 t	127,2	70,1	75,6	87,3	153,2	134,8	181,9	138,9	167,5	151,9	113,9	79,9	71,8
" "	piece						2 181	4 101	3 150	15 770	32 132	7 644	213,8	4 313
" cleared	1 000 t	637,2	48,5	108,1	179,7	182,1	258,3	236,4	200,1	244,6	200,6	227,6	106,3	173,1
Gdansk: entered	"	130,3	68,9	97,2	68,2	105,7	126,5	153,1	176,9	166,9	127,4	92,1	106,3	75,5
" "	piece		2 366	2 183	3 257	11 127	15 174	106 536	85 078	13 936	13 894	5 585	241,2	5 592
" cleared	1 000 t	463,6	86,0	132,7	198,7	209,7	256,1	266,4	285,5	254,0	225,0	261,1	241,2	212,8
Szczecin: entered	"							0,5			0,3			
Szczecin: cleared	"									2,8	6,6			
POSTAL TRAFFIC														
Letters dispatched	1 000	78 202	30 614	27 339	28 928	32 264	33 403	38 609	41 209	44 013	43 091	47 145	49 753	68 733

Source: Statistical News of the Central Statistical Office of the Republic of Poland, March 5, 1947, Vol. XX, No. 5.

However, some difference was perceptible in various areas as to the effect of inflated purchasing power upon prices and wages. These differences were very sharp especially in 1944 when there were three different economic units within the frontiers of Poland. The sector incorporated into the German Reich preserved a good working control over prices and wages which were kept very low. The German-occupied part of Central Poland (General-Gouvernement) had a price and wage structure considerably inflated, but still less than in the Eastern part of this territory already occupied by Soviet and Polish armies, where prices rocketed sky-high. Shortly after the Soviet and Polish armies broke through the German defense lines and occupied what is present Poland, the Polish Government undertook a drastic sterilization of the volume of purchasing power.

All persons over eighteen years of age received a small sum (500 zlotys) in exchange for their money while special arrangements had been made for the enterprises. Money exceeding the 500 zloty limit could have been put into blocked accounts. As a matter of fact, the population did not make any great use of this facility. The total circulation was reduced considerably. Even such a drastic restriction of currency in the Central and Western areas of Poland did not prevent the high structure of prices in the Lublin (Eastern) zone from infiltrating quickly into the Central and Western areas. This is why the monetary policy of Poland had to recognize the fact of a very high depreciation of money and to accept for a starting basis a high level of prices and wages. (A rough index of the National Bank of Poland shows a figure of 11,800 - 1938 being 100 - for cost of living in Warsaw in April 1945.) The monetary reform has nevertheless had some favorable effect on the further development of prices and wages which for some time betrayed no tendency to continue rising and there was even a marked steady decline during the Summer of 1945 (see TABLE No. 22).

Throughout 1945 there was a steady increase of circulation, most of it on account of Government expenditures (see TABLE No. 17). Another part of the money issued was diverted to financing production and this part was gradually resuming more and more importance as compared with the issue for budgetary deficits (see TABLE Nos. 18, 19).

For some time the Polish Government had to carry on on the basis of provisional budgetary decisions and it was only in April 1946 that a regular budget had been presented and passed. It covered the nine remaining months of the current year. The estimated expenditures totalled 38.9 billion zlotys, revenue 35.5 billion zlotys, with a remaining deficit of 3.5 billion zloty. The results were favorable: Revenue amounted to 57.8 billion zlotys, while expenditures were 50 billion zlotys, leaving 7.8 billion surplus. For more detailed figures see TABLE No. 20.

TABLE No. 17

MONEY IN CIRCULATION

(in million zloty)

Last day of month	Notes	Sight deposits	Total
April 1945	11.894	-	11.894
May	12.424	940	13.364
June	13.591	1.226	14.817
July	14.771	1.487	16.258
August	16.658	2.157	18.815
September	19.100	2.760	21.866
October	21.600	3.644	25.244
November	23.728	4.963	28.691
December	26.319	5.995	32.314
January 1946	26.964	5.840	32.804
February	28.085	7.105	35.190
March	29.899	8.157	38.056
April	32.427	9.285	41.712
May	34.260	10.483	44.743
June	36.748	10.994	47.742
July	39.842	11.845	51.687
August	44.218	13.078	57.296
September	47.463	15.626	63.089
October	52.636	18.525	71.161
November	57.102	19.063	76.165
December	60.066	23.564	83.630
January 1947	59.691	20.629	80.320
February	63.488	19.092	82.580
March	66.566,9	18.047,9	84.614,8

Source: National Bank of Poland

TABLE No, 18

NARODOWY BANK POLSKI
(National Bank of Poland)

Statement of accounts in million zlotys.

DATE	ASSETS			LIABILITIES	
	Bills discounted	Advances	Indebtness of the Treasury	Notes in circulation	Sight deposits
12.31.45	5.649,1	1.312,3	21.236,1	26.318,6	5.995,6
1.31.46	6.340,4	1.342,0	20.763,1	26.964,4	5.840,1
2.28.46	7.929,5	1.739,2	21.264,0	28.085,4	7.104,7
3.31.46	9.051,1	2.093,9	22.213,9	29.898,7	8.157,5
4.30.46	10.783,4	3.436,2	22.952,6	32.427,0	9.285,4
5.31.46	12.180,5	4.823,7	22.658,3	34.259,8	10.483,0
6.30.46	13.825,1	7.380,4	21.871,5	36.748,2	10.993,7
7.31.46	14.039,3	10.926,1	21.657,3	39.842,3	11.845,3
8.31.46	13.947,8	16.744,1	21.176,2	44.217,9	13.078,2
9.30.46	15.443,9	21.419,9	20.850,6	47.463,3	15.625,8
10.31.46	17.763,2	26.311,7	21.065,2	52.635,9	18.525,2
11.30.46	17.858,7	30.023,6	20.479,0	57.101,9	19.063,4
12.31.46	17,384,5	37.897,6	21.000,9	60.065,8	23,563,7
1.31.47	16.171,2	40.930,3	16.367,6	59.690,8	20.628,7
2.28.47	14.836,1	43.158,6	17.748,1	63.488,2	19.091,9
3.31.47	12.835,9	48.764,9	16.909,3	66.566,9	18.047,9

TABLE No. 19

INTERNAL POST-WAR NATIONAL DEBT
(in million zloty)

Month and year	Indebtedness with National Bank of Poland	Reconstruction loan	Treasury bills	Total
April 1945	8.727			8.727
May	8.349			8.349
June	9.238			9.238
July	10.121			10.121
August	12.071			12.071
September	10.928			10.928
October	13.819			13.819
November	15.694			15.694
December	21.236			21.236
January 1946	20.852	15	656	21.523
February	21.366	325	791	22.482
March	22.694	784	957	24.435
April	23.253	919	983	25.155
May	22.909	1.166	1.425	25.500
June	22.119	2.075	1.529	25.723
July	21.781	2.761	1.828	26.370
August	21.494	3.403	2.238	27.135
September	21.188	4.156	2.364	27.708
October	21.629	4.315	2.502	28.446
November	21.001	4.329	2.599	27,929
December	21.817	4.341	2.721	28.879
January 1947	16.548	4.342	3.321	24.211

Source: National Bank of Poland

TABLE No. 20

Current budget for the period April 1 - December 31, 1946.
(in million zlotys)

	E s t i m a t e		Carried out by Decem- ber 31, 1946	
	Receipts	Expenditures	Receipts	Expenditures
A. Administration				
National Council (Parliament)	2	97	2	129
Central Audit Office	-	40	-	44
Offices of the Council of Ministers	1,528	1.211	889	2.481
Ministry of Foreign Affairs	47	375	54	709
Ministry of National Defense	-	5.905	-	9.018
Ministry of Public Administration	13	1.223	40	940
Ministry of Recovered Territories	13	2.050	257	2.457
Ministry of Public Security	20	3.978	30	6.259
Ministry of Justice	115	485	241	637
Ministry of Finance	15,225	1.053	27.462 ¹⁾	1.622
Ministry of Industry	3.023	736	1.930	707
Ministry of Food and Commerce	479	3.649	545	2.034
Ministry of Transportation	19	2.297	41	2.974
Ministry of Agriculture and Land Reform	31	1.791	17	1.875
Ministry of Education	6	5.092	5	6.080
Ministry of Culture and Arts	-	237	-	350
Ministry of Labor and Social Welfare	-	1.058	7	1.321
Ministry of Post and Telegraphs	-	19	-	19
Ministry of Information and Propaganda	1	171	-	239
Ministry of Health	12	1.157	12	1.273
Ministry of Reconstruction	36	497	23	581
Ministry of Shipping and Foreign Trade	232	553	210	658
Ministry of Forests	-	35	-	37
Pensions and Rents	-	526	-	546
National Debt	-	432	-	291
General Administration of the Treasury	24	678	841	439
Total of A	20.826	35.345	32.606	43,720
B. Enterprises and Establishments				
	294	3.534	200	3.109
C. Monopolies				
Salt Monopoly	350	-	351	-
Tobacco Monopoly	4.500	-	7.240 ²⁾	-
Alcohol Monopoly	9.000	-	16.806	-
Match Monopoly	480	-	600	-
Sweepstake Monopoly	35	-	35	-
Total of C	14.365	-	25.032	-
D. Funds				
State Food Supply Fund	-	-	-	3,200
State Land Fund	-	100	-	24
GRAND TOTAL	35.485	38.979	57.838	50.053
1)	Including 4.552 million zlotys of receipts on account of the National Contribution designed for the rehabilitation expenditures in the recovered territories in 1947.			
2)	Including proceeds of sales of cigarettes supplied by UNRRA amounting to 2.1 billion zlotys.			

Simultaneously an investment plan was approved totalling 38.2 billion zlotys. 37.3 billion zlotys have actually been spent at a somewhat higher level of prices.

During 1946 there was a steady increase in the issue of money as may be seen from TABLE No. 17, 18. This increase, unlike the previous year, was no longer due to the deficit policy of the Government but almost entirely to the financing of production. There is little doubt that some part of the money issued for productive purposes had some inflationary effect. Not all money leaving the central bank was devised to finance a short-term cycle of production. A certain portion of it was used for investments and undoubtedly some portion of it failed to return to the National Bank because of losses or uneconomical processes in various industries. However, it should be noted that for the already existing level of prices and wages the volume of money in circulation was inadequate and a steady increase was inevitable. The extension of credit by banks is also noticeable.

The budget for 1947 (see TABLE No. 21) was approved with some delay due to the date of election and the decision of the previous Government to have the budget approved by the new Government and the House. It estimates expenditures (covering the whole year) at 174.4 billion zlotys, while revenue is expected to reach 178.5 billion zloty, leaving a surplus of 11 billion zlotys.

Besides that there is again an investment plan, this time a rather high one, reaching a figure of 85 billion zlotys, which covers entirely the field of investments in the Government and cooperative sectors and partly investments in the private sector. It is rather doubtful that the plan will be effectuated up to the suggested figure unless prices meanwhile rise considerably; more conservative estimates indicate 60 billion zlotys as the probable ceiling for investments during 1947. This investment plan should be covered in the following ways: (1) by the surplus of the regular budget, (2) by depreciation of reserves of nationalized enterprises amounting to 20 billion zlotys. For the rest, the Government should resort to credit transactions which undoubtedly means drawing some money from the bank of issue. There is little doubt that the addition of several tens of billions of zlotys to the present circulation would strengthen the inflationary tendency for the Polish economy. How strong such a bias would be, depends of course on other factors besides purchasing power. The problem of price stabilization is discussed in the chapter on Prices and Wages.

6) Prices and Wages.

To any student of Polish economy, the most obscuring factor is the heterogenous system of prices. There are four different types of prices.

The nationalized industry, i.e. the particular undertakings or factories sell their products to the Polish Commercial Center (see p.8) at what is called rigid prices. They generally do not represent the full cost of production for only a part of the workers' compensation is paid by the enterprise. Another part is supplied from different sources as will

TABLE No. 21

CURRENT BUDGET ESTIMATE FOR THE CALENDAR
YEAR 1947
(in million zlotys)

	<u>Receipts</u>	<u>Expenditures</u>
A. Administration		
President of the Republic & the State Council	3	321
The Diet	-	294
Supreme Audit Office	-	103
Offices of the Council of Ministers	4.063	3.859
Ministry of Foreign Affairs	106	1.423
Ministry of National Defense	-	25.550
Ministry of Public Administration	146	1.480
Ministry of Recovered Territories	3.999	4.938
Ministry of Public Security	56	17.010
Ministry of Justice	658	1,596
Ministry of Finance	74.842	3.705
Ministry of Industry	38.049	1.033
Ministry of Food and Commerce	717	7.264
Ministry of Transportation	84	5.270
Ministry of Agriculture and Land Reform	107	3.731
Ministry of Education	5	19.593
Ministry of Culture and Arts	1	769
Ministry of Labor and Social Welfare	2	4,954
Ministry of Posts and Telegraphs	-	47
Ministry of Information and Propaganda	1	362
Ministry of Health	25	4.819
Ministry of Reconstruction	55	1.247
Ministry of Shipping and Foreign Trade	510	1.471
Ministry of Forests	-	89
Pensions and Rents	-	2.366
National Debt	-	2,003
General Administration of the Treasury	3.836	3.516
Food supplies for the population	9.100	50.696
Total of A	<u>136.365</u>	<u>169.509</u>
B. Enterprises and Establishments	<u>1.871</u>	<u>4.892</u>
C. Monopolies		
Salt Monopoly	500	-
Tobacco Monopoly	19.500	-
Alcohol Monopoly	26.515	-
Water Monopoly	700	-
Sweepstake Monopoly	62	-
Total of C	<u>47.277</u>	-
D. State Land Fund	-	-
Grand Total	<u>185.513</u>	<u>174.401</u>

Source: Budget estimate of the Republic of Poland, Ministry of Finance, Warsaw, 1947.

be explained in the paragraph on Wages.

The Governmental distribution centers sell goods to wholesalers or distributive agencies, at prices which are called commercial. These prices, too, are fixed by the Government and are no direct product of supply and demand.

The third group are prices at which goods are sold further on in the market, that is the free wholesale and retail prices.

Besides that there is a fourth group: The controlled retail prices at which certain goods are sold by the ration card system.

From the above system it follows that the rigid prices are comparatively very low, commercial prices are considerably higher and there is a tendency to observe some parallelity between them and the free market prices which are obviously highest. The working of the controlled retail prices may be explained only in connection with the wage system.

The workers' compensation consists of three different parts. There is the money wage, paid by the enterprise, and there is an allocation of goods and services supplied by the enterprise (consisting for the most part of food, work-clothes, etc.). Besides that, workers receive ration cards which enable them to get food and other necessities at greatly reduced prices (controlled retail prices). The goods supplied through ration cards and partly the direct allocation of goods and services are not provided for by the enterprise, but by the so-called Approvization Fund which is a central institute serving all Government and many private enterprises.

A four-fold system of prices developed under the circumstances which prevailed immediately after the liberation of the entire territory. An effort had been made to get the upward movement of prices under control and reduction of the cost of production was leading to a policy of subsidies. Supplying foodstuffs for workers at reduced prices corresponded with the system of compulsory deliveries of main farm products. Farmers were under obligation to surrender certain quantities of crops, etc., to the Government at low prices and the Government in turn delivered them to the industrial population at low prices. Since the Summer of 1946 contingents have been abolished and the Approvization Fund now has to purchase agricultural products at current free market prices. (It is readily understood that under such conditions the Approvization Fund is bound to work at a loss which is covered by contributions of the Government and of the Polish Commercial Center. This Center, it will be remembered, buys industrial products at low "rigid prices" and sells them at high "commercial prices.")

Even when it was realized that the realm of controlled prices could not be extended into the areas where free market prices prevailed, there was good ground for believing that a replacing of subsidizing by raising wages so as to bring them into line with the cost of living as expressed in free market prices would have brought about a powerful incentive to a further rise of prices and consequently to a rather fast development of an inflationary spiral. For some time an opinion was voiced that a manifold system of prices might be a useful instrument of

economic and social policy for more than just temporary purposes. In the course of time, however, it was becoming increasingly obvious that such a system offers more disadvantages than it has merits and the leading men in Polish Governmental circles agreed that it must be the task of the Government to substitute a uniform price and wage system for the present polymorphism.

It was clear that the development could not be but gradual and furthermore the simplification of prices and wages could be achieved only *pari pasu* with the stabilization of prices and wages.

To achieve this purpose the following method was suggested-- Commercial prices should gradually be raised to get in gear with the market while it was expected that an improved supply of goods would force down the free prices. Wages would more and more become plain money wages and would be raised until they reached the correct relation in respect to prices.

In the summer of 1946 the Polish Government was hopeful that the above process might be accomplished or at least reach a stage at which the results could be safely evaluated some time between the Winter and Spring of 1947. This is why they expected discussions concerning the par value of the Polish zloty would be initiated in March 1947.

In the Autumn of 1946 a number of steps had been taken along the suggested lines. Commercial prices had been raised and so were wages. The gap between commercial and rigid prices was narrowed. The stumbling stone of the operation proved to be the free market prices which in the Fall of 1946 assumed an even faster trend upward instead of the expected decline.

There is more than one cause of such development. In the first place, it seems that the sudden increase in the supply of money, which came about through the raising of wages and salaries, worked as a shock incentive to buy widely in the market of goods. At last, after a long time, people were getting sizeable amounts of money while simultaneously some very desirable goods appeared on the market. In fact the goods, although specimens became visible in the market, were still very short in supply as it has been pointed out several times. Nevertheless, everyone resolved to buy as much textile materials, clothes, and, if possible, shoes, as he could manage on his income. A similar attitude applied to food with the result that as soon as they came by money, people spent it one way or the other, practically disregarding the cost of goods.

Paradoxically enough, this process has even been accentuated by the policy of the Government to eliminate unnecessary chain trading. Money previously tied up in the intermediary business which was hit by the Government, was turned over to speculation which, just during the critical period, concentrated on some of the more sensitive goods, especially textiles, and successfully played the game of mass purchases of goods in order to withhold them and extricate higher prices.

TABLE No. 22

COST OF LIVING INDEX FOR WARSAW
on the basis of free market prices in Warsaw *

1938 = 1

<u>-- Dates</u>	<u>Index</u>
March 1945	114
April	118
May	105
June	89
July	78
August	75
September	72
October	75
November	85
December	93
January 1946	99
February	96
March	103
April	102
May	106
June	112
July	110
August	107
September	109
October	119
November	126
December	133
January 1947	

* No account is taken of controlled retail prices.

Source: National Bank of Poland

In view of this development in free market prices, it seemed advisable to slow down the process of unification of the price system.

The present trend of free market prices still shows some tendency to rise. The question - when can this trend be stopped and all the unification processes of the price and wage system realized - is being considered very carefully by the Polish Government. The conclusion reached is that the nearest possible target date is the coming Autumn, It is expected that by that time most of the uncertainties obscuring the picture now, will be clarified.

The harvest will show how much Poland can depend on improving the food situation and reduce the prices of food or stop a further increase. The final result depends of course not only on the harvest but also on the cooperation of the farming population which, under unfavorable conditions, may be induced to withhold the crops and not bring them to market.

By the Fall it is also expected that more will be known about the foreign credit prospect for Poland. The cutting of imports would unfavorably affect the prices through the shortage of goods.

It is also not yet certain whether the Government will be able to resist the claims for raising wages and salaries in view of the steady increase of free market prices. It is the wish of the Government not to yield on this ground but the feasibility of such a policy will be subject to a test in the coming months.

7) Trade and Balance of Payments.

There are quite a number of changes to be found in the pattern of Polish trade as compared with before the war. Most of them are due to transitional conditions rather than to the changed economic structure of the country. As may be seen in TABLE No. 23, before the war Poland imported very little food with the exception of products from the tropical and subtropical zone, and fish. On the other hand, they used to import considerable quantities of vegetable fats, copra, seeds, iron ore, as well as manganese and chromium ores, chemical and pharmaceutical products, textile raw materials, skins and leather, and machinery. The present situation has brought into the picture massive imports of food items, Poland was an exporter of coal, timber and timber products, meat, processed meats and dairy products, metals and barley. It can be seen in TABLE No. 23 that the only items which remain on the list of present exports are coal and coke, the export of which has exceeded the prewar figures by approximately 1/3 (compare present territory with the prewar territory), while iron, steel and other metal products are gradually resuming some importance.

TABLE No. 23

Import of principal commodities to Poland.

Principal commodities	1936-1938 average	1 9 4 5			
		D e l i v e r i e s		1 9 4 6	
		Commercial	U.N.R.R.A.	Commercial	U.N.R.R.A.
TOTAL	3 353 793		296 281		1 289 167
heads	3 381	170	3 917	10 226	339 856
of which:					
Corn and leguminous	11 058		7 115	489 490	381 250
Seeds, copra	48 930	16 119	3 676	175	8 714
Flour	122	28 619	248		13 448
Rice	50 242				743
Coffee, tea, cocoa	15 266		6 362	19	11 487
Tobacco	8 396	1 273		2 122	
Butter	0	721	208	1 513	1 422
Cheese	117		1 014		8 200
Grease and lard	0		12 136	51	16 317
Powdered milk	1		7 315		56 668
Condensed milk	19		3 156		26 779
Herrings, fish, canned fish	61 253	3 295	21 078	23 436	45 102
Canned and fresh meat	44	246	8 454	1 272	83 084
Fats and oils of vegetable and animal origin, except those mentioned separately	27 806		3 061	100	20 347
Horses, beef cattle, heads	69	170	3 917	10 226	135 387
Iron ore	576 472	232 644		979 906	
Manganic and chromic ore	73 590	35 732		50 621	
Petroleum products	1 227	36 110	7 707	190 403	20 610
Chemical and pharmaceutical products, paints:	252 462	16 403	51 560	186 740	77 523
of which					
Artificial fertilizers	209 235	14 642	36 832	182 339	65 762
Raw hides	25 789	104 500	900	90	1 391
Skins	3 085				
Leather	550				513

Source: Statistical News of the Central Statistical Office
of the Republic of Poland, March 5, 1947, Vol. XX, No. 5.

Continued:

Import of principal commodities to Poland.

Principal commodities	1936-1938 average	1945				1946	
		Deliveries		Deliveries			
		Commercial	U.N.R.R.A.	Commercial	U.N.R.R.A.	Commercial	U.N.R.R.A.
Textile raw materials:	118 090	19 256	30 562	37 983	27 754		
Cotton and wastes	76 796		23 999		5 667		
Wool " "	25 600	19 256	6 061	37 983	17 339		
Flax " "	64				0		
Jute	14 401		462		3 567		
Hemp	28		40		153		
Silk and rayon	598						
Other textile raw materials	604				28		
Yarn and roving	3 186		210		175		
India rubber	6 612	294	613	2 547	1 983		
Cellulose	15 774	19 709		14 173			
Iron alloys	3 452	96	21	301	86		
Nonferrous metals:	24 399	486	4 058	2 300	5 414		
Aluminium	1 595				2 266		
Tin	1 501		386		392		
Zinc	70		25				
Copper	19 777	486	3 550	2 300	2 712		
Copper alloys	387		49		17		
Nickel	646		5				
Lead	423		43		27		
Machine, apparatus, electrotechn. implem.	26 968		4 975		20 038		
All kinds of locomotives	87				7 622		
Railway wagons	6		3 081	200	23 699		
Motor cars, motor cycles, tractors and parts	7 848	1 685	33 672	330	54 436		

Export of Principal
Commodities from Poland

PRINCIPAL COMMODITIES	1936-1938	1945	1946
Total	14 519 163		
of which:	1 657 059		
Barley	269 216		
Seeds	20 534		5
Fresh, frozen and salted meat	16 311		
Bacon	20 639		
Eggs	26 529		
Butter	10 736		
Canned hams, and joint of pork	15 886		
Sugar	66 202		9 150
Pigs and hogs, heads	230 680		
Cement	29 245	67 872	378 738
Coal and coke	10 678 876	3 638 162	14 398 397
Benzole	16 245		10 838
Zinc and lead white, minium, litharge, lithopon	8 088	683	7 134
Soda	9 856	6 490	26 076
Raw hides	4 423		
Skins	770		871)
Footwear	10		1302)
Flax and waste	16 999		
Yarn and roving	2 271		
Cotton fabrics	1 004	16 8663)	36 5233)
Woolen fabrics	1 959	5343)	9163)
Cotton knitted ware	82	4792)	1 9222)
Cotton ready made ware	877	1 4621)	1 9251)
Threads	2	1 3004)	4 7004)
Timber and products	1 685 807		
Iron, steel and products	265 506	29 802	75 669
Zinc	63 031	6 997	18 855
Zinc in sheets	6 650	30	7 449

1) 1000 pieces, 2) 1000 pairs, 3) 1000 m, 4) 1000 reels

Source- Statistical News of the Central Statistical Office
of the Republic of Poland, March 5, 1947, Vol. XX, No. 5.

It can be expected that food stuffs will be vanishing from the import side of the balance of trade as the consolidation of agriculture goes on and eventually they will reappear among the exports.

As for a long-term outlook, it is fairly certain that Poland will be gradually changing the structure both of her imports and exports so as to put them in accord with the changed productive resources of the country. There will be more products going out, including both finished and semi-finished goods and metals. A new range of necessary industrial goods will have to be imported and more raw materials will be required by the industries. Coal has a good prospect of remaining the most important item for some years to come. An expectation seems to be justified, too, that the total volume of trade and its ratio to the National income is to increase considerably above the prewar level which was rather low.

Circumstances in which Poland found herself in 1945 have also essentially changed the direction of trade (see TABLE No. 25). Before the war Germany and the United Kingdom were Poland's most important partners in import and export, followed by the United States and some countries of Western and Central Europe. Both in 1945 and 1946, by far the greatest importer and exporter of Polish goods was the U.S.S.R. which had been responsible (1946) for 70% of Polish imports, taking 49.6% of Polish exports. Second place has been assumed by Sweden: 14.7% of Polish imports and 18.4% of exports. The shares of other countries are rather small, but are increasing as the time goes on and a more balanced picture may be expected to emerge eventually.

Analysing the import figures of Poland, one is immediately struck by the vital part played by U.N.R.R.A. Out of the total worth of Polish imports, U.N.R.R.A. deliveries covered 58.8%. Their contribution in food stuffs, horses and cattle, railway cars and locomotives, were all of fundamental significance.

The balance of trade shows slightly unfavorable results if the imports on the account of U.N.R.R.A. reparations and surplus property purchases are excluded. The true picture, including all these items, shows the excess of imports is greater than the total exports.

Polish trade was so far based to a great extent on barter agreements as can be seen in TABLE No. 24. Trade is conducted by the Government and the balance of payments bear no relation to the rate of exchange since the Government is using multiple rates for various products and occasions.

No complete picture of the foreign balance of payments for 1946 is available as yet and the forecast for the years 1947/49 are mere target figures subject to correction. They assume (see TABLE No. 25) an unfavorable balance of trade, the gaps being filled by credits and to some extent by grants and surrendering a part of the gold reserves. An increasingly important item on the export side is coal, which covers almost 2/3 of total export estimates.

TABLE No. 24

POLAND'S BALANCE OF TRADE

1946

Revised figures (000\$)

Exports

In trade agreements

USSR	58,869	
Denmark	7,416	
Hungary	1,821	
Rumania	955	
Sweden	24,427	
Norway	2,803	
Yugoslavia	1,253	
Germany (USSR Zone)	7,696	
Switzerland	3,914	
Bulgaria	430	
Finland	742	
France	6,267	
Belgium	23	
Austria	1,188	
Italy	112	
Netherlands	71	
Iceland	-	117,987

Outside trade agreements

Sweden	-	
Switzerland	120	
USA	403	
Argentina	<u>224</u>	747
UK	2,399	
Egypt	12	
Palestine	<u>5</u>	2,416
USSR	-	
Yugoslavia	1,090	
Belgium	4	
Italy	510	
Netherlands	7	
Czechoslovakia	4,083	
Germany (French Zone)	<u>3</u>	5,697
Unspecified and bunkers	<u>1,095</u>	9,955
Reparations		57,000
Export total		<u>184,942</u>
Excess of imports over exports		<u>275,127</u>
		<u>460,069</u>

POLAND'S BALANCE OF TRADE

1946

Revised figures (000\$)

Imports

In trade agreements

USSR	90,553	
Denmark	3,441	
Hungary	1,369	
Rumania	540	
Sweden	20,020	
Norway	924	
Yugoslavia	1,217	
Germany (USSR Zone)	7,177	
Switzerland	927	
Bulgaria	-	
Finland	-	
France	-	
Belgium	142	
Austria	449	
Italy	-	
Netherlands	144	
Iceland	-	126,903

Outside trade agreements

Sweden	9	
Switzerland	91	
USA	1,565	
Argentina	-	1,665
UK	859	
Egypt	-	
Palestine	-	859
USSR	7,108	
Yugoslavia	-	
Belgium	5	
Italy	-	
Netherlands	9	
Czechoslovakia	2,293	
Germany (French Zone)	3	9,418
Unspecified	-	11,942
Surplus property purchases	31,000	
Reparations	19,619	
UNRRA	270,605	321,224
Import total		460,069
		<u>460,069</u>

Source: Polish Government

PLAN OF
BALANCE OF PAYMENTS
(in million \$)

TABLE No. 25

	1947	1948	1949	1947	1948	1949
	II	III	IV	VI	VII	VIII
<u>Receipts</u>						
<u>Total</u>	<u>790.1</u>	<u>833.4</u>	<u>967.8</u>	<u>790.1</u>	<u>833.4</u>	<u>967.8</u>
<u>A- Export</u>	<u>338.0</u>	<u>458.0</u>	<u>560.0</u>	<u>735.1</u>	<u>768.5</u>	<u>907.0</u>
1. Coal	202.0	281.0	353.0	150.0	20.0	12.0
2. Others	136.0	177.0	207.0	300.0	380.0	460.0
<u>B. Services</u>	<u>21.0</u>	<u>28.0</u>	<u>39.0</u>	<u>255.1</u>	<u>338.5</u>	<u>405.0</u>
C. Foreign exchange & claims	19.2	15.0	8.0	30.0	30.0	30.0
<u>D. U.N.R.R.A.</u>	<u>89.0</u>			<u>17.6</u>	<u>25.0</u>	<u>32.0</u>
<u>E. Need of credits & food assistance</u>	<u>322.9</u>	<u>332.4</u>	<u>360.8</u>	<u>37.4</u>	<u>39.9</u>	<u>28.8</u>
<u>Payments</u>						
<u>Total</u>	<u>790.1</u>	<u>833.4</u>	<u>967.8</u>	<u>790.1</u>	<u>833.4</u>	<u>967.8</u>
<u>A- Imports</u>						
1. Foodstuffs						
2. Raw materials & operating supplies						
3. Capital goods						
4. Consumer goods priority II						
<u>B. Services</u>						
<u>C. Capital payments</u>						

Source: National Bank of Poland.

8) Rate of Exchange.

The present rate of exchange is set at one zloty to one U.S. cent. This rate, however, has only a limited significance. As has already been mentioned, most trade agreements are concluded in terms of foreign currencies, the exporter never acquires foreign exchange nor does the importer ever pay in foreign exchange. They receive or pay in local currency while prices are arrived at by applying a particular rate of exchange which is set by the Government and varies according to the type of goods and according to the country with which the transaction is being made. There is a wide range of such multiple rates which differ greatly so that any attempt to figure out on such a basis an average or true rate of exchange is impossible. The same difficulty is encountered in trying to find out the purchasing par value of zloty by comparison of wages. It has been pointed out that the compensation of labor consists of a number of items for which a common denominator is difficult to find.

A word should be said about the significance of the black market rate of exchange. The attached graph (see TABLE No. 26) shows the development of the quotation of dollar in the Warsaw black market and compares it with the curve of the cost of living. The general trend of both curves is obviously parallel but there also are discrepancies such as in September 1945 and throughout the first half of 1946 and again at the end of 1946 when on all occasions the black market rate of exchange moved exactly in the opposite direction of the cost of living, being influenced by political and psychological events and by accidental increase in the demand for dollars by those who intended to leave the country. These considerations have a general effect of pushing the rate of exchange in the black market to highly overstating figures.

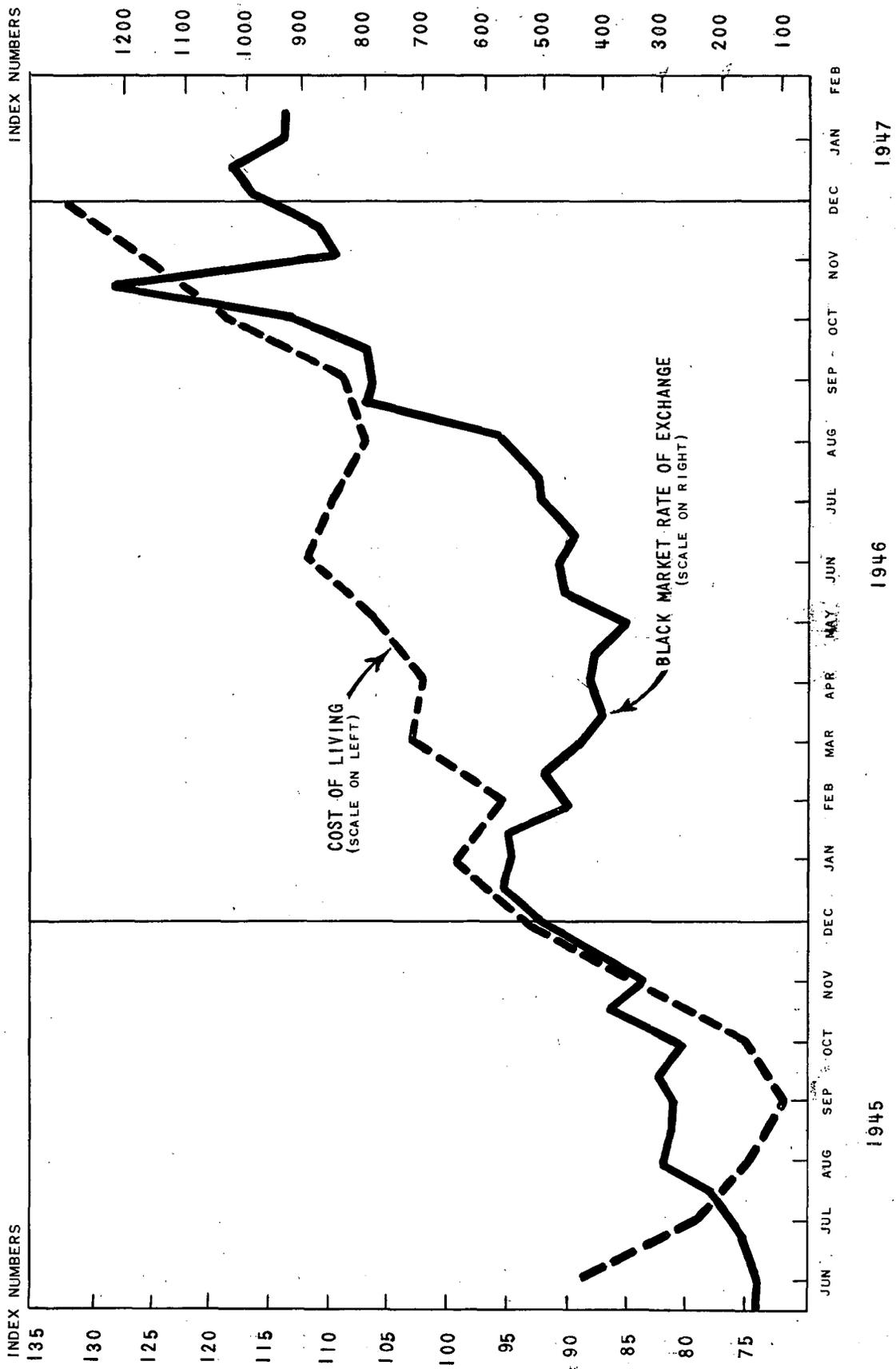
To be sure, if the yardstick of the cost of living be applied, it would obviously point to the high overvaluation of zloty, especially if only free market prices are considered. There is no doubt that in the eventual appraisal of the value of the currency, the development of free market prices will play the most important part if the present plan of unification of the price and wage system is observed. The free market price is going to become a more and more prevailing factor in peoples' cost of living and it is likely that the final structure of prices and wages will settle at a level which will be closer to the free market prices and free wages than to the controlled prices and wages.

In the chapter on Prices and Wages, it has been stated that no fair evaluation of the purchasing power of currency in Poland can be accomplished until towards the end of the unification process of prices and wages. It is nevertheless possible, if such a process is rather lengthy, that pressure may develop on the present system of rates of exchange. As the commercial prices are being pushed steadily up in order to gear in eventually with the free market prices, most of the multiple rates which link these commercial prices with export prices want adjustment. This trend of commercial prices being general, tends towards an over-all change of multiple rates in the sense of devaluation of the zloty. Such a development may have its effect even on the official rate which may want some interim adjustment before it is possible to fix a definitive rate.

TABLE NO. 26

BLACK MARKET RATE OF EXCHANGE OF U.S. DOLLAR AND COST OF LIVING IN WARSAW

1938=100



SOURCE: NATIONAL BANK OF POLAND

SUMMARY.

The main reason why Poland requested postponement of fixing the par value of her currency in December 1946 was the absence of stability of prices and wages which in addition were so polymorphous that the evaluation of the purchasing power value of the currency was extremely difficult. The free market prices were subject to rapid changes while their general movement has been in the upward direction. There were three different types of controlled prices and besides that free market prices. There were three different ways of compensating labor. In most of the industries only a small proportion of wage earners and salaried workers were paid in full by means of money. Allocations in kind played a very important part while ration cards entitled their privileged bearers to purchase at prices incomparably lower than those prevailing in the free market. Allocations in kind and the ration card system considerably obscured the cost of production since only a part of the workers' compensation was borne by the enterprises.

By the Summer of 1946 the Government decided to unify the price system and simultaneously to stabilize it. A plan had been developed for merging all the various types of prices into one system which would be governed essentially by the law of supply and demand. It was expected that the eventual prices would meet somewhere between the levels of free market and controlled prices. Wages and salaries would again become purely monetary. Steps have been taken on the road to bringing the controlled prices closer to those prevailing in the free market. Similarly a process of substituting money wages for any other sort of workers' compensation was initiated and money wages were raised accordingly. However, the results were not completely satisfactory. For reasons expressed more fully in Chapter III, free market prices accelerated their rise. Increase in purchasing power, an acute shortage of food stuffs and consumer goods, as well as a peculiar frame of mind which prompted the Polish population to spend their money rather precipitously were the main causes of this evolution. Under such circumstances it became clear that stabilization and unification of prices and wages could not be achieved by the Spring of 1947. It was suggested that in a later part of the year the Polish Government might be in a better position to judge fairly the prospect of stabilizing prices. Some of the uncertainties pondering on the present outlook might be clarified. After the harvest it will be known better than now what the food situation is going to be. The size of foreign credits and grants may be known by that time. Meanwhile, the Government will be able to feel out how far and whether they will be able to resist the pressure for increasing wages.

There is a feeling in Warsaw that there is a chance to have most of the relevant factors crystallized in the late Autumn and it will be possible to appraise the situation with sufficient safety. Understandably enough, the Polish Government does not wish to commit themselves as to a particular time. There is little doubt that some factors working towards instability will still be present even if all questions mentioned above should be answered favorably in the course of the coming months.

It may be, too, that Poland may seek an interim solution such as is indicated in Chapter III

In conclusion, I would like to pay tribute to the Polish Government for the way they handled the question of fixing the par value with the Fund. Their approach has been honest and serious. Before suggesting a par value they have been seeking firm ground. I sincerely hope that they will preserve this attitude and I believe that it will find high appreciation in the Fund.