

BANCA D' ITALIA

ABRIDGED TRANSLATION OF THE REPORT OF THE GOVERNOR

AT THE
ANNUAL GENERAL MEETING OF THE
SHAREHOLDERS

HELD IN ROME ON THE 30th MARCH, 1935.

YEAR 1934.

Gentlemen,

Although in the course of 1934, especially at the beginning, General Remarks many countries showed more encouraging signs of recovery and a feeling of greater confidence in the future, there is no doubt that the reactions of the crisis which started in 1929 maintained their influence on the general trend of economic affairs, hindering a return to more normal conditions. The adverse features are still prominent, particularly since, at the present time, the changes in currency rates lead to defensive measures on the part of the countries which are more directly affected in their trade relations.

The effects of the alternate movements of the dollar were unquestionably remarkable, bearing heavily on the economic position of Europe and of the world, already severely tried by the long period of crisis and by the experience of the nations, whose currencies had been subject to wide exchange fluctuations. At the time when the world markets were gradually adjusting themselves to the new levels resulting from the depreciation of the dollar, a sudden check and renewed doubts resulted from the case brought before the Supreme Court of the United States, on the validity of the gold clause in respect of dollar bonds, which was concluded by a decision practically supporting the American Government and confirming that the service of the loans discharged in depreciated dollars was regular. However, it can be fairly said that the depreciation of the dollar, while not bringing about all the benefits which the United States expected from it has caused greater confusion and uncertainty in other countries, placing obstacles in the way to recovery. Thus the conclusion must be drawn that a return to a stable monetary system based on gold coupled with a settlement of political differences, is an essential element for general recovery. This principle was again emphasised at a Meeting held in Basle in May, 1934, by the Governors of the leading Central Banks, where a unanimous resolution was adopted acknowledging the necessity of a system of international exchanges based on gold, as the experience of the past had proved it to be the only means for ensuring stability and the smooth working of international trade and finance. The Bank for International Settlements adheres to the above principles, of which it sustains the justness, thus affording its support to the European nations of the gold block.

The year 1934 also witnessed an increasing stagnation of international trade. Obviously, in this respect, political influences cannot be overlooked, since they constitute the main obstacle to a return to such conditions of normality as are universally sought.

Economic nationalism, which had developed very extensively during the past year, on the assumption that it might accelerate a solution of the crisis, brought about the application of preferential rights to the fullest extent. A clear lead in this direction had been given by the Ottawa Agreements of 1932.

The complicated machinery of quotas and clearing arrangements is in full development, and almost in every country exchange controls are being adopted as the result of the lack of an international basis and in order to minimise the effects of the reduced trade facilities. It must be noted, however, that the clearing system is proving inadequate, owing to the lack of such co-ordination as would be required for attaining an international clearing of goods by which world trade might be restored. Moreover, attention must be drawn to the fact that the increasing restrictions on foreign trade and the closing of many markets to agricultural produce have resulted in stimulating the industrialisation of many agricultural countries, which seek protection against the products of other industrially more advanced countries.

The past year witnessed, in a more clearly defined way, the outbreak of the great economic struggle between the countries of the gold block and those of the sterling-dollar block, the latter being more homogeneous and influential, owing especially to the larger area under their control. But, on the other hand, the former appeared sounder and of greater importance, requiring self-denial and sacrifice in order to uphold the unquestionable pre-eminence of the gold standard system.

Easy money prevails on the international markets, where large sums are awaiting a favourable time for investment. The excess of capital in search of sound investment caused money rates to remain below 1 per cent. on many markets, as in New York, where the average short-term rate for the year was 0.29 per cent., in London 0.81 per cent. and in Amsterdam 0.77 per cent. The changes in the

official discount rates were neither numerous nor substantial. The rate of the Federal Reserve Bank of New York moved from 2 to $1\frac{1}{2}$ per cent. ; in London it remained at 2 per cent. ; in Paris at $2\frac{1}{2}$ per cent. ; and in Brussels it moved between $3\frac{1}{2}$ and $2\frac{1}{2}$ per cent. In Italy the rate has been raised from 3 to 4 per cent., but it was recently brought down to $3\frac{1}{2}$ per cent.

Since the devaluation of the dollar, referred to in the previous Report, during the year 1934, actually in February, the Czechoslovakian krone was devalued, the rate, in terms of lire, having been reduced from 0.563 to 0.469 ; provisions were also enacted by which all means for making payments abroad had to be handed over to the National Bank of Czechoslovakia by individuals and firms. In April, the National Bank of Austria revalued the gold and equivalent assets in its balance sheet, thus reducing the value of the schilling in terms of lire from 2,6735 to 2,1046.

Furthermore, yesterday, the Belgian Government issued a declaration by which the necessity of abandoning the gold parity was announced, involving a 25 per cent. devaluation of the belga.

The alterations undergone in practice by the Gold Exchange Standard undoubtedly had an influence on the developments of the crisis, owing to the economic consequences of the fact that the gold held as reserve by Central Banks actually provided the cover for the note circulation in several countries. This condition caused undue damage in all cases where gold had been converted into the so-called "appreciated" currencies. Thus, the delay in restoring a balance in international relations is due especially to the instability and the further fluctuations of those currencies from which others were entitled to expect co-operation and support for recovery from the wounds inflicted by them. (1)

The Italian market, although affected by the consequences of ^{The Home} the struggle between gold block and depreciated currencies markets, ^{Market} did not show in the first months of the year any substantial changes as compared with the year 1933. Subsequently, however, the trade deficit increased, first of all, on account of the general shrinking of

(1) See Page 137 of the Italian text.

international trade and consequently of Italian exports, and later, when the necessity arose for increased imports. On the other hand, the compensating items of the balance of payments were inadequate to meet the adverse trade balance.

The increased demand for foreign exchange caused the formerly large margins of reserve cover against notes and other sight liabilities to disappear, in spite of the latter remaining at almost unchanged levels; consequently on the 26th November, it was deemed advisable to raise the discount rate from 3 to 4 per cent. But later, when more drastic measures were enforced for checking the increased demand for payments abroad, the bank rate, both for discounts and advances, was reduced on the 25th March to $3\frac{1}{2}$ per cent., thus making credit conditions easier for production.

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The statistical elements in the hands of the Bank, as a result of the recent provisions relating to foreign exchanges, give a more definite idea of the trend of Italy's balance of payments during the years which followed the currency stabilisation of 1927, and show some of the fundamental causes of the gradual decrease in the Bank's reserve, which occurred in the years from 1928 to 1934. An analysis of the available data (which, however, owing to their magnitude and complexity may not as yet be regarded as complete or strictly final and precise) leads to the conclusion that the decrease in the reserve, which took place from the beginning of 1928 to May, 1934, was due chiefly to Italian investments abroad. There is reason to believe, in fact, that, if such large foreign investments had not taken place, the balance of payments would have been in Italy's favour, leading to an increase of the Bank's reserve in gold. It is obvious, therefore, that in the above-mentioned period funds have been taken from the reserve of the Central Bank, which is held in the interest of the whole nation's economy and for its defence, to transfer them for the private use of a certain number of firms and individuals.

Considering, however, that in the period from 1928 to 1934 the interest rate and net yield of Italian securities issued abroad and of many foreign securities were almost constantly higher than those of corresponding securities and investments in Italy, this development,

which proved to be seriously detrimental to the Nation's reserve, can be easily accounted for.

Nor was the development discouraged by the Anglo-Saxon currency devaluation, which, on the contrary, led in many cases to the making up of losses which had been sustained, by establishing averages by new purchases of sterling and dollar securities, at prices which were regarded as profitable. Moreover, the year 1934 recorded a considerable increase in the trade deficit, which, after having remained in the three preceding years at an almost stable figure, slightly below 1,500 million lire, rose in that year to 2,441 million lire, showing an increase of 1,000 million lire over the 1933 deficit. It can also be definitely stated that such an increase in the trade deficit did not find any compensation in a corresponding expansion of the so-called invisible assets of the balance of payments, which, on the contrary, disclosed a tendency to shrink, nor were there other compensating items of an extraordinary or exceptional nature.

Assuming, therefore, as is usually agreed by the experts, that the international payments of Italy were balanced in the year 1933, the conclusion may be drawn that there was a large deficiency in 1934, for which the increased trade deficit was chiefly responsible.

The position was influenced by exceptional capital movements also in connection with the conversion of the 5 per cent. Consols. The adverse balance was met by drawing upon the Bank's reserve to the extent of 1,513.5 million lire, and, considering that in the year an amount of 177.9 million lire in gold had been purchased internally, the total outlay amounted to 1,691 million lire.

The steady drain upon the reserve, without prospects of an early recovery through a change in tendency, caused the Government to issue the Royal Decree Law No. 804 of 26th May, 1934. But since trade conditions continued to be unfavourable, directly affecting the national reserve, it became desirable to adopt more decisive measures, which were embodied in the Decree of the 8th December, followed by the Decree of the 16th February, 1935.

From the 10th December, 1934, to 28th February, 1935, the supply of foreign currencies to meet import requirements amounted roughly to over 2,000 million lire, at the rate of about 750 million

lire per month. This amount is considerably in excess of the figure for the corresponding period in previous years, when the proceeds of Italian exports were substantially higher. The above payments have been partly met by using foreign currencies arising from foreign assets of Italian firms which had been offered to the National Institute of Exchange and had been purchased by the Institute up to that time.

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Although the general trade conditions imposed also upon Italy a heavy fall in exports, still, especially on account of the development of the home market and thanks to the co-ordination of private initiative under the leadership of the Government through the corporative organisations, the standard of home production was consolidated and strengthened, thus enabling the future to be envisaged with greater confidence.

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The indexes of production and the prices of commodities which illustrate summarily the general economic situation, show that in the year 1934 production has risen as compared with the two previous years, the increase being substantial from the very beginning, while prices were relatively and encouragingly stable. (1)

The general index of production last December was 89.65 as against 75.90 in the corresponding month of 1933. The average monthly index for the year at 87.33 indicates the considerable improvement in Italy's industrial production, which was well distributed among the five leading branches of the industries

(1) The progressive increase in production is clearly shown by the bulletin of the Ministry of Corporations, Study and Research Office of the General Direction of Industry, which initiated in 1934 the publication of indexes of production in Italy as from the year 1929.

With regard to the course of prices, it should be noted that, in the period in which trade was dominated by the law of supply and demand international speculation and competition affected the prices of a certain number of the leading basic commodities owing to the influence which those actual prices had on the volume of the same commodities used in world trade, and consequently they affected the rates of exchange and, through the trade balance, also monetary policies. But, following the world turmoil, by which the exchange stability of most countries was wrecked, and owing to the necessity of restricting the volume of trade in order to maintain a balance between imports and exports, the influence of the prices of the said commodities, which were of the greatest importance in determining the general index numbers of commodities, is no longer so great, since the volume which is dealt in is no more in relation to the consuming capacity of the various countries, but to the actual trade necessities, owing to the customs duties to which such commodities are subject. Therefore the general indexes are likely to give a wrong impression as to the bearing of such commodities on the quantities which are actually dealt in.

Moreover, in Italy wholesale prices have been partly affected by the course of the lira, which has slightly depreciated in terms of gold, as had already occurred previously in 1932.

concerned, the textile, the paper and building industries showing the largest measure of progress. In the previous years the monthly averages had been 84.72 for 1931, 72.98 for 1932 and 80.49 for 1933.

According to the bulletin of the Milan Provincial Economic Council, the general index of wholesale prices maintained in the first half of the year a slightly falling tendency, in keeping with the long period of steady decline recorded for the previous eight years. It is in fact in July that the lowest level was reached at 272.91 (1913=100) as compared with 276.52 in December, 1933. Subsequently, a moderate rise ensued up to the end of the year, when the index reached 279.17 or 2.65 in excess of the figure for December, 1933.

The adjustment in the price levels which took place in 1934 specially affected goods the prices of which had either fallen too low or had remained too high, so that the prices of the various groups of commodities have been more consistent and closer to the general average than was the case in 1935.

The textile section was less affected by the price recovery, though disclosing some actual rise in the months of November and December. In this section, however, the increase of the price index from 159.15 in December, 1933, to 161.97 in December, 1934, is mainly due to a revised basis in the calculation of the weight for the various items included in that section.

On the other hand, the group of commodities which had a more substantial rise in price was the vegetable section of agricultural produce, the index for which progressed from 277.90 to 308.46 owing especially to the higher prices of cereals, olive oil and wine.

As regards minerals, metals and chemicals, the indexes were almost unchanged. (1)

(1) The fall in the price index for building materials from 361.68 to 350.28 is due solely to a change which was made during the year by the Milan Provincial Economic Council in the component elements comprised in the index number, goods which have experienced a heavy rise having been substituted by others which have considerably fallen in price; whereas, generally, prices have remained at a high level, owing to the satisfactory state of the building trade.

As against the changes in wholesale price levels, the indexes of the cost of living maintained throughout 1934 a downward trend, moving from 74·00 in December, 1933, to 70·05 in December, 1934 (June, 1927=100). The most important reduction relates to rents as a result of the well-known Decrees ; foodstuffs and clothing also declined, whereas heating costs moved upward towards the 1933 level.

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As regards agriculture, climatic conditions were particularly adverse, so that the returns for the leading crops were all considerably below the previous year's totals. It is unnecessary to emphasise the importance of the cultivation of cereals and the interest and attention devoted by the Government to develop and improve production.

According to the official figures, the production of wheat in 1934 amounted to 6,332,770 metric tons, showing a reduction of 1,777,180 metric tons as compared with the 1933 harvest. However, in spite of the yearly fluctuations which have taken place, wheat production is being developed and the " battle " which has been so pluckily and successfully carried out, has served the purpose of valorising new areas which up to a few years ago were completely sterile, with widespread advantages also of a social order.

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The improved conditions of production favourably affected the unemployment problem, since the number of workless steadily decreased as compared with the corresponding months of 1932 to 1933 in agriculture as well as in industry and trade : this apart from the resumption of labour which followed the Agreements of 11th October by which the forty-hour week was adopted. As a result on the 9th February, the employment of labour had increased by 220,031 units. On the 31st December, 1934, there were 961,705 unemployed, of which 211,320 in agriculture, 664,441 in industry and 85,944 in commerce and public services, the corresponding totals having been 1,132,257 at the end of 1933 and 1,129,654 at the end of 1932.

By the Law of the 5th February, 1934, the corporative organisation of the State was completed and by the creation of the 22 Corporations the stage of action for the benefit of the whole nation has been initiated. By transferring the action of the Syndicates to the Confederations, private interest is subordinated to public interest. Under the Corporative State system the ruling of private economy is entrusted to the Corporations, which, although being parts of the structure, are actually representative of productive activity in every respect and aim at reaching the highest degree of economic welfare for the nation.

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In pursuance of the policy of reducing money rates, which started with the conversion of Consols, the Government directed that all real estate mortgage bonds bearing a rate of interest higher than 4 per cent. should be converted to a 4 per cent. basis, in order to reduce the burden of such mortgages. Holders of the bonds had the option either of obtaining reimbursement at par, or converting into 4 per cent. bonds. The period allowed to the holders who were not prepared to accept the conversion to demand the repayment of their bonds at par was from the 20th to the 29th September, 1934, inclusive of both dates. In order to carry out satisfactorily this operation, which was enacted under the Royal Decree Law No. 1463 of the 18th September, 1934, a financial and banking Syndicate, presided over by the Banca d'Italia, was set up. Out of a nominal amount approximating 4,400 million lire of such bonds outstanding, to which the conversion was applicable, the demands for reimbursement were altogether for an amount slightly over 60 million lire, or about 1.35 per cent. of the total.

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The Government of the Federation of Austria, under the terms of the general bond of the Austrian Government Guaranteed Loan, 1923-43, decided to repay on the 1st June, 1935, the outstanding balance of the said loan. In order to provide the necessary means, a new loan was issued under the direct and unconditional responsibility of the Austrian Federal State and secured by specific pledges on certain State revenues. Moreover, the guarantor States of the 1923-43 Loan extended to this new loan, both as to capital and interest, a guarantee to the same extent as for the 1923-43 Loan.

Consequently, by a Decree of the Finance Minister dated the 24th November, 1934, the issue on the Italian market of the Austrian Government Guaranteed Conversion Loan, 1934-59, for a nominal amount of 131.5 million lire, in bonds bearing interest at the rate of 4.50 per cent. per annum at the price of 95 per cent. plus interest, was authorised. The subscription list was opened from the 12th December to the 10th January by a Syndicate of Banks presided over by the Banca d'Italia. Subscriptions to the amount of 77,925,500 lire were received in bonds of the 6.50 per cent. Austrian Government Guaranteed Loan, 1923-43, while the balance was covered by cash payments. (1)

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As in most other countries, budget difficulties continued in the financial year 1933-34 and in the early part of the present year. Actual receipts for the year ended 30th June, 1934, totalled 18,057 million lire, which is 160 million lire or 0.9 per cent. less than the previous year's figure. Actual expenditure, apart from the cost of the operations connected with the conversion of the 5 per cent. Consols and the issue of 9-Year Treasury Bonds, reached a total of 21,397 million lire, or about 369 million lire less than in the financial year 1932-33. Thus, on the 30th June, 1934, the deficit was 3,340 million lire, as against 3,549 million lire in the previous year, showing an improvement of 209 million lire. On the other hand, the outlay relating to the conversion of the 5 per cent. Consols into a 3.50 per cent. Redeemable Loan was altogether 3,457 million lire in respect of the advance interest payment at the rate of 4.50 per cent. on the face value of the converted bonds and in respect of the prizes to be drawn ; 89 million for the printing and distribution of the new bonds and 4 million for sundry expenses.

The carry-forward when the budget was closed included 5,661 million lire in respect of credits and 8,644 million lire in respect of debts, as against 5,079 and 7,845 respectively at the close of the 1933 budget. The increase of the adverse balance from 2,766 in 1932-33, to 2,983 in 1933-34, for an amount of 217 million lire, is entirely due to the conversion prizes which were entered in the 1933-34 budget, whereas they were actually drawn and paid last December.

(1) The Underwriting Syndicate for the issue of the Loan included the Banca d'Italia, the Banco di Napoli, the Banco di Sicilia, the Banca Commerciale Italiana, the Credito Italiano, and the Banco di Roma.

For the current financial year, the original estimates were for 17,661·8 million lire of receipts against an expenditure of 20,636 million lire, thus anticipating a deficit of 2,974·3 million lire. Under supplementary estimates up to last February the receipts have risen to 17,892·2 million lire, while expenditure was reduced to 20,018·1 million lire, thus reducing the estimated deficit to 2,125·9 million lire.

For the first eight months of the current financial year (July, 1934—February, 1935) the actual deficit was 1,410·3 million lire, arising from receipts aggregating 11,998·6 million lire, against expenditure for 13,408·9 million lire, including 203·1 million lire due to special requirements in the East African Colonies.

The Budget results obviously affected the volume of the public debt and particularly its distribution was greatly altered by the conversion into a 3·50 per cent. Redeemable Loan of the imposing total of the 5 per cent. Consols. As a result, the perpetual funded debt has been reduced in the year from 71,290 million lire to 9,892·6 million lire, while the redeemable loans have risen from 17,029·5 million lire to a total of 82,117·1 million lire, with an increase of 65,087·6 million lire. Of the latter amount 61,127·6 million lire were in respect of the issue of the 3·50 per cent. new Conversion Loan, 123·3 million lire the balance of 5% Consols due for reimbursement, 3,982·8 million lire in respect of Treasury Bonds issued in January, 1934, and 146·1 million lire in respect of debt amortisation during the period, either for repayment of maturing Treasury Bonds or under the terms of the sinking funds relating to different loans.

The floating debt moved in the year from 8,912·5 to 10,624·8 million lire, thus increasing by 1,712·3 million lire. It consists almost entirely of current accounts opened to the Treasury by the Cassa Depositi e Prestiti and its affiliations. Altogether, on the 30th June, 1934, the Internal Debt amounted to 102,634·5 million lire, showing an increase of 5,902·5 million as compared with the outstanding total at the close of the previous financial year.

On the 31st December the figures had altered as follows: Funded Debt 9,892·4 million lire, Redeemable Loans 84,077·3 million lire (including 2,000 million lire 4 per cent. Treasury Bonds

issued last November, for which applications totalled 3,895 million lire), and Floating Debt 11,206.6 million lire. (1)

The latest available figures show that the Public Debt on the 28th February, 1935, aggregated 105,175 million lire.

The vast operations connected with the conversion of 5% Consols caused inevitable fluctuations in the prices of Government securities. The average monthly quotation of the 3.50 per cent. Rentes touched its highest level in February at 91.80 and its lowest in December at 85.27 per cent. The highest price was reached on the 2nd and 3rd February at 93.90 and the lowest on the 19th April at 78.62 per cent. The year's average price moved from 74.29 in 1932 to 81.55 in 1933 and 86.72 per cent. in 1934.

The first quotation of the 3½ per cent. Redeemable Conversion Loan was made on the 12th February at 96.55 per cent. On the advanced interest payment at the rate of 4.50 per cent. due the 23rd April, the price declined to 79.10, concluding at the end of the year at 84.20 per cent., after touching the highest level of 96.87 on the 13th February and the lowest of 78.07 per cent. on the 24th April.

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In connection with the money market, a feature was the almost uniform trend of the circulation of notes, as evidenced by the periodical bank statements. The changes were contained within the mark of 1,000 million lire, the highest level having been touched at the end of September, with 13,455 million lire, and the lowest on the 20th April with 12,420 million lire. From the end of February to the 20th July the circulation did not exceed 13,000 million lire. The peak, reached in September, was followed, however, by an immediate fall, so that on the 20th October the circulation was reduced to 13,035 million lire and on the 20th November and 20th December it was below the 13,000 million lire mark. At the end of the year the notes in circulation amounted to 13,145 million lire as against 13,243 million lire on the 31st December, 1933, showing

(1) In order to ensure for the Treasury an adequate supply of funds, by the Royal Decree Law No. 1838, of the 20th November, 1934, an issue, by public subscription, of two series of Nine-Year 4 per cent. Premium Treasury Bonds of 1,000 million lire each at par, plus interest, was authorised. The subscription lists were open from the 21st to the 24th November and applications were received from the Banks included in the Consortium, which was constituted for the purpose and presided over by the Banca d'Italia. The applications amounted to about 4,000 million lire. Allotments were, however, confined to the 2,000 million lire offered.

a reduction of 98 million lire. The above trend was not unlike the one recorded in the previous year.

The circulation of coin issued by the State, remained unchanged at 2,143.9 million lire.

The amount of the Bank's demand drafts outstanding in the year 1935 was reduced, as compared with the previous year. On the 31st December, 1934, the figure was 415.4 million lire, as compared with 458.5 million lire at the end of 1933. During the year the highest level of 413 million was reached on the 30th April, and the lowest of 251.2 million lire on the 10th March.

Circular cheques issued by joint stock banks also remained below 1933 level, amounting to 489.8 million lire at the end of 1934, as against 525.5 million lire on the 31st December, 1933.

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Italy was affected more than other countries by the general depression in international trade. Elsewhere in this report mention has been made of the various provisions adopted by all countries, hindering the exchange of goods which is becoming increasingly difficult in forms other than barter. The total value of Italy's foreign trade for 1934 was 12,891.9 million lire, which is 4 per cent. less than for 1933. The value of imports was 7,666.6 million lire, with an increase of 234.8 million lire over the figure for 1933, whereas the total value of exports was 5,225.3 million lire, showing a reduction of 12.78 per cent., as compared with the previous year, owing to the fact that Italy's exports, which comprise mainly non-indispensable articles, were reduced, chiefly on account of the financial difficulties of its main outlets. Thus, the adverse balance was 2,441.3 million lire as against 1,441.2 million lire for the previous year.

The price indexes for Italy's imports and exports (basis 1925=100) show that, while at the 31st December, 1933, the levels were 32.18 and 32.48 respectively, a rise has taken place in the first months of the year up to 34.77 and 34.09, moving subsequently to 33.76 and 32.90 in April, 34.86 and 33.62 in May and 33.90 and 34.11 in June. Then a decline ensued, and at the end of the year the levels had fallen to 32.20 and 30.86 respectively.

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Reference has already been made to the fact that increasing obstacles to foreign trade affected the trade balance, which, in addition, did not find compensation in the usual invisible items ; whereas the necessity of maintaining the value of the lira required the adoption of exceptional measures of various kinds. On this account, in spite of the injurious effect of the fluctuations in the rates of sterling and dollars, the lira exchange was not adversely affected by the unfavourable trade balance. The average rate for sterling which had been 62·34 lire in December, 1933, moved to 58·07 lire in December, 1934, after touching the highest level of 62·18 on the 9th January, and the lowest of 57·00 on the 16th October. Similarly, the average rate for the U.S. dollar moved from 12·15 lire to 11·73 lire in December, 1934, after a maximum of 12·20 on the 9th January and a minimum of 11·39 on the 5th April. There-against, other currencies based on gold appreciated in respect of their parity to the lira. Thus the French franc, which had averaged in December, 1933 74·46 lire per frs.100 against a parity of 74·44, rose to 77·31 last December, after a maximum of 77·40 in May and December, as against a minimum of 74·50 on the 3rd January. In the same way, the Swiss franc, from an average of 368·22 lire per Frs.100 in December, 1933, concluded last December at an average of 380·14, the highest level having been 382·25 in May, and the lowest 367·55 in February.

The provisions adopted by the German Government indicate how, in spite of the fact that the ratio of gold cover to liabilities of the Reichsbank did not exceed in the year 9·51 per cent., and in December it had fallen to 1·62 per cent., it was possible to maintain the exchange rate of the Reichsmark above par. Following agreements which have been concluded with the German Government, embodied in the Royal Decree No. 1534 of the 28th September, 1934, the rate for the Reichsmark is fixed by the National Institute of Exchange.

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The trend of Italy's balance of payments and a consequent fall in the Bank's reserve and cover ratio from 49·94 per cent. on the 31st December, 1933, to 41·27 per cent. on the 30th November, 1934, necessitated the adoption of provisions for regulating investments and the use of foreign credits in order to maintain a proper equilibrium

between Italy's requirements and the funds needed to meet the relative payments and to avoid damaging movements of capital and dislocations contrary to the interests of the country. Such provisions were enacted by the Fascist Government in two periods. By the Royal Decree Law No. 804 of the 26th May, 1934, all foreign securities and Italian securities issued abroad held by Italians resident in Italy were submitted to a Stamp Duty even when deposited abroad. Moreover, by a Decree of the Finance Minister issued on the same date, it was enacted that no exchange transactions could be carried out unless they were in respect of actual industrial, commercial or travelling requirements. By the same decree the purchase of foreign and Italian securities issued abroad and the export of bank notes, drafts and securities of any kind expressed in lire was forbidden. But further provisions to strengthen the defence were adopted by Royal Decree Law No. 1942 of the 8th December and the Ministerial Decree of the same date whereby all Italian firms, Companies and Corporations were required to offer to the National Institute of Exchange and, on request, to sell and transfer to the Institute their foreign credits. Moreover, all Italian citizens residing in the country were required to declare to the Banca d'Italia, as agents for the National Institute of Exchange, all their foreign credits. A similar declaration was required by firms, Companies, Corporations, and Italian citizens residing in the country in respect of any holding of foreign securities or Italian securities issued abroad, even if such securities were deposited abroad. It should be noted that, by the above enactment, only Italian subjects were called upon to participate in the defence of the home market against dangers which may arise from the difficulties dominating the international field. On the other hand, the Fascist Government wished to take timely measures for protecting itself against a further deterioration of the trade balance which might result from the adoption in foreign countries of further legislation restricting imports. Thus, by the Decree of the Finance Minister of the 16th February, 1935, a list of goods was drawn up for which an import licence was required, excluding, however, such goods as were exchanged on a clearing basis. This provision was completed by a subsequent Decree of the 1st March, establishing the rules for the importation of goods in excess of the prescribed quotas. Having thus fulfilled the organisation of foreign

trade relations, provisions were made for their necessary co-ordination, by altering the functions of the National Institute for Export which, under the new denomination of National Fascist Institute for Foreign Trade, is called on to extend its activities also to the import of necessary commodities. The defence of the lira required that, while Italy was looking forward to fulfilling its trade engagements, it should not be permitted that, under the cover of trade transactions, masses of lire should be formed which in times of difficulty could be brought to bear an insidious pressure on the Italian currency.

It was easy to realise that exchange control could not be effective unless accompanied by provisions affecting the determining factors of foreign payments and particularly the movement of goods from abroad. That the importation of goods from any country should be in proportion to the goods which that country is prepared to take is an equal safeguard of Italy's rights as much as those of the other countries concerned. Taking into account the general raising of trade barriers, Italy could not but adopt such protective measures on foreign imports as had been taken long ago by nations such as the United States, Great Britain, France, Germany, Spain, the Argentine, Brazil, Australia, Japan, and others.

At the end of 1934 the shares of the Bank were inscribed in the names of 10,873 shareholders, of whom 10,722 holding 496,979 shares were domiciled in the Kingdom, and 151 holding 3,021 shares resided abroad. During the year 3,385 transfers were made for 162,219 shares, against 4,533 for 245,964 shares in 1933. (1)

The cash turnover recorded by the Bank during 1934 amounted to about 464,000 million lire, as against 421,000 million lire during 1933. (2) In-payments aggregated 231,940 million lire and out-payments 232,069 million lire, which compare with 210,736 and 210,554 million lire respectively in 1933.

(1) See Tables XI and XII on pages 179 and 180 of the Italian text relating to the distribution of the Bank's shares and the transfers which took place during 1934.

(2) See Table XIV on pages 184 and 185 of the Italian text.

Shares and
Shareholders

Cash displacements

The reserve held by the Bank against notes in circulation and other sight liabilities on the 31st December, 1934, compared as follows with the amounts held at the end of 1933. ^{Reserve}

				(in million lire)		
				1934	1933	Inc. + or Dec. - in 1934
Gold in hand	...	...	...	5,811.5	7,091.7	- 1,280.2
Balances abroad	...	...	...	66.4	304.9	- 238.5
Foreign Treasury Bills and Bank Notes	...	...	...	5.3	0.1	+ 5.2
				<u>5,883.2</u>	<u>7,396.7</u>	<u>- 1,513.5</u>

The decrease of 1,513.5 million lire in the reserve, as compared with the end of 1933, took place in spite of purchases of gold in Italy amounting to 177.9 million lire, so that the actual outflow in the year was 1,691.4 million lire. (1)

The changes in the figures for bank notes in circulation and other sight liabilities outstanding, together with the cover ratios, are as follows:—

				(in million lire)		
				1934	1933	Inc. + or Dec. - in 1934
Notes	...	...	...	13,145.3	13,243.3	- 98.0
Other sight liabilities	...	...	...	1,105.4	1,568.9	- 463.5
Total	...	...	...	<u>14,250.7</u>	<u>14,812.2</u>	<u>- 561.5</u>
Ratio	...	...	...	<u>41.28%</u>	<u>49.94%</u>	<u>- 8.66</u>

Comparing the ratios of reserve cover to sight liabilities, the following changes may be noted:—

				1934	1933
Total reserve	...	...	...	41.28%	49.94%
Gold to sight liabilities	...	...	...	40.78%	47.88%
Gold to notes	...	...	...	44.21%	53.55%

(1) For the monthly changes affecting the composition of the reserve, as compared with the 1st January in the years 1928-1934, see Table XVII on pages 188-189 of the Italian text.

whereas the composition of the reserve was as follows (1) :—

	1934	1933
Gold in hand	98·78%	95·88%
Equivalent assets ...	1·22%	4·12%
	100·00	100·00

If, in accordance with the law, we consider for 1934 the prescribed 40 per cent. of total sight liabilities at 14,250·7 million lire, the necessary reserve would amount to 5,700·3 million lire, leaving a surplus available at the end of the year of 182·9 million lire, as against 1,471·8 million lire on the 31st December, 1933. (2)

Finally, deducting from the reserve the amount required to provide a 40 per cent. cover against sight liabilities other than notes, *e.g.*, demand drafts, Treasury and other current accounts, it will be seen that the ratio of the reserve cover moved from 51·11 to 41·39 per cent. (3)

As already mentioned, the changes in the reserve were caused by the necessity which arose of using the Bank's foreign currencies and gold to meet the trade deficit which occurred during the year. (4)

(1) At the end of the previous years gold and other assets included in the reserve were in the following proportions :—

	1928	1929	1930	1931	1932
Gold in hand ...	45·63%	50·18%	55·03%	72·17%	81·74%
Other gold currencies ...	54·37%	49·82%	44·97%	27·83%	18·26%

In the present year the following changes have taken place :—

	31st Jan.	28th Feb.	20th March
Gold in hand ...	5,822·3	5,823·8	5,825·0
Balance abroad ...	81·9	49·8	51·1
Total Reserve ...	5,904·2	5,873·6	5,876·1
Ratio of reserve to total sight liabilities ...	41·92%	42·39%	42·70%
Ratio of gold to total sight liabilities ...	41·34%	42·03%	42·32%
Ratio of gold to notes ...	45·53%	46·10%	46·75%

(2) See Table XV on page 186 of the Italian text.

(3) See Table XVI on page 187 of the Italian text.

(4) From the 1st January to the end of March, 1935, many leading central banks showed a decrease in their holdings of gold and its equivalent in the following proportions: Holland, 3·73 per cent.; Switzerland, 6·05 per cent.; Italy, 0·16 per cent.; France recorded an increase by 0·09 per cent., whereas in the same period the United States recorded a net influx of gold amounting to about 285 million dollars.

The changes in the circulation of notes were as follows:— Note Circulation

	(in million lire)		Inc. + or Dec. -
	1934	1933	in 1934
Total outstanding at the end of			
the year	13,145·3	13,243·3	- 98·0 (1)
Yearly average	12,948·3	13,078·3	-130·0 (2)
Highest level	13,455·4	13,580·8	-125·4
	(30th Sept.)	(10th Jan.)	
Lowest level	12,419·8	12,613·5	-193·7
	(20th April)	(20th June)	

The turnover of current accounts, *i.e.*, the debit and credit Current Accounts entries passed into customers' accounts during the year, was in 1934, 37,560·6 million lire, as against 52,392·6 million lire in 1933. (3)

The average balances of current accounts for 1934 were 831·2 million lire as against 1,090·4 million lire in 1933, the highest and lowest amounts having been 1,569·0 and 390·1 million lire, compared with 1,575·7 and 713·0 million lire in the year 1933.

The balance outstanding at the end of the year was 390,114,469 lire, or 420·3 million lire less than the amount outstanding on the 31st December, 1933. (4)

(1) The circulation of notes at the beginning of the present year shows the following changes:—

31st January, 1935	12,787·2 million lire.
28th February, 1935	12,633·7 " "
20th March, 1935	12,460·0 " "

(2) For the average monthly figures of the circulation in the years 1926-1934 and the amounts outstanding at the end of each month for the years 1932-1934, *see* Tables XVIII and XIX on pages 190 and 191 of the Italian text.

(3) *See* Table XXIII on pages 196 and 197 of the Italian text.

Of the amount of 390·1 million lire outstanding at the end of the year a sum of 38·6 million lire was in respect of non-interest bearing deposits on current account. In addition to the above total, there was a sum of 273·7 million lire placed on deposit account.

(4) *See* in Table XXIII on pages 196 and 197 of the Italian text the details of current accounts for each branch of the Bank.

The following are the interest rates allowed by the Bank on current accounts since the 1st June, 1930:—

	1st June, 1930	1st May, 1931	15th Spt., 1932	20th Spt., 1933
Private Accounts... ..	0·50%	Nil	Nil	Nil
Bankers' Accounts	1·50%	1·00%	0·50%	0·50%
Accounts of Public Bodies	1·00%	1·00%	0·50%	0·50%
Accounts of Provident and Benevolent Institutions	2·00%	2·00%	1·50%	1·00%

The balances held by the Treasury with the Bank during 1934 moved from a minimum of 648·4 to a maximum of 3,851·3 million lire, while the average of public deposits moved from 1,611·3 to 1,737·9 million lire. (1)

The funds, apart from the note issue, which were at the disposal of the Bank, arising from the issue of demand drafts and from private and public deposits, had risen from 3,379·3 million lire at the end of 1933 to 3,814·9 million lire at the end of 1934.

Discounts

The average amount of bills discounted in 1934 was 3,642 million lire as against 4,628·9 million lire in 1933. The highest level of 4,204·2 million lire was reached on the 10th April and the minimum of 3,212·3 million lire on the 20th August, 1934.

The number of bills discounted was 912,969, representing an aggregate sum of 13,046·3 million lire, showing an increase in the number of 4,187 and a decrease in the amount of 1,608 million lire compared with the preceding year. (2)

Apart from that figure, 3·6 million lire of bonds and coupons were discounted as against an amount of 2·2 million lire in 1933.

The official discount rate, which was fixed on the 11th December, 1933, at 3 per cent., was increased to 4 per cent. on the 26th November, 1934. On the 25 March, 1935, it was again reduced to 3½ per cent. (3)

The average discount rate moved from 3·87 per cent. in 1933 to 3·10 per cent. in 1934, the rate for 1932 having been 5·33 per cent.

Advances

The total amount of advances against securities granted by the Bank was 20,409·5 million lire, compared with 9,701·6 million lire in 1933, whilst the average advances outstanding in 1934 amounted

(1) The rate allowed by the Bank on Treasury balances, which, during the year 1933, had been progressively reduced from 2 per cent. to 1½ and 1 per cent. has been re-established at 2 per cent. under Royal Decree Law No. 2089 of the 13th December, 1934, in connection with the rise in the discount rate.

(2) The amounts of bills discounted in the first three months of the present year were as follows:—

31st January	...	...	...	3,843·5 million lire.
28th February	...	...	...	3,664·9 „ „
20th March	...	...	...	3,604·3 „ „

(3) See Tables XXIV and XXV on pages 198 and 199 of the Italian text, where the changes in the Bank Rate for Italy and for the leading foreign countries are shown.

to 1,329.9 million lire against 569.7 million lire in 1933. The highest and lowest levels were 2,449.7 and 468.0 million lire respectively on the 31st December and 10th January. (1,009.7 and 382.6 million lire in 1933). (1)

Apart from the above figures, the amount relating to deferred payments at the clearing houses moved from 102.7 million lire on the 31st December, 1933, to 156.6 million lire at the end of 1934. (2)

The average amount of discounts, advances and deferred payments at the clearing houses varied altogether from 5,214.0 in 1933 to 5,023.2 million lire in 1934. The total outstanding on the 31st December, 1934, was 6,611.4 million lire as against 4,796.1 million lire on the 31st December, 1933. (3)

The credit of the Bank with the Industrial Liquidation Section of the Institute for Industrial Reconstruction amounted on the 31st December, 1934, to 1,091.3 million lire, compared with 1,137.9 million lire at the end of 1933, and 1,888.1 million lire on the 31st December, 1932 (the latter amount with its predecessor, the Istituto di Liquidazioni). (4)

The Bank's credit in gold with the State for the specie lent and deposited in London when the War Debts were contracted is unchanged from the 1st July, 1931, at 1,772.8 million lire.

The average investments of the Bank in Government securities moved from 1,367.9 million lire in 1933 to 1,380.0 million lire in 1934, the figure at the end of the year having risen from 1,370.7 to 1,384.8 million lire.

The buildings owned by the Bank for premises at the end of 1933 were entered in the Balance Sheet at 161.4 million lire. In the year 1934 the disbursements in respect of the completion of new

(1) The amounts of outstanding advances in the present year have been as follows:—

31st January	...	...	...	1,292.6 million lire.
28th February	...	...	...	1,272.0 " "
20th March	...	...	...	1,169.6 " "

(2) See on page 135 of the Italian text the note relating to clearing-houses in 1934 and the usual comparisons with previous years.

(3) See averages of the above operations in the last years and the monthly changes in 1934 in Tables XXVI, XXVII and XXVIII on pages 200-203 of the Italian text.

(4) On the 20th March, 1935, the outstanding credit was reduced to 971.9 million lire.

buildings, alterations and repairs to existing ones amounted to 2·4 million lire, whilst 1·8 million lire was spent on new purchases of land and property, raising the premises account total to 165·6 million lire. Deducting from this sum various repayments made in the year, amounting to 100,000 lire, and a sum of 10 million lire written off in respect of buildings recently purchased or constructed, the premises account appears in the 1934 balance sheet at 155·5 million lire, which is 5·9 million lire less than in 1933, but still exceeds the statutory limit by 30,495·888 lire. This, however, is amply covered by the shareholders' reserve of 46 million lire invested in premises.

Foreign Business

Having referred in another part of this report to the causes of the changes in the Bank's reserves in gold and its equivalent, it will be seen that at the end of the past year the Bank's credit in respect of foreign bills and balances abroad was reduced to 79 million lire, of which 7·3 million were on account of bills and balances not included in the reserve, whereas 71·7 million were in respect of balances and foreign treasury bills included in the reserve.

National Institute of Exchange

As hitherto, in 1934 the National Institute of Exchange, apart from supplying the foreign currencies needed for the normal requirements of the Treasury and Government controlled administrations, provided funds for meeting the service of foreign loans of Companies and other bodies on which an exchange guarantee had been originally granted. During the past year clearing arrangements were extended to settle commercial payments, the service of which is entrusted to the Institute. (1)

(1) The Agreement with Hungary was extended to the settlement of credits relating to future exports. Moreover, the two Governments have authorised the National Institute of Exchange and the National Bank of Hungary to allow, by common consent, private compensation outside the Clearing, provided it is carried out through their intermediary. Moreover, through a special Tourists' Agreement, the Institute has undertaken to meet the payment of cheques issued in favour of Hungarians travelling to Italy.

The Agreement with Yugoslavia proceeded regularly. In December, 1934, at the request of the National Bank of the Kingdom of Yugoslavia, the supply of cheques and banknotes in dinars to Italian importers going to Yugoslavia for cash purchases of goods was discontinued.

On the 4th April, 1934, a Clearing Agreement, confined to merchandise within the admitted quotas, was concluded with Turkey. This Agreement provides for private compensation in respect of certain goods, which, however, must be authorised by the Institute and by the Central Bank of the Turkish Republic.

In April, 1934, a general Clearing Agreement was concluded between the National Institute of Exchange and the National Bank of Bulgaria, approved by the respective Governments, by which private compensation is also admitted, subject to the approval of the two Institutions. Of the amounts paid by Italian importers 70 per cent. is due to meet current exports, whilst 30 per cent. is for the liquidation of frozen credits in Bulgaria.

On the 27th August, 1934, a commercial Clearing Agreement was concluded between Italy and Roumania. This Agreement does not admit of private compensation.

By the provisions enacted by the Fascist Government on the 8th December, 1934, the Istituto was charged with carrying out all transactions relating to foreign payments, availing itself of the services of the Banca d'Italia or of other banks thereto authorised by the Finance Minister at the suggestion of the Bank.

As set forth in the Royal Decree Law No. 1942 of the 8th December, 1934, and the Decree of the Finance Minister issued on the same date, the National Institute of Exchange was required to receive the offers of foreign credits by banks, bankers, firms, companies, and other bodies of Italian nationality, residing in the Kingdom and its possessions or colonies, which, at the request of the Institute, were sold and transferred to it against payment in lire at the exchange rate of the day for sight credits, and on terms to be arranged for other credits. Moreover, under the powers conferred upon the Finance Minister by the Royal Decree Law No. 1207 of the 29th September, 1931, a further Decree of the Finance Minister of the same date made it compulsory that all funds derived from exports, which were subject to the approval of the branch offices of the Banca d'Italia or of other banks acting as its agencies, should be handed over to the Institute.

The international monetary events of 1934 did not seriously affect the normal business of the Bank for International Settlements. In fact, the totals on the two sides of its balance sheet, which, from the maximum of 1,900 million Swiss francs in the first year had declined to Swiss Frs.654·9 million on the 31st December, 1933, remained almost unaltered at the end of 1934 at Swiss Frs.654·4 million. This is evidence that the calling in of foreign exchange balances by central banks has ceased.

The Agreement with Germany, which was entered into between the National Institute of Exchange and the Reichsbank on the 17th October, 1932, for the settlement of commercial debts between the two countries, ceased to be in force on the 30th September, 1934. By an Agreement of the 26th September, 1934, the Italian and German Governments undertook to settle by "Clearing" payments of various kinds due between the two countries. Moreover, on the same date an Agreement was concluded between the two Governments concerning German tourists in Italy. The execution of the latter is also entrusted to the National Institute of Exchange. As from the 15th November, 1934, the Reichsbank transferred all rights and obligations to which it was subject under the Italo-German Agreement of the 26th September, 1934, to the Deutsche Verrechnungskasse (the German Clearing Office), which is charged with the carrying out of all Clearing Arrangements concluded between Germany and other countries.

On the 19th February, 1935, an Agreement was concluded with Uruguay covering : (1) the conversion of frozen Italian commercial credits into bonds of the Second Series of the Uruguayan Republic Sinking Fund Office ; and (2) the payment for Italian goods exported or to be exported to Uruguay, for which the Uruguayan importer has obtained the exchange permit. The Uruguayan Government have undertaken to give such a permit within the limit of the sums paid in Italy in respect of imports from Uruguay.

Whilst the trend of the business of the Bank for International Settlements in the past year gives a clear indication of the prevailing monetary situation, occasions were not lacking in which the Basle institution proved its ability to undertake new duties in international finance.

The President of the Bank, Mr. Leon Fraser, has been called upon to take up an important post in the American banking organisation, to which he will be able to give the benefit of his wide experience and he has, therefore, handed in his resignation. Dr. L. J. A. Trip, President of the Netherlands Bank, who is widely known as a strong supporter of sound monetary doctrines and is particularly well qualified to take up the position which Mr. Fraser held with such tact and distinction, has been elected President.

Home Branches

In accordance with the decision of the Fascist Government to open up the new province of Littoria, and in order to organise and develop the activities in the new district which, by the will of the Duce, has been reclaimed from the Pontine marshes, the Bank has opened in Littoria a branch agency, where Treasury services are also performed.

On the 18th December, when the new province was inaugurated, the Prime Minister honoured the new branch of the Bank with a personal visit.

Colonial Branches

Although trade difficulties adversely affected the economic development of the Italian colonies and of the possessions in the Aegean Islands, the business of the colonial branches of the Bank did not shrink to the same extent as in the previous year. In almost every case there were signs of a slow but sure recovery, and the Bank did not fail to give its constant and valued support to all initiatives which aimed at an improvement in the particular conditions of each colony.

In Eritrea the outlook seems satisfactory, although agriculture has not reached the full development which was anticipated. The Asmara branch concluded the year's business with a slight loss.

The administration of the Massaua bonded warehouses considerably improved on the 1933 results and, as from the 1st

March, 1935, has been joined up with the Customs warehouses, following a convention which was entered into with the local Government.

The unfavourable results of the Cheren branch, which started in 1927, in the hope that the district might be opened for profitable agricultural development, have induced the Board to discontinue its limited activities and to close it as from the 1st April.

The Tripoli branch concluded the year with a deficit, which was due to temporary difficulties and local failures rather than to a fall in the volume of business. Generally, however, conditions in Tripolitania may be regarded as not unsatisfactory. The activities of warehouses, shared by the Banca d'Italia with the Banco di Napoli and the Banco di Sicilia, which include Customs warehouses and embarkation and landing services, have considerably developed and results have improved on 1933.

Economic recovery is proceeding satisfactorily in Cirenaica, thanks to the agricultural development to which the Government of the Colony is giving its utmost care.

The Bengasi branch has been more active and has yielded larger profits than in 1933.

The Rhodes branch showed a deficit but a considerable improvement in the position is expected in the present year.

In Somaliland, the Mogadiscio branch showed remarkable profits in the year's balance sheet. The economic valorisation of the colony is continually progressing, thanks to the agricultural and industrial development which has been taking place.

The Chisimaio branch did not show a profit, owing to the fact that bad and doubtful assets of previous years had to be written off. (1)

(1) The following is a summary of the aggregate figures relating to the operations of the Bank's Branches in the colonies and Rhodes for the year 1934:—

								Million Lire
Cash displacements	...	...	...	...	...	...	...	6,470·4
Discounts	...	...	...	...	...	...	...	187·2
Advances	...	...	...	...	...	...	...	33·3
Interest bearing current accounts	...	...	...	...	receipts	...	...	396·6
					payments	...	...	375·9
					balance	...	...	37·4
Savings deposits	...	...	...	...	receipts	...	...	14·5
					payments	...	...	14·1
					balance	...	...	20·3
Foreign currencies	...	...	...	...	...	...	...	42·1
Orders to pay	...	...	...	...	transmitted	...	...	202·7
					met	...	...	69·7
Demand drafts	...	...	...	...	issued	...	...	498·8
					paid	...	...	355·7

It is pertinent at this moment to express the wish that the mission of civilisation and progress which, in the footsteps of ancient Rome, the Fascist Government is carrying out in Africa, and particularly to-day in East Africa, should have its fullest success for the greatness and the fortunes of Italy.

On the 31st December, 1934, the Banks entitled to receive deposits which were inscribed in the Register of the Finance Ministry totalled 3,161, divided as follows:—

- 995 joint-stock banks and bankers ;
- 102 first-class savings banks and pawnbroking establishments ;
- 2,064 rural, agricultural and smaller banks. (1)

In the past year 284 inspections were carried out, which included 29 joint-stock and co-operative banks, 15 private banks and 241 agricultural banks. (2)

Only one application for opening a new bank was made and it was dismissed. 11 applications were made for amalgamation, involving 23 banks, for which the authority was granted in seven cases.

With regard to the opening of new branches, the usual restrictive policy has been upheld and, out of 57 applications, only 24 have been accepted, relating to the opening of 28 branch offices.

Applications which were admitted for the carrying out of agricultural credit operations numbered 21. Applications for the granting of credits in individual cases exceeding one-fifth of the Bank's resources were 41, involving a sum of 315·6 million lire. 32 applications involving 269·8 million lire were admitted.

Compared with the figures for the previous year, when the loan facilities exceeding the prescribed limits were granted in 40 cases for a total of 106 million lire, a considerable increase is noticeable,

(1) Compared with the number of banks inscribed at the end of 1933, which was 3,296 (to which 5 must be added which had not previously been included in the Register), it will be seen that this figure has been reduced by 140, made up as follows: 29 on account of having voluntarily renounced their right to collect deposits, 3 owing to amalgamation, 106 to voluntary or compulsory winding-up, and 2 to withdrawal of the authorisation to carry on banking business.

(2) From the commencement of the supervision, 3,230 inspections have been carried out, viz., 5 to banks of a national character, 76 to inter-regional banks, 107 to regional banks, 289 to provincial banks, and 2,753 to local banks.

which is mainly due to the financing of public utility works, which was carried out by banks, and particularly by savings banks.

The results of the past year may now be considered, separating Profits as usual the gross profits of the branches from those of the Head Office. The former amounted to 113,186,372 lire, as against 100,401,144 in 1933, being thus increased by 12,785,288. The profits of the Head Office, on the other hand, declined by 72,548,165 lire, having reached 142,540,750 as against 215,088,915 lire in 1933. Thus the gross profits amounted to 225,727,123 lire as compared with 315,490,060 lire in 1933, that is, with a decrease of 59,762,937 lire.

Discount operations yielded 122,784,416 lire, showing a decrease, due partly to the reduction of the discount rate—of 72·5 million lire compared with 1933. The amount of bills carried forward from last year's balance sheet is 31,058,896 lire, against 31·2 million lire brought in for that year.

The interest on advances amounted to 42,942,352 lire, an increase of 15·4 million lire compared with 1933. Deferred payments at the clearing houses yielded 1,647,791 lire as against 0·7 million lire in 1933.

The profits from foreign business were only 64,419 lire or 331·4 thousand lire less than in 1933, owing to the further reduction of the Bank's foreign balances included in the reserve.

The refund of the tax on notes issued for account of the Liquidation Section of the Institute for Industrial Reconstruction amounted to 2,687,807 lire, or 0·2 million lire less than in the preceding year.

Miscellaneous receipts amounted to 37,892,709, including commissions for 4,839,635. The investments yielded altogether 46,526,660 lire, of which 35,210,879 lire were in respect of interest on Government securities. Last year's figures were 53·2 and 41·0 million lire respectively. (1)

(1) As already mentioned, the interest on investments does not include the interest on the Government Securities owned by the Bank which were handed over by the Istituto di Liquidazioni and which are annually employed for further reducing the latter's liability.

Expenditure and
Taxes

The gross expenditure for 1934 amounted to 200,467,416 lire, or 62,119,757 lire less than in 1933. Administration costs amounted to 94,670,461 lire, this figure including the salaries of the staff for 79.5 million lire.

The outlay for taxes was 18,994,064 lire, or 6.7 million lire more than in the previous year. (1)

Interest allowed on current accounts amounted to 6,174,749 lire, or 3.4 million lire less than in 1933.

The interest allowed on public deposits was 16,810,774 lire, or 9.6 million lire less than in 1933.

In addition to the amount of about 13.6 million lire charged in respect of unpaid bills, there were added 5 million lire to meet further possible losses or depreciation on the bills.

Moreover, a sum of 12,778,752 lire has been set aside for various amortisations, which is 27.1 million lire less than the corresponding sum thereto allocated in 1933. Finally, 2.2 million lire were spent in the course of the year for charity or public utility objects.

Dividend

Against gross profits totalling 255,727,123 lire, gross expenditure aggregated 200,467,416 lire, thus leaving a net profit of 55,259,707 lire, or 2,356,821 lire more than for the year 1933.

The Board of Directors of the Bank, having considered the report of the Auditors, in accordance with the terms of the Decree

(1) The above total of 19 million lire is made up as follows:—

	(000 omitted)
	Lire
Circulation tax on notes	7,075
Circulation tax on drafts	283
Income tax	5,151
Real estate tax	1,180
Other taxes, including transfer tax on the Bank's shares ...	5,305

of the 27th September, 1923, propose that the above net profit be distributed as follows :—

- L.13,874,116 to the State, as participation in equal measure as for the years 1922 to 1933 ; (1)
- L.30,000,000 to the shareholders as dividend, equal to the one distributed for the years 1922 to 1933, at the rate of 60 lire on each of the existing shares ;
- L. 8,655,094 to the Shareholders' Special Reserve ;
- L. 281,060 to the Credito Fondiario (Real Estate Mortgage Institute) formerly belonging to the late National Bank being interest at the rate of 4 per cent. in respect of the reserve transferred to the Banca d'Italia in the year 1913 ;
- L. 2,449,437 balance to be set against the Bank's credit with the Industrial Liquidation Section of the Institute for Industrial Reconstruction, in accordance with the terms of Art. 3 of the Royal Decree Law of the 6th November, 1926, and Art. 10 of the Royal Decree Law of January 23rd, 1933. (2)
-
- L.55,259,707

The results of the year 1934, which have been submitted to you Conclusion in full detail, will be all the more appreciated in view of the constantly increasing difficulties and obstacles in our way, compared with previous years. Such results show clearly that throughout the year the Banca d'Italia has rendered services to the country, having as its main object, in accordance with its long-standing tradition, the supreme interests of the nation, as shown in the defence of the lira, the lowering to unprecedented levels of the discount rate, and the supply of foreign currencies to meet national manufacturing

(1) In addition to participation in the profits, the State has received from the Bank 19 million lire in respect of duties and taxes, both as a note-issuing bank and as a limited Company, and 16·8 million lire which were allowed as interest on public deposits. Moreover, account must be taken of the further sum of 62·5 million lire referred to in the following note.

(2) It should be noted that a sum of 62·5 million lire, not included in the Bank's profits, was applied towards reducing the outstanding liabilities of the Liquidation Section of the Institute for Industrial Reconstruction, in respect of interest on Government Securities handed over to the Bank by the late Istituto di Liquidazioni as an off-set to its liabilities. Of the said amount 34·4 million lire were interest for the year 1934 on the said securities ; whereas, 28·1 million lire were the advance interest payment on the 5 per cent. Consols, forming part of the above Securities on their conversion into the new 3·50 per cent. Redeemable Loan.

requirements. The Bank has been able to carry out in every field the tasks entrusted to it, in spite of unavoidable difficulties and of the pressure of urgency, thanks to the ordered and willing work of the staff, who were conscious of the importance of every new provision which had to be adopted.

The economic activities of the nation in the early part of the year showed a sound improvement, which was all the more remarkable in view of the disturbing influences due to the course of the sterling-dollar block currencies, which further hindered international trade. The Italian producers have already made a considerable effort towards accustoming themselves to the present difficult conditions of economic life, and the balance which is being restored in the home market will be the foundation for further resistance and for making it possible to overcome all obstacles in the way of international relations, as soon as the desired clearing up of the political horizon makes possible useful understandings in the field of world economy.

In Italy, by the full development of the Corporative organisation, economic discipline, coupled with political discipline, supersedes private interests, when in contrast with national interests, everyone being inspired with the true spirit of co-operation and the sound feeling of confidence which must primarily predominate in the credit and money market. Controls and restrictions have been necessary also in Italy, but it may be said that every effort has been made to avoid raising obstacles to the free development of production and trade. Nevertheless, however perfect may be the organisation and the discipline in work and production in any one country, complete economic readjustment is impossible until equilibrium has been reached in the relations with other countries. The series of legislative provisions and enactments is proof of the constant necessity of adopting national economic life to the more or less strong reactions from conditions arising in other countries. As yet it is not possible to anticipate that the long sought monetary stability can be achieved at an early date, for it would require substantial changes in the economic policy of countries which are in prominent positions. On the other hand it must be admitted that effective international monetary understandings cannot be reached until clear and stable political and economic relations are established.

In his speech at the Chamber of Deputies on the 26th May, 1934, the Duce very incisively made the following statement, viz :
“ Economic recovery is to-day dependent, to a larger or lesser degree, on premises of a purely political nature. Never as to-day has the development of economic forces been so dependent on the conditions of European and world politics.”

Italy has given, and continues to give, an effective contribution towards the restoring of the equilibrium and the clearing up of international political relations, but, in the protracted and bitter economic struggle, she must primarily rely on the willing collaboration of all Italians, who, as in the Great War for the defence and glory of the Mother Country they faced without hesitation immense sacrifices of blood and treasure, will to-day give proof of their faith in the unfailing economic victory which the firm and wise guidance of the Duce will ensure.

V. AZZOLINI,
Governor.

BALANCE-SHEET

31st December, 1934.

PROFIT AND LOSS ACCOUNT.

BANCA
AUTHORISED CAPITAL
OF WHICH IS PAID-UP

BALANCE SHEET,

ASSETS.			
Gold in Hand		L.	5,811,485,193.00
Other Gold Assets :			
Balances Abroad	L.		66,382,909.48
Foreign Treasury Bills and Bank Notes.....	,,		5,336,329.94
		L.	71,719,239.42
Total Reserve		,,	5,883,204,432.42
Gold deposited abroad, due by the State		,,	1,772,798,105.00
Cash in Hand		,,	291,895,122.19
Inland Bills		,,	4,005,065,488.79
Bills for Collection		,,	5,068,361.46
Advances to Customers {			
Against Government Securities and Mortgage Bonds.....	L.	2,449,631,241.85	
Against Silk and Cocoons.....	,,	24,316.75	
		L.	2,449,655,558.60
Investments (Government Securities owned by the Bank)		,,	1,384,832,520.27
Cr. Accounts in the Kingdom :			
Deferred Payments at Clearing Houses.....	L.	156,627,432.10	
Other Accounts	,,	56,755,934.40	
		L.	213,383,366.50
Shareholders' uncalled Capital		,,	200,000,000.00
Premises		,,	155,495,807.95
Credit with Liquidation Section of Institute for Industrial Reconstruction		,,	1,091,290,339.29
Other Assets :			
" Credito Fondiario " Fund.....	L.	30,000,000.00	
Investment of Extraordinary Reserve	,,	32,485,000.00	
,, Shareholders' Special Reserve	,,	141,415,308.50	
,, Employees' Pension Fund	,,	257,800,534.33	
Other Debtors	,,	639,357,138.43	
		L.	1,101,057,981.26
		L.	18,553,747,083.73
Securities and other valuables deposited		,,	29,304,476,870.41
		L.	47,858,223,954.14
Amounts written off in past years		,,	403,377,672.75
		L.	48,261,601,626.89
TOTAL		L.	

41st YEAR.

D' ITALIA.

L.500,000,000.

L.300,000,000.

31st December, 1934—XIII.—E.F.

LIABILITIES.			
Notes in circulation		L.	13,145,266,450.00
Demand Drafts Outstanding.....		„	415,362,339.17
Current Accounts.....		„	390,114,469.07
Treasury Current Account.....		„	300,000,000.00
Total Sight Liabilities		L.	14,250,743,258.24
Capital		„	500,000,000.00
Statutory Reserve		„	100,000,000.00
Extraordinary Reserve		„	32,500,000.00
Deposit Accounts		„	273,736,763.85
Treasury Fixed Deposit Account.....		„	2,435,719,272.23
“Internal Debt Sinking Fund Office” Current Account		„	11,515,001.34
Other Liabilities :			
Shareholders' Special Reserve.....	L.	144,748,301.68	
Shareholders' Special Reserve Invested in Premises.....	„	46,000,000.00	
Other Creditors.....	„	703,524,779.75	
			L. 894,273,081.43
Net Profits for the Year.....		„	55,259,706.64
			L. 18,553,747,083.73
Securities and other valuables deposited.....		„	29,304,476,870.41
			L. 47,858,223,954.14
Amounts written off in past years.....		„	403,377,672.75
			L. 48,261,601,626.89
			L. 48,261,601,626.89

PROFIT AND YEAR

		Dr.			
Expenditure	Expenses in respect of :	Administration	L. 94,670,460.82	} 111,342,987.19	
		Board of Directors, etc.....	,, 1,966,228.27		
		Transport of specie and other valuables	,, 1,389,405.25		
		Printing of notes	,, 11,330,621.55		
		House Property Account ...	,, 1,970,905.54		
			Stamps and commissions on foreign business.....	,, 15,365.76	
			Circulation tax on notes ...	,, 7,074,509.42	} 130,337,051.18
			Circulation tax on demand drafts	,, 282,847.39	
			Income Tax	,, 5,151,031.03	
			Additional Income-Tax	,, 1,557,840.20	
			Real Estate Tax	,, 1,180,473.66	
			Bank Shares transfer tax...	,, 1,559,390.00	
			Weights and measures control tax	,, 1,162.20	
			Stamp duties.....	,, 251,736.57	
			Contribution for Govern- ment supervision	,, 200,000.00	
		Other tributes	,, 1,735,073.52		
		Unpaid bills	L. 13,643,575.55		
		Amounts written off.....	,, 12,778,751.83		
		Interests and annuities.....	,, 24,681,315.00		
		Charities and other contributions	,, 2,200,000.00		
		Contribution to Employees' Pension Fund	,, 8,226,722.75		
		Depreciation of bills against losses, etc.	,, 5,000,000.00		
		Temporary Staff Pension Fund	,, 3,600,000.00		
			L. 200,467,416.31		
		Net profit to be divided.....	,, 55,259,706.64		
		TOTAL	L. 255,727,122.95		

DISTRIBUTION

Dividend on 500,000 shares at the rate of L. 60 per share.....	.....
Annual contribution to the Reserve Fund of "Credito Fondiario" .....	.....
State participation to the profits exceeding 5 per cent. on paid-up capital.....	.....
To Shareholders' Special Reserve.....	.....
To Liquidation Section of Institute for Industrial Reconstruction.....	.....

Audited and found correct on the 11th March, 1935—XII.

ARTOM VITTORIO.
CORTESI ARTURO.
EMILIANI MARINO.
RAVANO EMANUELE.
STRINGHER DIEGO.
Auditors.

GUIDO PIERINI,
Acting Chief Accountant.

LOSS ACCOUNT

1934—XIII.—E. F.

		Cr.	
Profits from the Year's business	Re-discounts brought in from previous year.....	L.	31,176,047.85
	Year's discounts	,,	122,667,263.83
			153,843,311.68
	less: re-discounts carried forward ..	,,	31,058,895.97
			122,784,415.71
	Interest on advances.....	L.	42,942,352.01
	Interest on Cr. accounts	,,	2,828,764.35
	Commissions	,,	4,839,635.01
	Interest, discount and exchange profits on foreign business, less re-discount charges	,,	64,418.61
	Other profits.....	,,	33,053,073.58
		206,512,659.27	
Profits from Investments	Interest on Government Securities.....	L.	35,210,879.34
	Interest on "Credito Fondiario" Fund.....	,,	1,200,000.00
	Revenue on real estate	,,	6,393,717.92
	Interest on investment of Colonial Branches Fund ..	,,	450,000.00
	Profits arising from the liquidation of late note- issuing banks.....	,,	3,272,062.82
		46,526,660.08	
By Liquidation Section of Institute for Industrial Reconstruction, circulation tax on notes outstanding on its behalf			2,687,803.60
TOTAL			255,727,122.95

OF NET PROFIT

.....	L.	30,000,000.00
.....	,,	281,060.00
.....	,,	13,874,116.26
.....	,,	8,655,093.76
.....	,,	2,449,436.62
		55,259,706.64
TOTAL NET PROFIT TO BE DISTRIBUTED		L.

VINCENZO AZZOLINI.

Governor.

E COUCHMAN & CO., LTD.,
PRINTERS,
LONDON, E.C.2.
