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for the

King Party on the Polish Loan Application

Poland Today *)

The Effects of the War

Population

Banking, Currency and Prices

*) This Paper contains the sections of a study on 'Poland Today' thus far completed. Other parts, on Agriculture, Industry, Transport, etc. will be issued shortly.

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The Effects of the War

The readjustments which have occurred in the territory of Poland as a result of the war and the widespread destruction which the war has caused, have brought about changes of fundamental importance in the Polish economy. An economic survey of present-day Poland is therefore best begun by an account of the alterations which have recently been made in the Polish frontiers and of the catastrophic destruction wrought in the country by six years of warfare.

Changes in Boundaries and their Consequences.

Area and Population. As a result of the international agreements concluded at Yalta (1944) and Potsdam (1945), the frontiers of Poland were radically changed. Poland's 1939 boundaries included an area of 389,800 sq. km. (150,400 sq. mi.). As a result of decisions reached at the two conferences, Poland transferred to the U.S.S.R. 181,000 sq. km. (69,800 sq. mi.) of predominantly agricultural territory in the East, and acquired from Germany 104,000 sq. km. (40,100 sq. mi.) of territory in the West, including the valuable industrial area of ex-German Silesia, together with the port of Stettin and a section of the Baltic coast and of East Prussia. ^{1/} The 1945 frontiers enclose an area of 312,700 sq. km. (120,700 sq. mi.); Poland is thus smaller than before the war by 77,000 sq. km. (29,722 sq. mi.) or by 20 percent.

These changes in territory which are further shown in the map given on the next page, and the wartime upheavals

1/ Throughout the discussion in this paper it is assumed that the ex-German territories placed under Polish administration by the Potsdam Conference will remain permanently under Polish sovereignty.

which occurred between 1939 and 1946, reduced the country's population from 35 to 24 million or by 33 percent and its population per square mile by 16 percent.

Economic Potential. Although the newly acquired areas were ruthlessly "scorched" by the Germans and Poland's immediate rehabilitation problem in them is thus considerable, there is little doubt that the country's total economic resources have been very materially increased as a result of the territorial changes which have occurred and that its general economic position has been considerably strengthened. The area acquired in the West, between the Oder and Western Neisse and the old Polish frontier, although smaller in size, was, before the war agriculturally more productive than that transferred to the U.S.S.R. in the east; moreover, the acquisition of the rich industrial districts of ex-German Silesia has greatly increased Poland's industrial resources and brought about a complete change in the country's industrial position.

The change in Poland's agricultural potential is shown in the table below, which gives data for prewar production in prewar and postwar Poland.

Poland's Agricultural Potential After Frontier Revision

(Production figures in thousands of metric tons)

| <u>Commodity</u> | <u>Production</u> <u>(1933/38 annual average)</u> | |
|------------------|--|-------------------------------------|
| | <u>Prewar</u> <u>Boundaries</u> | <u>Postwar</u> <u>Boundaries</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 |
| Other grains | 491 | 540 |
| Peas | 135 | 95 |
| Beans | 38 | 31 |
| Flax seed | 68 | 37 |
| Hemp | 19 | 5 |
| Rape seed | 51 | 54 |
| Poppy and others | n.a. | n.a. |

Source: UNRRA Mission, Warsaw; Report on Agriculture and Food, December 1946. Data obtained from the Polish Bureau of Statistics, Warsaw.

As the table indicates, before the war production of the three bread grains, wheat, rye and barley was slightly larger in the territories comprising Poland today than in the territory of prewar Poland although the area sown to grain was ten percent smaller. Production of potatoes and especially of sugar beet also was higher because yields in the former German territories were considerably larger than in the areas lost in the east. On the whole, if the new Polish settlers were to adopt the efficient methods of cultivation formerly in use, intensive farming in the former German provinces based upon heavy application of artificial fertilizers could more than make up for the loss of the land transferred to the U.S.S.R.^{1/}

^{1/} At this writing it does, however, appear somewhat doubtful

While the new Poland may thus hold its own in agriculture, the gains in industrial resources and raw materials which the country derived from the recent revision in her frontiers, are quite extensive. As the following table shows, although Poland has lost approximately 77 percent of her oil production and her entire deposits of potassium salts it has gained very important new resources of coal, zinc, lead and iron ore. At their 1937 output the coal mines located in former German territory would increase Poland's coal production by about 30 million tons, or by 82 percent. Potential production of brown coal has been increased 400 times over prewar, that of briquettes 22 times, that of zinc and lead by 361 percent, that of coke by over 138 percent and that of iron ore by 9 percent. In addition the country has acquired resources which it did not possess before the war at all, such as cadmium cobalt, gypsum, gneiss, Kaolin and some other minerals.

1/ that Poland will be able to maintain the level of intensity of cultivation formerly prevailing in the newly acquired territories, mainly because:

- a) Agrarian protectionism in Germany resulted in high domestic prices for agricultural produce, leading to a greater use of fertilizers, agricultural machinery, implements, etc.
- b) Technical skill, level of education and organizational ability were high in Germany; recently however, many poor and unprogressive peasants from Eastern Poland have migrated to the newly acquired Western Agricultural lands.
- c) The extension of agrarian reform to the new territories and the consequent reduction in the size of individual holdings may lead to non-optimum sizes of farms.

Poland's Industrial Potential After Frontier Revision
Based on 1937 Production Data

(Production figures in thousands of metric tons)

| <u>Commodity</u> | <u>Prewar</u> | <u>Present</u> | <u>Increase (/) or</u> | |
|------------------|----------------------|----------------|------------------------|---------------------|
| | <u>Poland</u> | <u>Poland</u> | <u>Decrease (-)</u> | |
| | (Based on 1937 data) | | <u>Tonnage</u> | <u>Percent</u> |
| Coal | 36,218 | 66,011 | / 29,793 | / 82.3 |
| Coke | 2,328 | 5,557 | / 3,229 | / 138.7 |
| Briquettes | 17 | 386 | / 369 | Increased 22 times |
| Brown coal | 18 | 7,611 | / 7,593 | Increased 422 times |
| Zinc and lead | 200 | 922 | / 722 | / 361. |
| Iron ore | 792 | 865 | / 73 | / 9.2 |
| Salt | 590 | 524 | - 66 | - 11.2 |
| Crude Oil | 501 | 114 | - 387 | - 77.2 |
| Potassium Salts | 521 | ----- | - 521 | - 100. |

Source: Based on data in UNRRA - Economic Recovery in the Countries Assisted by UNRRA, Washington, 1946, p. 80.

Extent of War Devastation and Destruction

Poland was the first country to be attacked during the recent war and one of the last to be liberated. The front lines moved across Polish territory several times, in 1939, 1941, and 1944. Areas of particularly heavy destruction were Warsaw, as a result of its prolonged resistance in 1939 and the severe fighting it saw during the uprising of 1944, some of the larger towns like Gdansk, Gdynia, Poznan and Wroclaw, a stretch of middle Silesia, where fighting was particularly heavy in 1945, and a belt of territory near the present Eastern frontiers where the Russian advance stopped for some time in 1944. The entire country of course, suffered severe losses during the several years of German occupation, when it was

divided into two parts, a western part incorporated into Germany and the rest, organized into the so-called "General Government", set aside as a reservation for Poles and Jews and regarded mainly as a reservoir of cheap labor.

While the Western areas incorporated into Germany suffered less exploitation, the Polish population was largely transferred from them to those administered as the "General Government"; there even the poor farms in some of the normally non-self-sufficient areas were required to produce surpluses for export to the Reich.

A more detailed account of the damage done by the war to the various sectors of the Polish economy will be given in the parts of this paper dealing separately with agriculture, industry and transport; the following brief account of the overall situation will, however, afford a preliminary view of the extent of the losses which Poland has suffered.

According to recent reports sixty-eight percent of all of Warsaw's dwellings were damaged during the war and many of them were totally destroyed; in the former German territories the damage to buildings is also reported to have been heavy, reaching over sixty percent in the urban centers. As for industrial facilities, the Polish Government estimates that at the end of hostilities, no more than about fifty percent of prewar capacity was available in the 'old' Polish territory, and that in the former German provinces remaining industrial capacity was also only a fraction of the prewar total. Industrial losses are estimated by the Polish Government at one billion dollars, under-maintenance and obsolescence being

excluded from this figure. ^{1/}

Destruction of industrial capacity was not confined to that resulting from military operations. During their occupation the Germans pursued a systematic policy of deliberately wrecking Polish industry. Besides removing all the more valuable types of machinery and equipment during their occupation and retreat, they removed, as units, a number of important industrial establishments. The vital machine tool industry was destroyed almost in its entirety. Such installations and equipment as were not destroyed or removed were allowed to fall into a state of utter disrepair and deterioration with the result that, for example, at the time of liberation, public utilities worked haltingly if at all, transport was at a standstill and coal mines were falling in because of the insufficiency of pitprops and other essential maintenance.

After the end of the war, action was taken by the Polish Government in cooperation with the Soviet, British, United States and French authorities in occupied Germany and Austria, toward the recovering of industrial and other equipment removed by the Germans. Investigation in the occupied zones led to the discovery of some of the equipment which had been removed. Where the original equipment could not be traced similar equipment of comparable value was selected to serve as compensation. Reports indicate that recovery of equipment was proceeded smoothly, but to date no estimates of its extent are available.

^{1/} Figures quoted in UN Subcommittee on Devastated Areas, Report on Poland. p.1.

As the more detailed account given in another part of this report shows, the damage to agriculture, too, was most severe. About one-sixth of all Polish farms were destroyed or put out of action by military activities and the production of all farms was greatly decreased by prolonged lack of fertilizer and the lack of draft animals and machinery. In 1945 the cereal crop reached only 39 percent, and the potato crop only 37 percent of their respective prewar totals. Total losses of the Polish agricultural economy as a result of the war are estimated by the Polish Government to amount to 1.5 billion dollars. ^{1/}

Reparation Claims.

To compensate the country for the war damage which it has suffered, Poland's right to reparations was recognized in the Potsdam agreement of July 1945. It was agreed that Polish claims would be met from the Soviet quota, the exact percentage and details being left for direct negotiations between Poland and the U.S.S.R. As a result of these negotiations an agreement was made between the two countries providing that Poland was to receive 15 percent of the reparations collected by the U.S.S.R. However, since Poland had taken over territory formerly within Germany, from which, in principle, the U.S.S.R. was also entitled to draw reparations, the Polish Government agreed to deliver to the U.S.S.R. coal from the Silesian mines in lieu of any other reparations from that area. The quantities were fixed at 8 million tons in 1946, 13 million tons a year during the next four years

^{1/} Cf. UN Subcommission, op. cit., p. 2.

and 12 million tons a year thereafter so long as the occupation of Germany continued. Actual deliveries in 1946, however, amounted to only 5.7 million tons, but it was agreed that this would be regarded as having fulfilled Poland's obligation for that year. A recent agreement between the two countries has reduced by half Poland's obligations. Because of the magnitude of this obligation--even after the recent reduction--the country apparently does not expect reparations to constitute a source of current income. Indeed, in 1946, Poland's deliveries on account of reparations were valued at \$57 millions, her receipts at only \$19.6 millions. The forecasts of the balance of payments for 1947-49 supplied by the Polish Government to the Bank indicate that Poland hopes only to have this deficit made up by 1949. No further expected receipts on account of reparations are shown, although the balance of payments forecast for 1949 does contain an item of \$150 million for expected credits from undetermined sources, which may possibly include some reparations receipts.

The Polish Economy Today

Population

In 1939, immediately before the war, Poland's population was 35 million. In the same year the population of the territories now part of the U.S.S.R. was 12.5 million, and that of the new territories acquired from Germany, 8.6 million. Thus, disregarding the changes caused by war losses and the natural increase of population, Poland should, on the basis of the 1939 census, now have a population of 31 million. Actually, the provisional census taken in February 1946, shows a total population (excluding persons in the army and under detention) of 23.6 million of whom 79 percent (18.6 million) live in prewar Poland and the remaining 21 percent (5 million) in the recently acquired ex-German territories. A number of Germans, who were still living in these territories at the time of the census, are now being repatriated to Germany while Poles are being moved westward to take their place; on the other hand a substantial number of Poles, displaced by the war, are being repatriated from Germany, Russia and other countries. After the completion of these shifts, the country's total population within its present boundaries is expected to be about 24 million; a population smaller, by 11 million, than that of prewar Poland (35 million) and smaller by 7 million, than the prewar population of the territories included within the country's present boundaries.

Losses resulting directly from the war and the German occupation are estimated by the Polish Central Planning Board at a total of 6,105,000 persons; of these by far the largest

number, 3,900,000, were murdered or executed, principally in the liquidation of the ghettos; approximately 1,167,000 died in concentration camps and prisons, and some 600,000 fell in action. In addition a very large number were deported to German concentration camps and used as slave labor in Germany. Large scale war-borne displacements of the Polish population have, in fact, involved about one person in every four.

Millions of men and women were taken to Germany for forced labor--at one stage over 5 million Poles were displaced outside their own country. Today there are still hundreds of thousands of Poles who have to find their way back to their home districts. Such disturbances have, of course, had important social effects, and effects of the greatest significance upon the productive efficiency and economic stability of the country.

The enormous total of displaced persons of Polish origin is due to the following main causes: withdrawal from West to East at the end of the Polish-German campaign in September, 1939; movement of Polish nationals from the Eastern territories occupied by the U.S.S.R. between 1939 and 1941; eviction of Polish nationals from districts in Western Poland incorporated into Germany; deportation of forced labor to Germany; internal displacements resulting from creation of ghettos and of urban areas reserved for Germans; evacuation of Warsaw after the 1944 rising; movement of the Polish population from the territories transferred to the Soviet Union and settlement with Polish nationals of the new territories acquired from Germany. Although these categories cannot be used as a basis for statistical computation since they overlap, they are clearly

indicative of the main trends, the last of which continues at the present time.^{1/}

The grave losses of population which Poland has suffered have, of course, had a marked effect upon the country's population density. In the past, Poland was relatively densely populated, averaging 235 inhabitants per sq. mile in 1938; its natural rate of population increase was considerably higher than that prevailing in most parts of Europe, that is, 10.7 per 1,000 in 1938 (400,000 per annum) as compared with 7.3 in Germany and 3.5 in England and Wales. As a result of the reduction in population caused by the war, population density has been substantially decreased. On the whole, while, as is shown by the relatively large prewar permanent and seasonal emigration, before the war Poland could be said to have been overpopulated, it would appear that the opposite is true today.

Before the war, Poland's population was largely rural. In February, 1946, the census showed that 16.2 million persons lived in the country, and 7.4 million in towns. Since large numbers of nonagricultural workers live in the country, this classification does, however, not indicate relative numbers engaged in agriculture and industry; census figures show approximately 13 million persons engaged in agriculture as compared with 11 millions in other occupations.^{2/} As is shown in another part of this report the Polish Four-Year Plan foresees a considerable shift of population from the country to industrial employment in the cities; it is through these shifts

1/ UNRRA - Operational Analysis Paper No. 1, op cit, p. 3.

2/ Cf. UNRRA European Regional Office - Operational Analysis Paper No. 1, p. 2.

and through increased uses of capital equipment and an aggressive program for the training of skilled workers that the present acute shortage of skilled labor is to be overcome.

Note

In the final document
sections on Agriculture, Industry,
Transport, etc. will be inserted here.

Banking, Currency and Prices

Introduction

After the liberation, the Polish banking system was reorganized and a considerable number of Polish banks were liquidated. As a result, the country's postwar banking organization is based on strictly delineated functions for the various types of banks and clearly reflects the present division of the Polish economic system into three major sectors: the public, the cooperative, and the private. In the public sector the most important banks are the country's two central banks and two other banking institutions, one serving industry and the other agriculture; in the cooperative sector there is a large central cooperative bank with a number of branch offices serving the urban and rural cooperative movement; in the private sector of the economy there are two smaller banks serving trade, the smaller industries and handicrafts.

The Polish Central Banking System

The state-owned National Bank of Poland (Narodowy Bank Polski), established in January 1945, is the country's central bank and has the exclusive right to issue legal tender zloty notes. The amount of the note issue is determined by the Council of Ministers on the recommendation of the Minister of Finance; the notes issued are secured by all the property and revenues of the State.^{1/}

^{1/} The statutes of the Bank provide that its total note issue and demand deposits must at all times be secured by gold, foreign exchange or other assets; no requirements, however, exist as to the ratio between notes outstanding and gold and foreign exchange holdings. At the present time the Bank holds only small amounts of gold and foreign exchange; the cover for its notes and demand deposits is provided almost exclusively by discounted bills, originating in

As the following table indicates, during the past year the National Bank of Poland has played a highly important role in financing the expansion of the Polish economy; it has, in fact, provided over 60 percent of the country's total outstanding bank credit.

Share of the National Bank of Poland in Financing Polish Economy

(in billion zloty)

| <u>Date</u> | <u>Credits Provided by the Banks</u> | <u>Direct Credits Extended by the Natl. Bk. of Poland</u> | <u>Total Credit Outstanding</u> | <u>Total Credits Provided by the Natl. Bk. of Poland</u> | <u>Percent-age Share of Natl. Bk. of Poland in Total Credit Outstanding</u> |
|-------------------|--------------------------------------|---|---------------------------------|--|---|
| December 31, 1945 | 9.9 | 0.8 | 10.7 | 7.0 | 65.4 |
| March 31, 1946 | 17.0 | 2.2 | 19.2 | 11.1 | 57.8 |
| June 30, 1946 | 24.6 | 8.6 | 33.2 | 21.2 | 63.8 |
| October 31, 1946 | 44.5 | 22.2 | 66.7 | 44.1 | 66.1 |

Source: Polish Ministry of Finance: Aggregate Balance Sheet of Polish Credit Institutions, and Statement of Accounts of the National Bank of Poland.

Besides financing the Government and providing for the credit needs of the Four-Year Plan of Reconstruction, the National Bank of Poland acts as a bank for the country's other banks to which it provides extensive rediscount facilities. Moreover, the National Bank also grants credits directly to four important branches of nationalized industry, i.e. to coal mining, the smelting, textile, and railway rolling stock

commercial transactions, payable within 3 months (or nine months for agricultural bills) and bearing 3 (exceptionally 2) signatures of solvent and reliable firms or persons; by advances granted for not more than 3 months against specified collateral; and by indebtedness of the Treasury on current account, the maximum amount of which is fixed by the Government.

manufacturing industries; it may, in addition, finance exports of coal, textiles and some other commodities. The growing magnitude of these direct credits, extended in the form of discounts or advances, is shown in column 2 of the table on the preceding page.

The growth of the National Bank of Poland since liberation and the development of the most important items in its balance sheet are shown by the data in the following table:

Position of the National Bank of Poland

(in billion zloty)

| <u>Date</u> | <u>Note - Circu- lation</u> | <u>Demand Deposits</u> | <u>Bills Dis- counted</u> | <u>Advances</u> | <u>Govern- ment Debt</u> |
|--------------------|-------------------------------------|----------------------------|-----------------------------------|-----------------|----------------------------------|
| June 30, 1945 | 9.1 | 1.2 | | 1.2 | 4.7 |
| September 30, 1945 | 14.6 | 2.8 | | 3.0 | 9.8 |
| December 31, 1945 | 26.3 ^{1/} | 6.0 | 5.6 | 1.3 | 21.2 ^{2/} |
| March 31, 1946 | 29.9 | 8.2 | 9.1 | 2.1 | 22.2 |
| June 30, 1946 | 36.7 | 11.0 | 13.8 | 7.4 | 21.9 |
| September 30, 1946 | 47.5 | 15.6 | 15.4 | 21.4 | 20.9 |
| December 31, 1946 | 60.1 | 23.6 | 17.4 | 37.9 | 21.0 |

1/ Including 4.5 billion zloty of Treasury notes issued in conformity with the Decree of August 24, 1944.

2/ Including 4.5 billion zloty as counterpart to the Treasury notes previously issued.

Source: Statements of the National Bank of Poland

Beside the National Bank of Poland, the Bank of Poland (Bank Polski), the country's prewar central bank still continues in existence. Established in 1924 as a joint-stock company, the Bank fled the country after the German attack in September 1939 evacuating its main assets. It set up an office in Paris and later in London and administered the Polish gold and foreign

exchange holdings abroad. Cut off from Poland at the time of liberation it was superseded by the newly formed state-owned National Bank of Poland. After the re-establishment of communications, close cooperation was established between the two institutions. In 1946 the Bank of Poland began the repatriation of its assets, and until that operation is completed the National Bank of Poland in Warsaw will continue its responsibility for the management of domestic currency and credit, while the Bank of Poland will carry out gold and foreign exchange operations abroad. Recently, the Governor of the National Bank of Poland was appointed to the post of Governor of the Bank of Poland, and it is expected that the merger of the two institutions will take place in the near future.

State, Cooperative and Private Banks.

Beside the two central banks, the following are, at the present time, the more important among Poland's other banks:

(1) The state-owned Bank of National Economy (Bank Gospodarstwa Krajowego). This bank, which now has 18 branches, extends long, intermediate, and short-term credits to state-owned and state-controlled industrial enterprises (with the exception of the agricultural industries and of industries financed directly by the National Bank of Poland) and provides credits for urban construction and the rehabilitation of housing. The Government's Central Planning Board decides which enterprises need assistance and the Bank acts on instructions from the Commission. The Bank, itself, however, makes extensive use of the rediscount facilities of the National Bank of Poland. On October 31, 1946 its total credits outstanding amounted to 24.3 billion zloty and were financed up to the amount of 14.1

billion zloty through rediscounting and borrowing at the Central Bank. Its deposits on that date were 9.8 billion zloty.

(2) The State Agricultural Bank (Panstwowy Bank Rolny) finances state- and local-government-owned agricultueal industries, larger grain producing and stock-raising farms, rural construction, the rehabilitation of farms and works connected with the land reform program and the resettlement of the new western territories. Total credits granted by the State Agricultural Bank amounted to 9 billion zloty on October 31, 1946 and deposits with it to 6.2 billion zloty on the same date. The State Agricultural Bank rediscounted and borrowed at the National Bank of Poland up to the amount of 3.3 billion zloty.

(3) The Bank of Cooperative Economy (Bank Gospodarstwa Spoldzielczego) is the central banking institution for the urban and rural cooperative movement, with the exception of urban cocperative building societies which turn to the Bank of National Economy for financial assistance. Special financing in the development of commercial transaction between town and country is entrusted to it, as is the financing of the collection of crops, the distribution of manufactured goods in rural areas and the retail distribution of rationed goods. The Bank has district offices in each provincial capital, and a large number of provincial branches are to be established. In the new western territories the Bank enjoys a virtual monopoly in its field.

On October 31, 1946 credits granted by the Bank of Cooperative Economy amounted to 7 billion zloty, deposits to 4.4 billion zloty, and 3.3 billion zloty were provided by the National Bank of Poland through rediscounts and advances.

On the whole, credits provided by the three banks described on the preceding pages accounted, on October 31, 1946, for 55.1 percent, 24.1 percent, and 15.9 percent respectively, and together, for 95.1 percent of the total credits extended by all financial institutions (with the exception of the central bank) in the form of discounts, over-drafts and loans. Their deposits represented, respectively, 32.5 percent, 25.8 percent and 14.6 percent and, together, 72.9 percent of the deposits held by all Polish financial institutions, with the exception of the central bank. The facilities extended to these banks by the National Bank of Poland in the form of rediscounts of bills and collateral advances accounted respectively for 64.4 percent, 15.1 percent and 17.3 percent and, together, for 96.8 percent of the total credits provided by the National Bank of Poland to the entire Polish banking system.

In addition to the banks just named, which constitute together almost the totality of the Polish banking system, the following institutions exist:

The Borough Savings Banks (Komunalne Kasy Oszczednosci). These make loans to small industrial and commercial firms, traders and craftsmen and to house owners for necessary repairs and renovations.

The Polish Communal Bank (Polski Bank Komunalny) at Warsaw and the Communal Credit Bank (Komunalny Bank Kredytowy) at Poznan, which supply funds to local governments, their enterprises and establishments, and also lend financial assistance to the Borough Savings Banks. The merger of these two banks is anticipated.

The Warsaw Bank of Commerce (Bank Handlowy w Warszawie) a privately owned joint-stock bank, which provides the working capital needs of larger private industrial enterprises, of wholesale trade and of enterprises which are only temporarily under state control.

The Bank of Cooperative Societies (Bank Związku Spolek Zarobkowych), a joint-stock bank with large state participation dating from the time of its prewar reorganization, which functions as a private institution and meets the credit requirements of smaller private undertakings, of craftsmen, and of those cooperative societies which do not obtain financial assistance from the Bank for Cooperative Economy.

The Postal Savings Bank (Pocztowa Kasa Oszczednosci), which is the center of the postal payments network and accumulates substantial sums held in the form of checking accounts.

The following table describes the development of the main items in the aggregate balance sheet of all Polish financial institutions (the central bank excepted) and clearly indicates the marked expansion which has taken place in Polish bank credit since liberation.

Consolidated Balance Sheet Position of All Polish Banks

(in billion zlotys)

| <u>Date</u> | <u>Deposits</u> | <u>Rediscounts and Borrowing at the Natl. Bk. of Poland</u> | <u>Credits Granted</u> |
|-------------------|-----------------|---|----------------------------|
| June 30, 1945 | 1.4 | 0.9 | 2.1 |
| December 31, 1945 | 7.2 | 5.7 | 9.9 |
| March 31, 1946 | 11.6 | 8.6 | 17.0 |
| June 30, 1946 | 17.4 | 12.5 | 24.6 |
| October 31, 1946 | 30.1 | 21.9 | 44.5 |

Source: Ministry of Finance: Aggregate Balance Sheet of Polish Credit Institutions.

A few comments may now be made on some of the more specialized operations of the Polish banks.

On October 31, 1946 time deposits with Polish banks amounted to 4 billion zloty and were held up to 85 percent with the Bank of National Economy. Of growing importance among these deposits are two state funds, the Depreciation Fund of State Enterprises and the State Investment Fund. The first accumulates depreciation reserves of nationalized industries, the second, part of their profits.

In September 1946 more than 1 billion zloty, or 25 percent of all subscriptions to the first long-term government bond issue, the Reconstruction Loan of 1946, was absorbed by the banks. Polish banks also took practically the whole of two issues of Treasury bills floated in 1946, amounting to 2.4 billion zloty; the bulk of the two issues, for an amount of 1.9 billion zloty was purchased by the Postal Savings Bank.

It should be noted further that the Polish banks have of late acquired much greater significance in the Polish economy because of the inspecting activities which they exercise in conformity with the instructions of the National Bank of Poland and the provisions of the National Economic Plan. The banks carefully scrutinize the industries financed by them, while the National Bank of Poland inspects not only the four industries for which it provides credits directly, but also, when it considers it advisable, all other state and cooperative enterprises. This inspection is made in connection with the extension of long-term as well as of short-term credits.

The bases for the scrutiny by the Banks of the operations of state-owned enterprises are the financial-production plans

of the respective industries, emanating from the general plans approved by the economic authorities of the state. The financial plan of an individual industrial establishment must, in fact, be approved by the appropriate financing bank; the bank checks intended investments and actual expenditures against the approved plan in all the stages of its effectuation. For short-term credits, the inspection is very detailed. Before such credits are granted, the enterprise in question must state the reason for the expenditure, which must be consistent with the plan, and submit to the bank any statements and required documents. Furthermore, the bank has the right, at all times, to examine cost calculations, bookkeeping, employment and production records and organization, inventory of materials and finished products. The bank moreover is entitled to check inventories and to require changes in inventories which are too large or too small. Too large a supply of finished goods, indicating either an inadequate sales organization or a low standard of finished products, will result in the withdrawal of credits. The banks require also that state-owned enterprises meet all their obligations on time and that their receivables be energetically collected.

Private firms are not obliged to maintain an account with a bank, but state-owned enterprises must have a bank account and are allowed to keep only a very small percentage of their resources in cash. No such obligations are imposed by the state on cooperatives; in practice, however, they too maintain bank accounts.

Monetary Circulation and the Value of the Zloty

At the outbreak of war the currency in circulation issued

by the Bank of Poland (Bank Polski), then the country's only central bank and note-issuing institution, amounted to about 2 billion zloty. When, as a result of the German invasion, the Polish Government and the Bank of Poland left the country in mid-September 1939, monetary circulation had reached a total of approximately 3 billion zloty.

Monetary Circulation during Occupation. During the first months of German rule, in the winter of 1940 in Central Poland, and in the autumn of 1941 in Southeastern Poland, the prewar zloty was exchanged for a new occupation zloty issued by a German-sponsored Bank of Issue, the "Emissionsbank in Polen" or "Bank Emisyjny w Polsce", established in Cracow. The conversion took place at the rate of one old for one new zloty. The total amount of occupation zloty so issued, which were backed by the old currency received in exchange for them and by a general land mortgage on the model of the German Renten Mark of 1923, amounted to 1.9 billion zloty.

After the conversion, monetary circulation continued to expand but without any direct relation to the requirements of the domestic economy. The volume of new notes issued was, in fact, determined mainly by the requirements of the German Army and the proceeds of Polish exports to Germany paid in Reichsmark into the Polish-German clearing account in Berlin; against these Reichsmark deposits, zlotys could be and were obtained. Although the German-sponsored 'Emissionsbank' did not publish balance sheets, it is known that by January 1943 its note circulation amounted to 3 billion zloty and sight deposits to 1 billion. By the middle of 1944 currency in circulation had reached a total of 9 billion.

While these developments were taking place in the territory of the German created 'Government General' of Poland, in the western provinces which had been incorporated into the German Reich during the occupation, all prewar zloty had been withdrawn from circulation and unknown quantities of Reichsmark substituted for them. The exchange of zloty for Reichsmark was made at the rate of 1 zloty for 0.50 Reichsmark, this rate representing a slight appreciation of the zloty over the pre-invasion rate of 1 zloty = 0.47 Reichsmark.

Conversion of Occupation Currencies. When the Russian Army entered Polish territory in 1944, Russian roubles appeared in circulation. In addition, in August 1944, the Polish Committee of National Liberation authorized the issue of Treasury currency notes bearing the name of the then still-to-be-established National Bank of Poland. The quantities of notes so issued and the date on which their issue was discontinued are not known; the whole issue of this Treasury currency was, however, later taken over by the National Bank of Poland and an amount of 4,530 million zloty included as a counterpart in the Bank's statement for December 1945.

At the beginning of 1945, about 10 billion occupation zloty were actually in circulation in Polish territory. They ceased to be legal tender on January 10, 1945 and were thereafter withdrawn from circulation, the total volume of the country's note circulation being thereby drastically reduced. According to the monetary reform bill of January 6, 1945 which provided for the withdrawal of the occupation currency, all occupation zloty had to be paid into blocked accounts from which only 500 zloty per person could be withdrawn in new zloty notes, issued by the

National Bank of Poland at the rate of 1 to 1. The same procedure was followed, after their liberation, in the provinces which had been incorporated into the German Reich. There Reichsmarks had to be paid into blocked accounts and were made exchangeable, for all persons except German citizens and citizens of German-allied nations, up to a total of 500 Reichsmark per person at the rate of 1 zloty = 2 Reichsmark. After Poland took over the administration of the former German territories east of the Oder-Neisse rivers, the Reichsmark currency circulating therein was also exchanged for the new zloty, reportedly on the same conditions; the exchange operation probably resulting, if former German citizens were actually excluded from all exchange privileges, in the virtual repudiation of the local circulating medium. Occupation roubles issued by the Russian Armies were also withdrawn from circulation at this time, at the same rate (1 to 1) at which they had been issued.

As a result of these operations, in the early spring of 1945, a total of 3.9 billion new zloty notes of the National Bank of Poland had been issued. However, since commodity prices in liberated Poland were extremely high, the currency exchange operation as a whole resulted in the almost total deprivation of the Polish people of their immediate currency reserves. In the territory of the former 'Government General', for example, the price of a pound of butter, in January 1945, was 250 zloty, or one half the total amount of currency allowed to each individual by the exchange; where Reichsmark were exchanged, the number of zloty immediately obtainable for them would have provided only one pound of butter to each person participating in

the conversion.^{1/}

The Value of the Post-liberation Zloty. As a result of the conversion operation described above, after March 1945 only zloty notes of the National Bank of Poland were in circulation;^{2/} from that date on it is therefore possible to speak of a true Polish postwar monetary policy. The following table describes in some detail the development of Poland's note circulation from May 1945 through December 1946 and compares it with the changes which occurred at the same time in the index of the cost of living in Warsaw and in the Warsaw black market rate for dollar notes (of 50 and 100 dollar denominations).

^{1/} Cf. Federal Reserve Board, Poland, Economic and Financial Developments, December 1946, p. 50.

^{2/} In addition to the notes of the National Bank, which constituted the bulk of the circulation, there were still outstanding at that time the Treasury notes authorized in August 1944.

Note Circulation, Cost of Living and Dollar Rate, 1945-46

| <u>1945</u> | <u>Note Circulation (in million zloty)</u> | <u>Index Number of the Cost of Living (April 1945 = 100 1/)</u> | <u>Black Market Dollar Rate (in zloty)</u> |
|-----------------|--|---|--|
| May | 7.894 | 88.7 | 217 |
| June | 9.061 | 79.0 | 163 |
| July | 10.241 | 72.6 | 143 |
| August | 12.128 | 71.0 | 212 |
| September | 14.576 | 68.6 | 279 |
| October | 17.070 | 76.8 | 292 |
| November | 19.198 | 87.4 | 400 |
| December | 26.319 ^{2/} | 92.7 | 460 |
| <u>1946</u> | | | |
| January | 26.964 | 98.8 | 457 |
| February | 28.085 | 91.5 | 477 |
| March | 29.899 | 92.2 | 457 |
| April | 32.427 | 93.5 | 405 |
| May | 34.260 | 95.7 | 430 |
| June | 36.748 | 99.3 | 470 |
| July | 39.842 | 95.1 | 475 |
| August | 44.218 | 92.8 | 575 |
| September | 47.463 | 96.8 | 800 |
| October | 52.636 | 105.9 | 920 |
| November | 57.102 | 117.2 | 1.050 |
| December | 60.066 | -- | 950 |

1/ In April 1945 the cost of living in Warsaw was 118 times higher than the average in the years 1935-37.

2/ Including 4.530 million zloty of Treasury currency issued in conformity with the decree of August 24, 1944.

Source: Research Department of the National Bank of Poland.

The table calls attention to a number of interesting developments. It shows clearly that the initial rise in note circulation during the summer months of 1945 was readily absorbed by the expansion that took place in Poland's economy, which was, at that time, just beginning to emerge from the difficult period following upon the cessation of hostilities. The exchange of the occupation currencies for the new zloty, described above, had completely deprived the country's economic system of working capital; appropriate reserves of it had therefore to be reaccumulated in the form of deposits and of till money. Moreover, production was beginning to expand, stocks of merchandise left by the Germans or seized in the western provinces were being liquidated; the resulting lack of inflationary effect in this first expansion in the country's note circulation is shown by the fact that despite the increase in the note issue, both the cost of living index and the dollar rate declined. However, the fall in the dollar rate was arrested in August 1945, that of the cost of living index two months later; thereafter a rise in both set in which lasted until the beginning of 1946. A period of relative stability at the higher level then followed and continued until August 1946 for the dollar rate and September 1946 for the cost of living index. During the same period, the note circulation expanded by about 50 percent, showing that the expansion in general economic activity was sufficient to absorb the additional supply of money. In the Autumn of 1946, however, both the dollar rate and the cost of living index rose sharply while at the same time a rapid expansion took place in the note circulation, indicating the existence

of a definite inflationary trend.

For an accurate interpretation of the relationships just described, some additional comments are required. It must be noted, firstly, that there is no uniform price level in Poland which would reliably reflect changes in the purchasing power of the zloty. The cost of living index given in the preceding table is based exclusively on free market prices, whereas the majority of Warsaw's inhabitants are supplied with some goods and services obtained at much lower official prices. Moreover, the cost of living in Warsaw is higher than in several other cities because of the particularly heavy destruction which the capital has suffered and the consequent disruption of communications. Another factor which should be kept in mind is the great importance of foodstuffs in the budget of an average family, which makes the index especially sensitive to changes in prices of agricultural commodities. This is clearly demonstrated by the pronounced rise of the index in the autumn months, when--in contrast to the prewar practice of big landowners--small peasants were withholding their crops from the market.

Similar difficulties exist with regard to the series of dollar quotations given in the table. Such quotations vary widely from city to city and from day to day, being, for instance, lower in Gdynia, where foreign sailors and Polish repatriates offer larger quantities of dollars, than in other centers; again, in the frontier districts in the west, dollar quotations are influenced by the considerable volume of illegal dealings in commodities smuggled in from abroad and sold only against dollars. Finally fluctuations in the dollar

rate are greatly influenced by the demand of Jewish emigrants leaving the country. Since their demand is mainly for notes of larger denominations, quotations for such notes are as a rule considerably higher than those for 10 or 20 dollar denominations.

Yet, after all this has been said, it is still true that on the whole the data given in the table provide a reasonably accurate picture of the course of currency and price developments in present-day Poland and indicate that a definite inflationary tendency now exists in that country. Although no new currency measures are apparently contemplated to combat it, the following general anti-inflationary measures are, however, being taken: (1) heavy taxation and aggressive selling of Government bonds to the public; (2) sale to individuals of seized German properties and small size enterprises of no special interest to the Government; (3) improvement of the rationing system to provide more equitable distribution of consumer goods and obviate further price and wage increase. ^{1/} Through these measures and a continuing rapid expansion of production the Government hopes for the time being to be able to keep inflationary tendencies within bounds.

Before leaving the subject of money and prices, a few words may profitably be added on the course of prices and the value of the currency in Poland during and immediately after the German occupation. According to data recently published, the cost of living in the city of Cracow, based partly on free

^{1/} Cf. Federal Reserve Board, op. cit., p. 51

market prices and partly on official prices of rationed goods, was 37.4 times higher in June 1943 than in July 1939. ^{1/} By the middle of 1944 the cost of living in the same city was 49.3 times higher than it had been in July 1939. Shortly after liberation, in April 1945, the period taken as a base for the cost of living index given in the preceding table, the cost of living in Warsaw was 118 times higher than the average cost of living in the same city in the years 1935-37.

Prior to the outbreak of war the official dollar rate of exchange was 5,30 zloty for 1 dollar. The only official rate during the occupation was the cross-rate of 5 zloty for 1 dollar, based on the official Reichsmark quotation for the dollar and on the parity of 2 zloty for 1 Reichsmark established by the occupants. The black market rate for dollars rose gradually during the occupation period until it exceeded 400 zloty for 1 dollar in 1944. The rise was restrained by the fact that a steady flow of dollar notes was supplied to Polish organizations by the Polish Government in London. After the liberation the official rate for the dollar, established in October 1945 at 100 zloty for 1 dollar, has remained unchanged; evidently, however, the rate is very far from reflecting the true purchasing power parity of the two currencies at the present time. This fact is also recognized by the Polish Government which stated explicitly that this rate should be considered only as a 'diplomatic' rate and that a final decision with regard to the establishment

^{1/} See W. Jastrzebowski, German Economy in Poland, 1939-1944, Warsaw, 1946 (in Polish).

of a permanent rate of exchange was to be postponed until the country's economic and financial conditions were more nearly normal. Meanwhile foreign exchange rates for the zloty are of little practical significance since, as is shown in another part of this report, most of the country's foreign trade is carried on under barter and compensation agreements in which prewar zloty, or dollars and other 'hard' currencies are used as measures of value.

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