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BANK POLSKI

ECONOMIC RESEARCH DEPARTMENT

BULLETIN No. 20

July - September
1935

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WARSZAWA
PRINTING OFFICE OF THE BANK POLSKI
1935.

ERRATA

Prière de corriger dans le Bulletin No. 19 au tableau No. 15 „Dette publique“ le poste suivant

au 1/I 1935

Emprunt 1924 Italien 7% — Lit 206,205.000.—

dont le montant exact est de:

Lit 265,205.000.—

Kindly rectify in our Quarterly Bulletin No. 19 the following printing error and viz. in the Statistical Supplement, Table No. 15 entitled „Public Debt“, item:

„7% Italian Loan of 1924“ — January 1, 1935

instead of Lire 206,205.000.—

ought to be **Lire 265,205.000.—**



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ECONOMIC CONDITIONS.

Financial situation. During the quarter under review the situation on the Polish money market was less favourable than in the preceding periods. This was due to a number of factors, some of which originated from outside of Poland, while the source of others is to be found in the domestic economic conditions. Among the former may be quoted the entanglements in the international political situation and the dissipation of hopes, as to the possibility of reaching an international agreement on the subject of monetary stabilisation: among the latter—certain difficulties of the State Treasury, which have recently become more conspicuous, as well as a less favourable balance of foreign payments registered in the current year. It should be pointed out particularly that—along with a considerable decline in the excess of the Polish exports over imports—the sums due to Poland for account of goods exported are being transferred this year in smaller amounts than in the preceding periods, owing to steadily increasing restrictions on foreign exchange transactions introduced by certain importing countries.

The aggregate of deposits in financial institutions, which in July had continued to increase, in August and September showed a diminution. A new wave of hoarding was noticeable in the market, the interest of the public being shown again, among others, in gold coins; consequently in the month of September a considerable increase of imports of these coins to Poland was registered.

At the end of August the total sum of bank deposits amounted to 2.735 million zlotys, as against 2.730 millions at the end of May. It should be pointed out, however, that in the meantime interest accrued for the first half year has been added.

Credit activities of joint stock banks diminished slightly during the period from the end of May till the end of August, and amounted to 818 million zlotys in August, as against 829 millions at the end of May.

Foreign indebtedness of banks declined during the period May-August 1935 by 16 million zlotys.

The two decrees of the President of the Republic promulgated in September and relating to agricultural legislation on the subject of the reduction of indebtedness, grant certain further reliefs as regards the terms of payment of agricultural debts; they do not apply, however, to the liabilities incurred with regard to credit institutions.

On the basis of a Law of March 26, 1935, the Ministry of Finance issued in the month of July a 6 per cent. Investment Loan, amounting to 50 million zlotys. This loan was placed outside of the free market, at the nominal price.

The situation of the Bank Polski. The gold and foreign exchange reserves of the Bank Polski, which in July and August had shown a slight contraction, in September declined considerably. During the whole quarter under review the gold reserves decreased by 43·9 million zlotys; at the same time the reserves of foreign exchanges rose by 11·4 million zlotys, so that the total contraction in the reserves of gold and foreign exchanges amounted to 32·5 million zlotys.

The Portfolio of Bills expanded as usually at this time of the year, owing to increased use of credit for industrial and commercial purposes, as well as to the mobilisation of credits for agriculture. Agricultural credits granted in the past years were secured by mortgage of grain. This year, oil seeds and the seeds of leguminous plants, (as peas, beans etc.), may also serve as security.

The amount of Treasury Bills discounted and of outstanding loans against collateral showed likewise an increase during the quarter under review. The free-of-interest indebtedness of the State Treasury continued unchanged at 90 million zlotys.

The amount of sight liabilities declined in the course of the period from the end of June to the end of September, 1935, by 52·4 million zlotys to 158·1 millions, while at the same time note circulation increased by 32·7 million zlotys to 980·5 millions.

As a result of the changes registered in the various balance-sheet items the ratio of the gold reserve to note circulation and sight liabilities declined

from 48·23 per cent. at the end of June to 44·91 per cent. at the end of September. A year ago, at the end of September, 1934, the ratio was slightly higher and amounted to 45·23 per cent.

Beginning with July 15, 1935, the Bank Polski charges 3 per cent. for the discount of 3-month foreign bills, resulting from export transactions and accepted by foreign firms, while the rate charged for the discount of bills of this kind with maturity from 3 to 6 months amounts to 4 per cent.

Monetary circulation. At the end of September total monetary circulation rose to 1.386·4 million zlotys; of this total banknotes amounted to 980·5 millions and silver and token coins to 405·9 millions.

As compared with the preceding quarter, the amount of banknotes in circulation increased by 32·7 million zlotys, while that of silver and token coins by 16·2 millions; as a result, the expansion of the total monetary circulation in the course of the reviewed quarter amounted to 48·9 millions.

The comparison with the figures for September 30, 1934, reveals that there was an increase of monetary circulation in the course of the year amounting to 31·6 million zlotys. Of this total 5·7 millions represent the increase in the circulation of banknotes and 25·9 millions—in the circulation of silver and token coins.

The foreign exchange market. During the quarter under review the situation on the foreign exchange market was not uniform. In July and August the volume of transactions did not show any marked changes, while in September an increase of the turnover was noticeable. The largest amount of transactions was effected in cheques on Paris, next in cheques on London and New York. The rate on Paris in July and in August continued unchanged, while in September a rise of two points was registered. The rate on London displayed more pronounced fluctuations; in the beginning of July the tendency was weak, but throughout the remaining part of that month the rate rose steadily; later on, in the course of August, and afterwards in the second half of September quotations declined considerably. The rate on New York showed likewise strong fluctuations and reached the highest level in the second half of September.

Securities. During the period July-September the volume of transactions on the Warsaw Stock Exchange declined by 18 per cent. as compared with the preceding quarter. This shrinkage of the turnover was noticeable

in the market for fixed-interest-bearing securities as well as in that for shares. Quotations of Government loans were generally lower than in the preceding quarter. The price of the 7 per cent. Stabilisation Loan, after a certain rise in July, was quoted at 61·75 at the end of the quarter, as against 66·50 at the end of June. A similar tendency was shown by the 6 per cent. Dollar Loan, the price of which at the end of September was 80·25, as against 81·— at the end of June. The 5 per cent. Conversion Loan was in steady demand; the bonds of this Loan showed a firmer tendency during the quarter under review, the quotations continuing higher throughout the quarter than in the period April-June.

The price of the 7 per cent. Stabilisation Loan on the New York Stock Exchange fluctuated within the range 104½—117; at the end of September it was quoted at 109 as against 114·50 at the end of June. The quotations of this Loan on the London Stock Exchange went up in July and August, in the second half of September, however, they declined and at the end of the quarter were registered at the same level as at the end of June.

The price of the 6 per cent. Dollar Loan on the New York Stock Exchange fluctuated within the range 78—83.

Quotations of mortgage bonds on the Warsaw Stock Exchange showed on the whole a downward tendency. Business was transacted chiefly in the 4½ per cent. mortgage bonds of the Warsaw Land Credit Association and in the 5 per cent. mortgage bonds of the City of Warsaw.

Dealings in the Bank Polski shares were animated, as usually; the quotations of these shares continued on a higher level than in the period April-June, viz. the price quoted at the end of September was 92·25, as against 89·75 at the end of June.

As regards industrial shares, the market showed lively interest in the shares of metal industries, like in the preceding quarter.

Treasury situation. The execution of the Budget during the period July-September 1935 — the second quarter of the fiscal year 1935/36 — shows receipts of 453·9 million zlotys and expenditures of 536·9 millions, the deficit amounting to 83 millions. Receipts for the first six months of the fiscal year 1935/36 represent 45·47 per cent. and expenditures 49·81 per cent. of the sums estimated.

As compared with the corresponding quarter of 1934/35, receipts show a decline of 64·2 million zlotys. Actually, however, (after deducting the proceeds from the National Loan), receipts have increased by 9·6 millions.

Owing to the fact that expenditures have also increased and viz., by 18·7 million zlotys, the deficit for the quarter under review is 9·1 millions larger than for the period July-September 1934. Receipts from administration and monopolies have been lower, while those from taxes and State enterprises show an increase. For the quarter under review the receipts from taxes amount to 233·2 million zlotys, that is 8·5 million zlotys more than a year ago. The increase of receipts from indirect taxes is 2·3 million zlotys, from customs duties — 2·2 millions, from stamp duties — 1·6 millions and the remainder from other kinds of taxes. Receipts from direct taxes amount for the quarter under review to 116·9 million zlotys, as against 120·5 millions in the period July-September 1934. Receipts from monopolies have reached the sum of 156·8 million zlotys, or 4·2 millions less than in the corresponding period of 1934.

As regards expenditures, the comparison with the period July-September, 1934, shows an increase of 6·2 million zlotys in the expenditures for administration, of 3·7 millions for pensions and rents, and of 9·7 millions for the service of State debts.

As compared with the preceding quarter, i. e. with the period April-June, 1935, receipts have declined during the quarter under review by 9·1 million zlotys and expenditures by 6·4 millions, as a result the deficit has increased by 2·7 millions.

Agriculture. According to provisional estimates of the Central Statistical Office the yield of the main crops in Poland will be this year as follows:

Wheat	20·0	million quintals
Rye	63·8	„ „
Barley	14·3	„ „
Oats	25·7	„ „
Potatoes	293·9	„ „

On the basis of these provisional data, the yield of wheat promises to be 3·9 per cent. below that of the preceding year, of rye — 1·3 per cent. of barley — 1·7 per cent. and of potatoes — 12·2 per cent. below that of last year, while the yield of oats crop will slightly exceed that of a year ago.

Domestic prices of cereals continued to decline until the second half of August; later on they displayed a firmer tendency and till the last week of September continued to show a marked advance, particularly wheat

prices, which on the Poznań Corn Exchange rose by about 22 per cent. This trend of prices was brought about by a rise of quotations in foreign markets, as well as by a considerable diminution of offerings of cereals. It is to be noted that the State Grain Establishments, unlike to policy adopted last year, did not effect purchases in the market for the purpose of intervention. At the end of the quarter offerings of wheat and rye increased slightly, causing a moderate fall in prices of these kinds of grain.

Exports of the four main kinds of grain and of flour during the yearly period from August 1, 1934, to July 31, 1935, amounted to 1.085.5 thous. tons, or 28 per cent. more than in the corresponding period of the year 1933/34, marked advance being particularly registered in exports of rye and barley.

During the first two months of the current campaign, i. e. in August and September, exports of cereals amounted only to 116 thous. tons, as against 186 thous. tons in the corresponding months of 1934. The most marked fall was registered in exports of rye owing to the relatively low price level of this kind of grain in foreign markets.

The market for cattle, meat, and dairy products has improved considerably, owing to a general rise in prices which in the case of certain kinds of pigs have advanced within the quarter by nearly 100 per cent. and exceeded considerably the level of a year ago. This favourable development has been brought about chiefly by increased demand for pigs, meat preserves, butter, eggs, as well as by firm prices of these products in the importing countries.

Lastly, we have to report that the sowing of winter crops was effected under favourable weather conditions.

Industry. Industrial production continued on the whole at a higher level than during the third quarter of 1934. The monthly indices of industrial production, calculated after eliminating seasonal fluctuations, amounted to 65.5 in July, 66.9 in August and 69.0 in September, thus exceeding not only those for the preceding year, but also the average indices for the years 1934, 1933 and 1932. The index for the month of September was the highest on record since August 1931. It should be pointed out that the slight fall in the above mentioned index for July, 1935, occurred chiefly in connection with the temporary falling off in the production of the textile, clothing and leather industries; during the next two months, however, a considerable revival of business in these branches of industry was noti-

ceable. It is also noteworthy that public works, financed in a large degree by means of borrowing, were somewhat extended and at the end of September 134 thous. of workers were employed in public works, as against 110 thous. on June 30, 1935, and 98 thous. at the end of September, 1934. Total employment in the mining and other branches of industry and in public works increased during the quarter under review from 716 thous. to 769 thous. workmen, while at the end of September, 1934, the corresponding figure was 695 thous.

The output of *coal* increased, as compared with the preceding quarter, by 19 per cent., and viz. domestic sales — chiefly of coal for industrial purposes — by 23 per cent. and exports — by 17 per cent; compared with the corresponding period of 1934 the output of coal did not practically show any changes, while domestic sales increased by 6 per cent. and exports declined by 8 per cent. Production of *iron and steel foundries* expanded over the preceding quarter by 10 per cent., and as compared with the third quarter of 1934 by 12 per cent.; in September production showed an increase of 23 per cent. over the corresponding month of 1934. The amount of orders placed through the Syndicate of Foundries showed an increase of 23 per cent. over the preceding quarter and of 63 per cent. as compared with the corresponding quarter of 1934. Beginning with August 1, 1935, Polish foundries joined the International Steel and Rail Syndicate and owing to cartel agreements obtained rather satisfactory export quotas. Employment in the *metal industry* improved thanks to increased production of railway- and motor cars, agricultural machines, as well as wire, nails and other articles used in the building industry, the latter having been more active than in 1934. The output of *crude oil* amounted to 132 thous. tons as against 127 thous. during the preceding quarter. Domestic sales of petroleum products increased chiefly as a result of the increasing use of motor cars and the growth of the Polish merchant marine. Exports were favourably influenced by a rise of prices in foreign markets.

In *the timber industry* an increase of production was registered in connection with an active building season. Notwithstanding this fact the situation in this industry did not, on the whole, show an improvement, owing to a downward tendency of prices of timber and a contraction of exports. *The sugar industry* was rather active during the campaign from October 1, 1934, to September 31, 1935; domestic sales of sugar increased by 4 per cent. as compared with the preceding campaign, and exports — by 25 per cent. Nevertheless, owing to a weak tendency of world prices, the sugar

industry experienced serious difficulties. As regards *artificial fertilisers*, an increase of production of phosphates was registered, while production of nitrates showed a decline owing to a decrease of domestic sales. The Factory at Mościce, which is a member of the International Nitrate Cartel, obtained an increase of their quota for exports of calcium nitrate.

The autumn season in the *textile industry* is considered as more satisfactory than in 1934, owing to larger orders from wholesale trade, the exhaustion of stocks as well as a more favourable trend of prices. Exports of textile articles from the district of Lodz were valued at 7·2 million zlotys, as against 6·8 millions during the preceding quarter.

Trade, prices and transportation. There was a seasonal decline in retail trade in July and August, as usually during the period of summer vacations; in September a certain animation was noticeable in the trade in books, mercer's goods and shoes. The improvement in goods turnover in September was most distinct in wholesale trade.

The results of the XV-th International Fair of Lwow are considered as more satisfactory than in 1934, thanks to a greater number of exhibitors and to many visitors. In this regard, mention should be made of other fairs of minor importance, which were held during the quarter under review, namely a Fair for furs in Wilno, a Malt Barley Fair in Poznań and a Hop Fair in Lublin.

The general index of wholesale prices rose from 52·6 in June to 54·2 in September, chiefly as a result of an advance in prices of raw materials and of agricultural products; the index of the latter was 11 per cent. above the lowest figure for the year, registered in February. The index of prices of industrial products has advanced only slightly, so that the disparity between agricultural and industrial prices has further declined.

The average daily carloadings have risen from 11·0 thous. of 15-ton cars during the preceding quarter to 13·2 thous. cars, thanks to an increase in the transports of raw materials, cereals and certain industrial products. It is to be noted that this average is about 6·5 per cent. above that for the third quarter of 1934.

Foreign trade. Foreign trade returns for the quarter under review amounted to 439 million zlotys, as against 442 millions for the preceding three months and 440 millions for the corresponding period of 1934.

An analysis of the commodity exchange with foreign countries reveals that exports increased by 9 million zlotys, as compared with the preceding quarter, owing to larger sales in foreign markets of agricultural products (wheat, pigs, eggs, butter), as well as of raw materials (coal and crude oil) and of certain industrial products (textiles, artificial fertilisers); on the other hand the exports of rye—the foreign markets for which are relatively limited—showed considerable contraction. As regards imports, they declined by 12 million zlotys, owing to smaller purchases of colonial goods, fruit, wool and iron, while imports of other raw materials, like hides and cotton, as well as of certain foodstuffs (herrings, prunes) showed an increase. The favourable balance of trade amounted thus to 21 million zlotys, while during the preceding quarter exports practically compensated imports.

Goods traffic through the port of Gdynia, which in the month of August had reached the record figure of 754 thous. tons, in September diminished rather considerably, while the traffic through the port of Danzig increased during the same month. The controversy between Poland and the Free City of Danzig with regard to customs regulations has been liquidated on the basis of a protocol signed on August 8, 1935.

Finally, as regards Poland's commercial relations with foreign countries, a commercial agreement with Canada has been signed during the quarter under review.

Legislation. In the Journal of Laws No. 71 of September 30, 1935, two Decrees have been published, relating to the legislation on the subject of repayment of agricultural debts. These Decrees, which do not change the broad principles of the laws issued in this regard previously, contain among others the following provisions. Some further reliefs concerning the dates of payment of certain debts are granted; the rate of interest on arrears in payment of agricultural debts is reduced; finally, the rate at which debts contracted in foreign currencies are to be converted into zlotys is fixed (in case no agreement has been reached between parties up to October 1st, 1935).

The first of the above mentioned Decrees, relating to the Law of March 29, 1933, provides that the repayment of principal of loans secured by mortgage may not be claimed prior to January 1, 1938. At the same time the Decree prohibits up to January 1, 1938, to collect compulsorily, i. e. by decree of a Court, the sums due.

The second Decree relates, among others, to a Law of October 24, 1934, (See Bulletin No. 17); it suspends up to October 1, 1938, the right to claim repayment of all agricultural debts contracted before July 1st, 1932, with the exception of debts towards the State Treasury, local governments, social insurance institutions, short- and long-term credit institutions, as well as exclusive of claims, arising from contracts of works and of alimony.

The Decree reduces to 6 per cent. p. a. the interest on arrears payable before or after its coming into force. The Decree provides that in case the parties have not reached agreement before October 1st, 1935, as to the rate, at which a debt contracted in a foreign currency is to be converted into zlotys, the debt shall be converted at the rate quoted on the Warsaw Bourse on October 1, 1935. In conformity with the Decree of the President of the Republic relating to the debts contracted in foreign currencies (see Bulletin No. 15) the validity of the Gold Clause will depend on the laws binding in this regard in the country, in the currency of which the debt has been contracted.

The remaining stipulations of the Decree refer to certain minor questions and provide for a change in the Law of March 28, 1933, relating to arbitration offices.

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