

BANCA D' ITALIA

ABRIDGED TRANSLATION OF THE
REPORT OF THE GOVERNOR
AT THE
ANNUAL GENERAL MEETING OF THE
SHAREHOLDERS

HELD IN ROME ON THE 31st MARCH, 1936.

YEAR 1935,

Gentlemen,

The features of world economy in 1935 were not unlike those of the preceding year, and in the second half of the year, as a result of the gradual adaptation to the new conditions of economic life in almost every country, there was evidence of a tendency towards general improvement. But serious troubles arose, not only on account of the disorder and uncertainty in the monetary field, but principally owing to the influence of political factors, which disturbed the long-desired and indispensable equilibrium of international relations affecting trade and movements of capital. General Remarks

If in certain directions there are to-day indications of an improvement, as is confirmed by the indexes of production of the most vital branches of economic activity in various countries, this applies entirely to internal conditions, which have not an actual bearing on the recovery of international relations.

On the other hand, the rise in wholesale prices, which has been almost universal and which has given the impression of an improvement in trade conditions, has not been actually accompanied by a corresponding increase in the volume of trade.

Capital movements in the various world markets are still dominated by nervousness and instability, due to lack of confidence, and, therefore, the exchange rates of countries which are affected by the capital migration are subject to frequent and unexpected fluctuations. Such a state of affairs is clearly evidenced by the huge influx of gold into the United States, the revision of the banking system in Belgium since the devaluation of March, 1934, the policy of monetary isolation of an increasing number of countries, and, finally, in addition to the erection of new Customs barriers and the tightening of the existing ones, the development of the system of managed currencies and the intensified struggle between the two groups, headed respectively by sterling and the European gold bloc.

In the international field the influence of alternate fluctuations of the leading Anglo-Saxon currencies—dollar and sterling—and

of political complications has been gravely disturbing, to which responsibility must be ascribed for the reactions in Europe, as well as in many countries outside Europe, to the very distant centres of China, India and South America. The migration of gold to New York has been unquestionably one of the main features of the past year, an unprecedented increase in the gold stocks of America having been recorded. It is sufficient to say that, for the year 1935, an amount of gold corresponding to 1,700 million dollars entered New York, and, from the time when the new value was temporarily attributed to the dollar (January, 1934), the increase of the gold held by the United States Treasury amounted to 3,000 million dollars. A continuous outflow, which started at the end of 1934 and proceeded uninterruptedly, except for a short period, throughout the year 1935, affected alternately Amsterdam, Zürich and Paris.

In the first quarter of the year 1935 the depreciation of the pound created serious difficulties for Belgium, which country, being a competitor of the United Kingdom in most of its industries, was unable to resist, as in 1934, by applying internal rigid controls to counteract the reaction caused by the progressive fall in sterling. The Belgian Government was, therefore, obliged, on the 1st April, to depreciate the belga by 28 per cent., and this event marked the beginning of a particularly difficult period for the countries of the gold bloc, not so much on account of the importance of the Belgian case itself as because of the reactions due to its intimate connection with the other currencies on a gold basis.

In this connection the various phases of violent attacks on the Dutch, the French and the Swiss currencies are more or less well known. Holland and Belgium, which countries joined hands in defending their own pre-war parities, were the immediate targets for international speculation, whereas France appeared less vulnerable owing to the stronger means of technical defence at her disposal.

In April the situation became alarming. The outflow of capital reached large proportions, much disturbing the exchange markets, where heavy margins for forward transactions clearly indicated the nature of the attack on the countries adhering to gold. Paris, Amsterdam and Zürich were alternatively submitted to heavy pressure; the Netherlands Bank was obliged to raise its discount

rate from $2\frac{1}{2}$ per cent. to $4\frac{1}{2}$ per cent. and lost large amounts of gold shipped to New York and Paris, and when the effect of the orthodox defence systems was felt and the pressure on the guilder temporarily subsided, France had to bear the attack which was made on her with extreme violence and was constantly renewed up to the end of June.

The Bank of France was thus obliged to raise its discount rate to 6 per cent. on the 28th May and again, after it had been gradually reduced, on the 25th November. Nor, apparently, were the difficulties overcome, as, on the 28th March of this year, the discount rate had to be raised at one time by no less than $1\frac{1}{2}$ per cent., viz., from $3\frac{1}{2}$ per cent. to 5 per cent.

With regard to Switzerland, in addition to having to face foreign attacks on the currency, internal banking difficulties had to be overcome, as well as those arising out of the scheme for socialistic reform (crisis initiative), which was rejected by a popular referendum held on the 2nd June, thus causing internal conditions to be smoothed down and the Swiss franc strengthened.

While these, in summary, were the elements of the situation in the most important gold countries, different conditions prevailed for sterling which, by the middle of the year, had recovered from the fall which had occurred in the first quarter, and, assisted by the constant fluctuations caused by the various provisions of the United States Treasury (especially with regard to silver purchases on the London market) and the temporary disorder of the French, Dutch and Swiss markets, was able to resume considerable stability in the summer.

The subsequent changes in the British currency are particularly interesting—first, because they were intimately connected with international political complications, and, secondly, because they were the indirect cause of the third and most violent attack in the year on the gold reserves of France. It will be remembered that, as the international political horizon became overcast, much capital, which had previously sought refuge in the City, migrated to America, and the movement which started against London turned into an

actual flight from the franc, causing, by a further flow of gold to the other side of the Atlantic, fresh disturbance in Europe. (1)

It will be seen that the political tension and the existing unstable economic conditions completely dominated the international markets in the year 1935 and, in spite of everything, New York undoubtedly benefited from the situation which further arose in Europe, appearing as a harbour of refuge and safety, as it had done for a time in the past.

While conditions of extreme uncertainty as to the immediate future of some of the leading European currencies prevailed, fresh outflowings of capital to the financial centre of the United States took place, the migrating masses of liquid funds—thanks to an encouraging recovery in the share markets—seeking advantageous investments in Wall Street. It should be noted that, in the first months of the present year, this movement grew in intensity to such an extent that it may be regarded as an element not to be overlooked in the financial history of the new period.

To complete this short survey of the events of 1935, three elements which have directly or indirectly had a bearing on the prospects of economic recovery in Europe should be mentioned, viz., the carrying on of the American experiment, the events in the Far East, and, finally, the further adoption of managed currencies.

As regards the United States, the year 1935 witnessed the fall of some of the organisations which constituted the mainstay of the new American economic structure. May, July and December, 1935, are milestones on the backward path of the Roosevelt administration. Each of these three periods saw the collapse of some of the fundamental systems of the idolised North American Reconstruction.

(1) The following are the changes which have taken place in the gold reserve of the Central Banks of France, Holland and Switzerland in the course of the past year:—

BANQUE DE FRANCE.					
27th December, 1935	...	...	...	...	F. frs.66,296,059,000
28th December, 1934	...	...	...	...	F. frs.82,124,109,000
NETHERLANDS BANK.					
6th January, 1936	...	...	...	...	Fl.651,231,000
7th January, 1935	...	...	...	...	Fl.842,036,000
NATIONAL BANK OF SWITZERLAND.					
23rd December, 1935	...	...	...	...	Sw. frs.1,386,843,250
22nd December, 1934	...	...	...	...	Sw. frs.1,909,807,004

The silver policy, which is still pursued by Washington, caused China, the last important country with a currency on a silver basis, to abandon it last November, nationalise its masses of the white metal, and join the nations with managed currencies.

This implies the failure of a policy which was originally intended to stimulate trade between the United States and the Chinese Republic, since it has, on the contrary, reduced the purchasing power of the latter country, thus adversely affecting American influence in the Far Eastern market.

In Europe, the Scandinavian group, where it is claimed that a managed currency has revealed itself as an ideal remedy for all local economic diseases, has further accentuated its isolation. However, the experience of the past leads one to believe that the peculiar conditions in those markets, which are particularly adapted to the new economic experiment, rather than the soundness of the system, are responsible for this claim. The greater or lesser successes of the Scandinavian experiment, particularly in Sweden, cannot lead to any conclusions as to the desirability of its application in other countries ; this may be gathered from the fact that neither in Norway nor in Denmark has it been possible to attain a proper equilibrium.

The history of international economic events in 1935, epitomised, so to speak, in these remarks, leaves us confronted with the same problems with which the world was faced at the beginning of this period.

An extremely tense situation, which was already very difficult in past years and which has been rendered still more unstable by political complications, has been maintained in general. As already mentioned, there are countries which have shown symptoms of recovery and, in some of them which are highly industrialised, activity in some economic sections has considerably developed. Thus, an expansion in certain centres can be observed, which, however, cannot in any way be regarded as an actual and definite revival, as the most serious problems remain to be settled, which can only be solved by a general recovery in international trade.

Admirable and resolute has been the defence put up during the past year by the countries of the gold bloc, which, with heavy sacrifice, have confirmed their faith in the principle of the gold standard. In substance, in the period under review reasons can be found for considering well founded and straightforward the policy which we have adopted, and are pursuing, also with a view to contributing as far as possible towards the reconstruction of economic international normality requiring a common effort on the part of all countries without exception, in order that the world may have the peace and confidence which it has so far awaited in vain.

The intention which was carried out at Geneva of striking at Italy, through her vulnerability on account of her lack of raw materials, has, on the contrary, shown, through a grandiose spectacle of resoluteness and dignity, what a united people who are wisely governed can do when justice and the means of livelihood are denied to them.

The economic and financial sanctions which were applied against Italy on the 18th November, 1935, on mainly political grounds, have added new grave difficulties to international trade, causing incalculable damage to those nations who promoted, or passively followed, the decision of the League of Nations.

Italy, quickly adapting herself to the special economic situation which was created, has not only utilised methodically and steadily all its own resources for the needs of its everyday life, but has strengthened and organised its productive structure so as also to ensure for the future a greater measure of independence.

The consequences of the sanctionist system will ultimately be a dead loss for all countries and will bear heavily on world economy, which needs, in order to attain its equilibrium, the resumption of international trade and a return to the general stability of currencies.

The life of the country proceeds regularly, however, and the limitations which have been imposed on the consumption of certain goods, especially if imported from abroad, have not had the slightest unfavourable effect.

The authorities entrusted by the Fascist régime with the regulating of the economic life in this particularly delicate period perform their tasks with punctuality and foresight, following the directions given by the Duce for a new mode of life, which is being daily more clearly outlined and which is not merely a temporary adaptation to present circumstances but a new foundation for future requirements of an economic, financial, monetary and political nature.

Industrial activity fully responded to the new requirements of consumption and to other national needs, including those of a military character.

The organisation of scientific research already in progress, thanks to the activity of the National Council of Research, has greatly developed, showing how useful it is for the future of our country to know exactly what are the possibilities in relation to the study of, and the policy for improving, the industrial output.

The exchange of views and research, conducted on strictly scientific principles and at the same time on a practical basis, have led to the creation of new plans of work, with practical results, by collecting and directing for the national economic welfare energies and resources, which had previously been scattered or neglected.

Exporting industries, which were more directly hit by the Geneva policy, have adapted their output to present circumstances, reorganising the outlets for the disposal of their goods, either directly or through special institutions which were revised or created for the purpose by the Fascist Government.

The labour market benefited by the intense activity of the industries which work on Government orders and by the shipment of a large contingent of workmen to East Africa, the demand for specialised labour having also remained very keen.

Wholesale prices have had a tendency to rise, which is consistent with the trend of world prices ; so far, however, this has not affected the national economic equilibrium.

It should be noted, however, in this respect that, for foodstuffs and goods of more general use, the price movements are carefully watched by special authorities, who have been able to check the rise, and it has been possible to maintain within normal fluctuations the level of the cost of living, retail prices having followed only to a very small extent the rising wholesale prices, so that no adjustment was required in the present rates of wages.

In order to provide and limit the prices of commodities and services, the Central Committee for controlling prices, which was established in October, 1935, as a direct branch of the National Fascist Party, fixes the prices of 21 articles of food, through representatives of the Confederations of Trade, Industry and Agriculture, on the basis of data collected by their Federal Secretaries and of the prices of the preceding fortnight, which are transmitted to the Committees of Syndicates in each province.

The main object of the Committees of Syndicates is to ensure for local wages a sufficiently steady purchasing power, based on the actual prices of the commodities in more general use. The price lists which are compiled and widely advertised in order to discourage profiteering, must be observed by all tradespeople, who, are subject to prosecution by the Syndicates and to penalties, including imprisonment, if they disregard them.

The effectiveness of the above provisions lies mainly in the national sentiment and the spiritual atmosphere of the country, where the National Fascist Party is not only the political centre, but also a powerful technical body which is capable of competent and methodical intervention in daily life, both as regards the general economy and the particular economy of each of the component parts of the nation.

This is the meaning of the plan which was described in the historic speech which the Prime Minister made at the National Assembly of Corporations on the 23rd of this month, a plan which embraces, from agriculture to the largest industrial units, all sections of trade, credit, handicrafts, and the whole of the national economy, which in the Corporations has its many-sided and well-ordered organisation.

This plan will ensure for Italy—in the words of the Duce—“an economy which will guarantee peace and welfare and will raise, materially and morally, the innumerable masses who form the nation and who have proved in these times the high level of their national consciousness and universal adherence to the régime.”

From the point of view of agriculture, the year was on the whole satisfactory.

The spirit of initiative and of resistance displayed by those engaged on the land, thanks to the steady support and encouragement of the Government, made it possible to overcome considerable difficulties caused by weather conditions which were not always favourable to the various crops.

As is known, the wheat crop of last season produced 7,714,470 metric tons, an increase of 1,381,700 metric tons on the figure for 1934.

Internal prices of commodities maintained in 1935 the rising tendency which started in the second half of the preceding year. This was due, in addition to the greater demand for goods required for preparing and carrying out operations in East Africa, to regulations for limiting imports, in self defence against the monetary and Customs policies of other countries.

To the above causes should be added the influence of the rise in prices which took place in a decided manner last September in the world market in raw materials and agricultural produce. Whilst, as a result of the sanctions applied against Italy, there was a temporary relapse, due mainly to speculation, the rising tendency was almost immediately resumed, owing especially to the intense re-arming which was taking place in many countries.

The index number of wholesale prices compiled by the Milan Provincial Economic Council (basis 1913=100) moved from 279·17 in December, 1934, to 337·40 in September, showing an increase of about 21 per cent.

Regarding the prices of the various categories of merchandise, it should be noted that the increase in the price of raw materials did not uniformly affect the different groups of commodities. The

index of raw materials rose, however, both absolutely and on a percentage basis, to a greater extent than the index for manufactured goods, this being also accounted for by the exploitation of national mining resources.

The rise in wholesale prices naturally affected, although to a lesser degree, retail prices.

In fact, considering only the index of foodstuffs compiled by the Fascist Confederation of Tradesmen (first fortnight of January, 1929 = 100), it will be seen that it has risen from 66 in December, 1934, to 69.50 in August, 1935, an increase of 5.30 per cent.

The difference between the rise in wholesale prices and that in retail prices, in addition to the usual delay in adjustment which naturally takes place, was certainly due to the strict control which was exercised over the home market by competent authorities, in order to discourage any undue increase or any form of illicit and harmful speculation.

Comparing the wholesale prices with the cost of living indices the difference is even greater, and this is due to the fact that many items forming the latter index, in particular rents, have remained unchanged in the past year.

The labour market was affected by the increased activity of the nation in the present economic and political juncture. Statistical data show, in fact, that the falling tendency of unemployment, which was apparent at the end of 1934, as compared with the previous years 1932 and 1933, proceeded steadily at a progressive rate during 1935, apart from the re-engagement of labour following the Agreement entered into between the Confederations on the 11th October, 1934, by which the forty-hour week was adopted.

It should be noted that although the Budget deficits, which had been brought about as a result of the world economic crisis and by the outlay required for the economic reconstruction, have been gradually reduced, the present financial and political situation imposes the absolute duty of balancing the Budget and avoiding inflation and reactions on the stability of the currency.

The provisions affecting the Budget, which were adopted by the Cabinet Council in 1935, aim at adjusting the financial administration to present requirements, thus re-establishing equilibrium. However, the balancing of the Budget planned by the Fascist Government for the next financial year applies to normal Budget items, apart from requirements due to events which are taking place in East Africa, for which provisions of an extraordinary nature have been made.

Among the measures which have been taken some, which are of a purely fiscal character, have attained directly the object for which they were adopted, whereas others, of a combined economic and fiscal nature, have only a partial and indirect bearing.

With reference to the latter, mention may be made of the limitation to 6 per cent. of the dividends of limited companies and commercial undertakings. The undistributed profits must be invested in Government securities and be set aside as a special reserve, not to be disposed of for a period of three years.

The principle which has prompted the above measure is that of separating the profits which are derived from the normal course of business from those which are the outcome of exceptional economic conditions, which the State, by its policy and through the huge orders for war materials, has contributed towards producing to the advantage of certain classes of manufacturers and tradesmen in the country.

Another measure which is distinctly fiscal, but which has effects of an economic description, consists in the imposition of a 10 per cent. duty on dividends and interests on bearer securities issued by companies, corporations, or bodies other than the State. This measure, while aiming at establishing a legitimate privilege for registered securities which are heavily taxed, gives an advantage to Government securities, in which it is both desirable and right that savings should be invested at a moment when the Government needs liquid funds for carrying out its important mission.

Further, a series of fiscal measures have been taken with the object of increasing the yield of certain revenues. In this connection, the business turnover tax has been readjusted in relation to the

conditions of the market and its present yielding capacity, while certain alterations have been made in the duties on mineral oils and other Customs and Excise duties.

With regard to income tax, certain technical improvements have been introduced, with a view to avoiding evasion, so that, in spite of having raised the level of the minimum incomes which are exempted, it is possible to anticipate a larger yield from this fundamental tax.

A further contribution has been made by the measures affecting motor and rail transport, which aim at improving and co-ordinating means of transport, in order to prevent the competition which private undertakings, formerly placed in a privileged position, were able to exercise to the detriment of the State. Thus the State Railways should be able to reduce their deficit which in its turn affected the Budget.

The above measures, the influence of which will already be noticeable in the present financial year, will have their full effect in the financial year 1936-37, for which receipts are estimated at 20,312 million lire against expenditure for 20,291 million lire or an actual surplus of 21 million lire. On the expenditure side the estimates also include the interest on the sums borrowed for the special requirements of military operations in East Africa as well as for other Treasury needs.

The Finance Minister, in his clear and exhaustive Budget speech last May, was able to call attention to the progress which had been made, the deficit for the year 1935-36 having been reduced to 1,657 million lire, from 2,974 million lire in the previous year. Such an improvement is all the more remarkable since it is due, not only to reduced expenditure, but to an expansion in receipts. It is to be hoped that the period of falling revenues has come to an end and that a progressive rise in receipts will ensue.

Once the necessity for meeting ordinary expenditure by extraordinary receipts no longer exists, the problem of meeting the African requirements is greatly simplified.

As a result of the adverse Budget conditions of the financial year 1934-35 the capital amount of the internal national debt had risen from 102,634·4 million lire on the 30th June, 1934, to 105,390·3 million lire on the 30th June, 1935, and to 107,080·6 million lire on the 30th September, 1935. The latter increase relates entirely to the floating debt, which has increased from 11,562·2 to 13,261·4 million lire.

In the financial market during the past year a considerable rise was witnessed in industrial securities on the prospect of large profits from contracts for military supplies, as evidenced by the index compiled by Professor Bachi (basis 1924 = 100), which, from December, 1934, to August, 1935, has risen from 34·2 to 40·7, whilst the index relating to Government securities (basis 1934=100) has fallen in the same period from 85·3 to 82·6.

As already mentioned, timely measures have been taken by Royal Decree Law No. 1613 of the 5th September, 1935, by which a limitation in the distribution of profits by limited companies was established, and by Royal Decree Law No. 1627 of the 7th September, 1935, by which the coupons of all bearer securities, with the exception of Government securities, were subject to a 10 per cent. tax.

The change in the economic and financial conditions which took place from the beginning of 1934 to the second half of the year 1935, in view of the funds required for the supreme needs of national defence and for the military operations in East Africa, brought about the necessity of carrying out an important financial operation, in order to ensure on the one hand a large sum of fresh money to the State and on the other hand to reduce in the near future a charge for redemption, which had been planned at a time when the need for extraordinary expenditure for the proceedings in East Africa was not anticipated.

Fresh commitments of the Exchequer required that all future Budget surpluses should be devoted to developing and exploiting the possessions assured to Italy by the valour and sacrifices of her people. Thus, the service of the sinking fund of the 3½ per cent. Redeemable Loan would have required the imposition of heavier tax charges, which did not seem consistent with the object for which the sinking fund had been set up.

In considering the deadweight national debt it should not be overlooked that, unlike in other countries, the debt itself is set off by large capital resources which are owned and administered by the State, including national defence and vital public services.

Through the above-mentioned financial transaction the Fascist Government have harmonised immediate requirements with those of the future, thus showing their determination to pursue a progressive policy which shall increasingly ensure the welfare and economic independence of the Italian people.

The operation was launched, under Royal Decree Law No. 1684 of the 20th September, 1935, in the form of an issue of a national perpetual 5 per cent. loan, exempt from any present or future taxation.

This vast financial operation, which was ably conceived and carefully prepared in all its details, was of great importance, as it affected the Government security most widely held in every class of the population, for a nominal amount exceeding 60,000 million lire.

The new "5 per cent. Rentes" which are not subject to conversion until the 1st July, 1956, are offered for subscription at the price of 95 per cent. and bonds of the 3½ per cent. Redeemable Loan which was issued under the Royal Decree Law of the 3rd February, 1934, are accepted in part payment at the rate of 80 per cent. of their face value.

The balance of 15 lire per cent., payable in cash, may be paid by instalments over a period of eight months from the date of issue of the new loan.

The new loan, details of which are well known, has been planned so as to reconcile the interests of the State with those of subscribers, since, while it offers to those who accept the conversion a higher yield and a considerable re-valuation of the security which they hold as compared with its present market value, it supplies the State with the cash which is necessary to meet the extraordinary needs of the great African enterprise without affecting, in respect of such conversions, the capital amount of the national debt.

In addition to motives of a moral and material character, there are other inducements and advantages of a purely economic and financial nature, namely the fact that the loan is inconvertible over a period of 21 years, and also that the transfer of the bonds is exempt from all stamp and registration duties and from the estate duty, whilst the market price of the new security will be supported by the issuing syndicate, which is presided over by the Banca d'Italia.

The subscriptions, which were originally limited to credit institutions by the conversion of the $3\frac{1}{2}$ per cent. Redeemable Loan owned by them, was subsequently opened to the public as from the 21st October, 1935, without a time-limit, and, therefore, it is impossible to give the figures of the results so far attained, which, however, justify the most favourable forecasts. There is no doubt that the soundness of the new investment and the spirit of patriotism and solidarity with the Government which has been displayed by the people will ultimately ensure the most complete success.

In order to speed up the conversion operations in connection with the above issue, the Royal Decree Law No. 1685 of the 23rd September, 1935, granted fiscal exemption for all acts and documents, which would otherwise have been subject to stamp and transfer duties.

As in the previous financial year, 1934-35, the Treasury had to borrow in the present financial year, 1935-36, in order to meet its temporary requirements.

By a Decree of the Finance Minister dated 26th June, 1935, the issue of 12-month bearer and registered Treasury Bills was authorised, bearing interest in advance at the rate of 4 per cent. These bills afford a short-term investment, which is particularly attractive to funds awaiting a favourable opportunity for long-term investment. The bills enjoy all the privileges and security which the Government pledges on its indebtedness, including their eligibility as security for all public administrations as well as cover against advances granted by the Central Bank. As from the 1st August, the interest was raised from 4 per cent. to 5 per cent., which is a very high yield under present conditions of the stock market, especially considering that the interest is paid in advance when the

bills are issued, being deducted from the issue price. Matured coupons of the $3\frac{1}{2}$ per cent. Rentes and the $3\frac{1}{2}$ per cent. Redeemable Loan are accepted as cash for the subscription of the bills, for which no time-limit has been set.

The exchange rates against the leading foreign currencies have risen considerably in 1935, as compared with the previous year. The cause of the unfavourable trend is not so much the natural weakness of the lira as the high tension of the international political situation since Italy decided on armed intervention in East Africa, and since economic and financial sanctions against Italy, which were voted for at Geneva, were enforced.

In fact, while in the first months of 1935 exchange rates remained almost at the levels of the end of 1934, subsequently, on the stiffening of the opposition of the League of Nations to the necessity of our colonial expansion, the trend became more unfavourable, especially in November and December, which were the first two months of the economic siege. (1)

Provisions for the defence of the lira were further developed in the past year, owing to the economic requirements of the country and to the balance of payments, which were greatly affected by political events.

By the Royal Decree Law No. 1 of the 17th January, 1935, in order better to define and co-ordinate the bearing of certain obligations contained in the Decrees of the 8th December, 1934, it

(1) The average yearly quotation of the pound sterling was in 1935, 59·515 lire, against 58·897 lire for the previous year. The difference is more remarkable when taking the average for the month of December in the two years, for which the figures are 58·07 and 61·31 lire respectively. The highest and the lowest rates in the year were 61·65 on the 30th December and 56·10 lire on the 5th March.

A similar course was recorded in the quotations of the dollar, for which the yearly average moved from 11·68 lire in 1934 to 12·134 lire in 1935, the December averages being 11·73 and 12·44, with the highest and lowest levels in 1935 of 12·49 on the 30th December and 11·61 on the 4th January respectively.

For the French franc the 1935 average was 79·94 against 76·69 lire per 100 francs in 1934. The average rates for December in the two years moved from 77·31 to 82·82, whereas in 1935 the highest level was 82·25 on the 30th December and the lowest 77·20 on the 5th January.

Similarly, the Swiss franc has moved from an average of 378·15 lire in 1934 to 393·79 lire per 100 Swiss francs in 1935. The December averages moved from 380·14 to 402·62 lire per 100 Swiss francs, whereas in the year 1935 the highest level was 402·90 in December and the lowest 379·25 on the 2nd January.

was made clear that the declaration regarding the holding of securities and credits, and of the changes which had taken place therein, had not only affected private individuals but was also compulsory on banks, bankers, firms and other bodies of all kinds and descriptions. Only credits arising from exports are excepted, since the latter are already subject to the authorisation of the National Institute of Exchange, to which the foreign currencies, credits, or other means of payment representing the price of the exported goods, must be assigned.

The above decrees were converted into Law No. 103 of the 9th January, 1936, which made clear that the obligation to declare debts is not only laid on Corporations and other bodies but also on individuals, and that the debts to be declared are those which are certain as to their amount and maturity. Moreover, the authorisation to maintain accounts in foreign currencies, which was confined to insurance and shipping concerns, has been extended to others which conduct their business mainly in foreign countries through affiliations, but always within the limits of their actual requirements and under the control of the Central Bank. Similarly, with respect to the changes in the holdings of credits and securities the terms of the declarations were altered, it being required that they should be monthly for Corporations and quarterly for private individuals. Moreover, the declaration of the changes was made to include also foreign indebtedness.

The provisions concerning foreign payments were extended to the Colonies by the Royal Decrees Nos. 183 of the 4th October, 1934 and 69 of the 24th January, 1935, and by the Royal Decree Law No. 3 of the 17th January, 1935, and the Ministerial Orders of the 3rd and 22nd January, 1935.

By a Decree of the Finance Minister, dated 9th May, 1935, the holders of foreign securities or Italian securities issued abroad were required to place them on deposit with the Banca d'Italia for account of the National Institute of Exchange.

On the other hand, the monopoly which was established in favour of the National Institute of Exchange by the Decree of the 8th December, 1934, was made effective by the general restrictions on imports which were adopted by the Ministerial Decree of the

16th February, 1935 (1) and by regulating the exchange of goods by private compensation, which was entrusted to the National Fascist Institute for Foreign Trade under a Ministerial Decree of the 1st March, 1935.

The allocation of foreign means of payment had turned into a mainly political necessity, under which it was difficult for the Central Bank to discriminate in establishing when and to what extent the foreign currencies could be supplied. It therefore, became desirable to point out to the competent authorities the necessity of establishing an organ of a purely political and economic nature which, while having all the necessary powers for co-ordinating foreign purchases, taking into account the necessities of the vital economic interests of the country and its defence, should also have discretionary powers for determining and applying preferential treatment in the allocation of the foreign currencies available for payments abroad.

Thus, the Foreign Exchange Superintendence was created by Royal Decree Law No. 654 of the 20th May, 1935, the head of which was appointed by the Prime Minister, under his direct control, and was entitled to receive from all public administrations the necessary co-operation in carrying out its functions. Particularly close

(1) The causes and the monetary objects of the measures of the 16th February and of the 1st March were illustrated in the speech made by the Finance Minister in the Chamber of Deputies on the 18th May, 1935, in which he declared that "the Government was compelled to adopt them for the defence of the lira and that he would never have imposed upon the country the sacrifices involved by such measures had it not been for the absolute necessity and desire to defend and control the national currency."

The Finance Minister also reminded his audience that Italy had been made to suffer, through the attitude and measures adopted by a great number of nations, to an extent which had been gravely injurious to export possibilities, a dislocation in foreign trade having been caused which had deeply affected the country's monetary reserves.

Moreover, in the speech which he made in the Senate on the 29th May the Minister said : "It is a well-known fact that, in addition to the reduced purchasing power which has been brought about since 1929 in many countries with whom we had wide commercial relations, including many important nations who supply raw materials, a strictly protective Customs policy has been adopted, which is due to the state of unrest and crisis which obtains in every country. The now old-fashioned system of raising Customs duties to such an extent as to make certain imports impossible has been accompanied by increasingly grave methods directed towards hindering foreign trade. Systems, such as quotas and embargoes on imports, make any chance of overcoming the barriers impossible for exporting countries. Other restrictions, less visible but probably still more injurious owing to their effects on the world economic system, are those based on monetary depreciation wantonly carried out, especially when there are not actual monetary reasons to justify such a depreciation. Depreciation has been followed by exchange fluctuations, ably managed by the Governments concerned for objects which can only be defined as protectionist and which may be regarded as weapons of an economic attack."

relations were established between the Superintendence, the National Institute of Exchange, and the National Fascist Institute for Foreign Trade.

With the object of speeding up and decentralising the distribution of the admitted quotas of imported commodities, the Superintendence appointed ten Committees for apportioning the respective quotas among the importers.

As a consequence of previous legislation, by which a declaration of foreign credits and of foreign or Italian securities issued abroad was required and firms or individuals of Italian nationality were forbidden to negotiate such securities, it was further enacted by Royal Decree Law No. 1614 of the 28th August, 1935, that the credits should be surrendered and that the securities should be converted into Italian Government securities.

The surrender of credits is made, for account and benefit of the Treasury, to the National Institute of Exchange, which, under the Ministerial Decree of the 8th December, 1934, creating a foreign exchange monopoly, had the exclusive right to all foreign exchange transactions, as well as the realisation abroad of foreign and Italian securities issued abroad and the collection of dividends and coupons thereon. The surrender takes place on application by the Institute and the payment is made in lire at the exchange rate ruling on the 28th August, 1935, at the Milan Bourse. For currencies which are not quoted in Milan, the exchange rate is based on the Zürich rate on the above date for European currencies, on the New York rate for American currencies, and on the London rate for African, Asiatic and Australasian currencies.

The conversion of foreign securities into Italian Government bonds is fixed both as regards the price and the exchange rate, taking as a basis for the former the average quotation on the 28th August, 1935, on the respective issue market, and for the latter the rates of the Milan Bourse, or of the other markets as indicated above in the case of credits.

For Italian securities issued abroad it was considered fair to base the price on the quotation of the 8th December, 1934, on the respective issue markets.

For the conversion of foreign and Italian securities issued abroad as above, the issue of a special series of 5 per cent. 9-year Treasury Bonds, without premiums and not transferable abroad, was authorised.

Subsequently, by the Royal Decree Law No. 314 of the 10th February, 1936, the holders of foreign and Italian securities issued abroad were entitled to the option of receiving, in lieu of the above Treasury Bonds, bonds of the "5 per cent. Rentes" now being offered for subscription.

The Ministerial Decrees of the 3rd October and 16th November, 1935, fixed the specific cases and the procedure for the return from abroad of Italian bank and currency notes, the export of which had been prohibited by the Ministerial Decree of the 15th December, 1934, and the import of which is now also prohibited unless specially authorised by the Finance Minister.

The said Decree of the 16th November, 1935, contains similar provisions in respect of lire cheques issued in Italy which have illegally circulated abroad.

With the object of regulating the importation of gold for use in international payments, as well as for its distribution and utilisation the Royal Decree Law No. 1935 of the 14th November, 1935, established a monopoly in respect of the foreign purchases of gold bullion in any form, whilst the importation of manufactured gold is submitted to a special licence to be granted by the Finance Ministry. The monopoly has been entrusted to the National Institute of Exchange, which already exercises a monopoly on other means of payment abroad. All concerned are required to declare every contract which may have been entered into and not actually carried out in respect of purchases of gold bullion abroad, and the National Institute of Exchange is entitled to take over the contract from the purchaser on the agreed conditions.

For supervising the internal gold market, rules similar to those which were enacted by H.M. Lieutenant's Decree No. 691 of the 26th May, 1918, concerning foreign exchange and gold transactions,

have been enforced. All dealers in precious metals, and all dealers in gold, either bullion or manufactured, must keep a special register where in addition to the amount of gold held on the date of publication of the Decree, every subsequent addition or reduction must be recorded. The control for the observance of the above rules is carried out by the Finance Ministry through inspections.

Further rules have aimed at increasing the amount of gold available for national needs, empowering the National Institute of Exchange to purchase gold of all kinds at prices which may be altered weekly in accordance with the changes in the world markets, and to be regarded as the maximum price at which transactions between dealers and private individuals can take place in Italy. The Institute may also accept gold deposits for account of the State, allowing interest at the rate of 5 per cent. per annum on the lire equivalent at the official price.

To the extraordinary gold reserves resulting from the above legislation the Italian people, with an admirable display of patriotic spirit, have added the unanimous offers of gold to the country in a series of manifestations, of which the most significant was that of the 18th December, "wedding ring day."

It is fit, at this meeting, where every class and every region of Italy is represented, to recall with a deep feeling of pride the wonderful example given by all Italians in bringing the gold which they possessed to the counters of the Bank with the fervour of a religious rite. The gold which has been sold or offered, in order that it may become an instrument of power for providing the country with adequate defences and protecting its existence, has a much greater value than what is quoted on the world market ; it is the soul and the will of the people, it is the spirit of self-denial and sacrifice which is revealed through the tangible mark of the yellow metal, it is one of the proofs to the whole world of the actual unbreakable national unity which has been integrally realised through the faith and will-power of the Duce !

The weapon which has been used against Italy, as a means to discourage and depress her, has led to a spontaneous outburst of complete confidence, ranging from Royalty to the most humble hearts.

The growing importance from a national point of view of the problems relating to foreign trade and to the distribution of foreign currencies, especially since "sanctions" came into force, led to the transforming of the Superintendence into an Under-Secretaryship of State for Foreign Trade and Currencies.

This change was carried out by the Royal Decree Law No. 2186 of the 29th December, 1935, by which the new Under-Secretaryship of State, which was placed under the direct control of the Prime Minister, took over all the functions which were formerly performed by the Superintendence, in addition to those relating to foreign trade, which came within the province of the Ministry of Corporations.

The two institutions, which were active in the two fundamental branches within its scope, namely the National Fascist Institute for Foreign Trade and the National Institute of Exchange, were brought under the direct control of the Under-Secretaryship.

By the creation of this new organ, unity of command and control has been achieved in this complex and delicate section of State activity. Such unity is not contingent on, but is consistent with, the Fascist economic doctrine which, in the words used by the Finance Minister in the motion presented by him and approved, at the Meeting of the Grand Council on the 5th February, 1936, recognises "foreign trade to be a function of public interest which justifies placing it under the direct control of the Corporative State."

Moreover, in order that the National Institute of Exchange should be in a position to carry out its functions within the scope of the new Under-Secretaryship, the Royal Decree Law No. 104 of the 6th January, 1936, empowered the Finance Minister to

reorganise the Institute and regulate its relations, and those of the Treasury, with the Banca d'Italia. (1)

The duties which were entrusted to the Banca d'Italia by the Ministerial Decree of the 26th May, 1934, and by subsequent decrees for regulating foreign exchanges and for mobilising foreign means of payment for account and in the interest of the Treasury, have been performed by a special department of the Bank called "Inspectorate on Foreign Exchange Transactions."

This department has been set up since June, 1934, to organise the collection of data and maintain constant relations with the various Ministries concerned, whilst carrying out effectively inspections of banks, companies, corporations and firms, in order to discover any contraventions of the existing regulations.

When the Royal Decree Law No. 1614 of the 28th August, 1935, was issued the Inspectorate acted on behalf of the Presidency of the Institute in connection with the applications for calling in the foreign credits and securities which had been declared by their owners. The Presidency of the Institute was entrusted with all matters relating to such applications, in addition to compiling the lists of exchange rates and prices of securities to be applied in accordance with the said decree. The realisation and the utilisation of the foreign assets called in was carried out by the Superintendence Department of the National Institute of Exchange. Such a distribution was necessary in view of the fact that the applications for foreign credits and foreign and Italian securities issued abroad were based on the declarations which the Royal Decree Law No. 1942 of the 8th December, 1934, required to be made to the Banca d'Italia and were held by the latter under the bond of secrecy.

The Inspectorate on Foreign Exchange Transactions is a department of the Bank which is necessarily in close touch with the National Institute of Exchange and, in accordance with the new provisions by which the Institute has been transferred under the

(1) The reorganisation was carried out through a Ministerial decree dated 4th March, 1936.

By the Royal Decree No. 410 of the 20th March, 1936, the National Institute of Exchange was authorised to set up a special service of tourist cheques, non-transferable, to be drawn on the Institute by certain banks, bankers or tourists' offices, the payment of which in lire can only be made against payment of foreign currencies at rates of exchange to be fixed by the Institute.

direct control of the Under-Secretaryship for Foreign Trade and Currencies, the Inspectorate, which acts in the interest of the Treasury and for account of the Institute, will undertake all liaison functions between the Bank and the Institute.

By the Royal Decree Law No. 375 of the 12th March, 1936, extensive provisions have been adopted for the "defence of savings and the regulation of credit" in accordance with the resolutions which were adopted by the Credit and Insurance Corporation and the subsequent resolutions of the Central Corporative Committee, both as regards the actual and territorial distribution of credit concerns and the problems relating to the centralisation of control over all institutions which collect deposits.

The basis for the present reform is that the collection of savings from the public in any form and the granting of credit facilities are functions of public interest, so that the words "bank," "savings bank," "credit," "saving" and similar words shall not be included in the denominations of institutions or any other concern unless they are placed under the control of the organ which supervises the defence of savings.

To defend, as it were, the savings of a thrifty people like the Italians is at the same time a moral duty and an economic necessity for the State.

The reorganisation of the credit structure necessitates, in fact as a fundamental basis, the protection of the savings of the citizen, through a discipline which, by rationally co-ordinating the activities of the banks, eliminates the dangers of costly competition and of risky speculation, which have frequently resulted in heavy losses to depositors and taxpayers.

The control over the investment of savings, which was formerly exercised by various means, will now be exercised, in full keeping with the principles of the Fascist State, by an organisation presided over by the Governor of the Banca d'Italia, where the

safeguarding of savings and the control of credit institutions and of the stock and share markets are centralised.

This body, which is called the “ Inspectorate for the defence of savings and the granting of credit facilities,” is placed under the direct control of a Committee of Ministers, presided over by the Prime Minister, which includes the Ministers of Finance, Corporations, and Agriculture and Forestry, and also the Governor of the Banca d’Italia.

The Central Bank has been set as a public body, whereas the Banco di Napoli, the Banco di Sicilia, the Banca Nazionale de Lavoro and the Istituto di San Paolo di Torino have been confirmed as public law credit institutions, which qualification is established by Royal Decree, adding to their number the “ Monte dei Paschi ” ; whereas the status of “ public law banks ” may be recognised for banks established as limited companies having a widespread organisation of a national character, with branches in not less than 30 provinces.

For such banks the shares must be converted into registered shares, to be held only by Italian citizens or corporations. Other banks and credit concerns, established as limited companies or partly unlimited companies may be authorised not to register the whole of their share capital, provided that the bearer shares do not represent more than 45 per cent. of the voting rights on the whole share capital.

The Committee of Ministers, after consultation with the Central Corporative Committee on the general policy, shall decide on the steps to be taken by the Inspectorate in order that the needs for economic development are consistent with the gradual creation of savings, and with the actual credit capacity of the country.

The Corporative State thus establishes its paramount interest in the creation of savings and in their protection, in order that the

national credit organisation may escape costly and damaging super-structures and overgrowths. (1)

(1) The control of the Inspectorate over the collection of short-term savings is exercised in respect of:—

- (1) Public law credit institutions and banks ;
- (2) Other banks and bankers ;
- (3) Branches of foreign banks established in Italy ;
- (4) Savings banks, in respect of which there has been no change regarding their legal status, regulations and functions ;
- (5) Monti di Pegni (Pawnbroking Establishments) ;
- (6) Rural and agricultural banks.

Similarly, the control of the Inspectorate is extended to the following Institutions affording medium and long-term credit :—

- (1) Istituti di Credito Fondiario (Real Estate Mortgage Institutes) ;
- (2) Consorzio Nazionale per il Credito Agrario di Miglioramento (National Consortium for Agricultural Improvement Credits) ;
- (3) Consorzio di Credito per le Opera Pubbliche (Credit Consortium for Public Works) ;
- (4) Istituto di Credito per le Imprese di Pubblica Utilità (Credit Institute for Public Utility Enterprises) ;
- (5) Istituto di Credito Navale (Institute for Shipping Credits) ;
- (6) Istituto Nazionale di Credito per il Lavoro Italiano all'Estero (National Credit Institute for Italian Work Abroad) ;
- (7) Istituto Mobiliare Italiano.

In connection with the investment of savings, the functions and powers previously entrusted to the Finance Ministry and to the Central Bank for regulating the stock and share markets are transferred to the Committee of Ministers and to the Inspectorate.

Among the duties to be performed by the new Inspectorate the most important are the following :—

- (a) To keep a special register, in which all concerns collecting deposits are inscribed ;
- (b) To carry out periodical or special inspections of all Institutions which collect short-term, medium and long-term deposits ;
- (c) To authorise any issue of securities to be carried out by Institutions placed under its control ;
- (d) To authorise the admission of newly issued securities for quotation on the Stock Exchanges ;
- (e) To establish that certain forms of investment should be subject to its previous authorisation ;
- (f) To order, when required for obvious reasons, that general meetings of shareholders or meetings of the Boards of Directors or other administrative bodies should be called ;
- (g) To establish the relation between resources and real estate or share investments ;
- (h) To establish the maximum limits for granting loans in individual cases ;
- (i) To establish the minimum capital and the assignment of capital for affiliations ;
- (j) To order that proceedings should be taken against debtors in cases where the credit concern has delayed taking action ;
- (k) To propose to the Committee of Ministers, when there are serious reasons for so doing, the dissolution of the Boards of credit concerns, appointing its own officials to take over their functions ;
- (l) To authorise the concerns which are constituted as limited companies or partly unlimited companies to create a category of bearer shares, provided that the voting rights of such shares do not exceed 45 per cent. of the total voting rights of the whole share capital.

On the other hand, the concerns placed under the control of the Inspectorate are required, in particular :—

- (a) to send the Inspectorate a copy of their periodical returns and of their balance sheets, drawn up in the technical form which shall be fixed, as well as the Minutes of their General Meetings ;
- (b) to keep up to date a register in which all the loan facilities granted are inscribed ;
- (c) constituted as when limited companies or partly unlimited companies to convert their shares into registered shares.

Under this reform the Central Bank stands at the head of the credit organisation as the “bank of banks.” Thus, the evolution which was looked forward to by my eminent and much regretted predecessor, Signor Bonaldo Stringher, has been accomplished, an evolution, however, by which the policy of the Bank has been constantly inspired. The truth of this can be appreciated from the fact that at the present moment the direct discount operations, other than with banks, do not exceed the comparatively modest figure of 600 million lire.

The Bank as a public body will have a fully-paid capital of 300 million lire, in registered stock which can only be held by savings banks, by “public law” credit institutions and banks, and by insurance companies.

To the present shareholders of the Bank the value of the shares, on the basis of its position at the 31st December, 1935, will be repaid as from the 1st June, 1936, at the rate of 1,300 lire per share, this being the amount of the paid-up capital plus the reserve proportion relating to each share.

If the shares are for any reason tied up, the amount thereof shall remain on deposit with the Bank until the procedure for freeing them or for their re-investment under the existing liens, has been completed.

Under the new order, the Board of the Bank consists of the Governor and 15 Directors, of whom 12 represent the chief regional branch offices and three are nominated by the Insurance and Credit Confederation. The new Board takes office as from the 1st July.

The chief business of the Bank consists in advances against securities, which can also be granted to private customers, and re-discounts to credit concerns either of “public law” or of private law, provided that they are under the control of the Inspectorate.

The private holding of shares of the Banca d'Italia, which thus comes to an end, had a historic reason. The Bank originated from an amalgamation of banks, the capital of which had been contributed mainly by agriculturists, merchants, bankers and industrialists. It had a logical justification in the Liberal régime, under which there was no representative body of the economic forces of the country. In the Fascist State the latter are represented and incorporated in the appropriate organisation which, in addition to the Governor, who is an *ex jure* member of the Credit Corporation, will have three representatives on the Board of the Central Bank. Their experience, and the experience of the other Directors, who will represent savings banks, "public law" credit institutions and banks, and insurance companies, will keep the Bank in close touch with the nation's economic needs and developments, whereas in its activities a continuity in policy, which is one of the objects of the Decree, will be ensured.

The public nature of the Bank's activities arises primarily from its important function of regulating the money market as a political and economic feature, and also from the condition of legal monopoly under which such activities are carried out. The bank which exercises this function is placed at the head of a hierarchy of credit concerns, the most important of which are "public law" institutions, so that the change which has taken place in the legal status of the Bank marks its position and the nature of its duties.

In order to carry out more effectively medium-term credit, namely investments which, not being self-liquidating, are not eligible for ordinary banks, the Royal Decree Law No. 376 of the 12th March, 1936, has widened the scope and the possibilities of the Istituto Mobiliare Italiano, which will be able to come into more direct relations with the national producing organisations than hitherto.

Moreover, for the necessary co-ordination of medium-term credit to industries, the Syndicate for Advances against Industrial Securities becomes a special independent section of the Istituto

Mobiliare Italiano, and the latter is to be presided over by the Governor of the Banca d'Italia. The financial section of the Institute for Industrial Reconstruction, the emergency objects of which may be regarded as fulfilled, is to be wound up. On the other hand, the liquidation section of the above Institute, where important industrial and financial holdings are administered, remains in existence.

The Bank reform, which is the result of long-studied and careful consideration of all the features and actual requirements of our credit system, has thus created a harmonious organisation for all the systems by which savings are collected and, in relation thereto, all forms of investment of the savings are regulated, from the shortest term to medium and long-term investments.

All the producing forces of the nation will be able to make use of the particular kind of credit which they need, including those which the ordinary banks would not have been fit to grant and which may be afforded by the Syndicate for Advances against Industrial Securities, whose functions, as already mentioned, have been extended also in order to supply the necessary means required for national defence.

After ten years' experience it has been possible to complete the corporative organisation of the country by including in it, without shocks or uncertainty, that fundamental economic element which is credit, in a well-defined order, so as finally to avoid the errors and unhappy experiences of the past Liberal régime.

The National Institute of Exchange undertook also in 1935 the supply of the foreign currencies required for the interest and sinking fund service on outstanding foreign loans of corporations and companies for which an exchange guarantee had been given, while meeting the requirements of all external liabilities of the Treasury and other public or Government controlled administrations.

The National
Institute of
Exchange

The needs arising out of the East African events have increased the activities of the Institute in connection with the supply of foreign currencies since October, 1935.

During the past year clearing and similar arrangements for the settlement of commercial and other payments were continually and increasingly developed. (1)

Few changes have to be recorded at the end of 1935 in the position of the Bank for International Settlements; the totals on the two sides of the balance sheet have moved from 654.4 million Swiss francs on the 31st December, 1934, to 656.4 million Swiss francs on the 31st December, 1935.

(1) In addition to the Clearing and other Special Arrangements which existed on the 31st December, 1934, in the year 1935 Agreements were concluded with the following countries: Uruguay, Great Britain, Czechoslovakia, Greece, Sweden, Norway, Holland, Switzerland, Belgium and Austria.

The Agreement with Hungary was carried on as in the previous year until the 19th November, 1935, when a new Agreement was concluded, by which the "Clearing" was limited to private compensations, with a few exceptions.

The "Clearing" Arrangements with Yugoslavia, Turkey, Bulgaria, Germany, and Roumania followed a normal course, only slight alterations having been introduced, which, however, did not cause any substantial change.

The "Clearing" with Uruguay, which came into force on the 19th January, 1935, was wound up as from the 11th December, 1935, and the liquidation was concluded on the 29th February, 1936.

The Agreement with the United Kingdom of Great Britain and Northern Ireland, which came into force on the 19th March, 1935, refers to commercial payments and to freights. United Kingdom importers of Italian goods pay sterling at the Bank of England into an account in the name of the Institute, which can only be utilised for payments in respect of United Kingdom goods imported into Italy. The Agreement admits also private compensations which, however, were not carried out, owing to opposition on the British side.

The Agreement with Czechoslovakia, which came into force on the 25th March, 1935, refers only to commercial payments. The "Clearing" accounts are kept in lire. Private compensations are admitted, subject to the approval of the Institute and of the National Bank of Czechoslovakia. Settlement in these cases is made direct between the parties.

A "Clearing" Agreement with Greece came into force on the 1st July, 1935, and by its adoption caused the blocking of payments, enforced by the Ministerial Decree of the 23rd March, 1935, to cease. It refers only to commercial payments and is based only on the Italian currency. As in the case of Czechoslovakia, private compensations are admitted.

On the same date, the 1st July, 1935, a "Clearing" Agreement with Sweden was also concluded, the Swedish counterpart of the Institute being the Clearingnämnden. In this case also it is limited to the settlement of goods exchanged and it is based on the two national currencies, admitting private compensations.

On the 10th July, a similar "Clearing" Agreement was concluded with Norway.

On the 1st August a "Clearing" Agreement on similar terms came into force with Holland, which also includes the Dutch colonies of the East Indies, Surinam and Curaçao.

As the result of measures which were adopted by certain "sanctionist" countries with regard to Italian commercial credits owed by them, the Government were obliged to adopt in self defence similar measures.

The Ministerial Decrees of the 11th, 17th and 20th November required that all amounts due for merchandise, imported respectively from France and its colonial possessions, Switzerland, and all other countries which have adopted, or may adopt, similar measures, should be deposited in blocked accounts.

The Decree of the 20th November has been, so far, applied to ten countries with which "Clearing" Agreements were in force, namely, Yugoslavia, Great Britain, Turkey, Bulgaria, Roumania, Czechoslovakia, Sweden, Norway, Greece and Holland, and, in addition to France and its colonies, to the following: Australia, Colombia, New Zealand, Portugal, Tunis, Syria, Spain, Iraq and Honduras.

The Decree of the 17th November, blocking payments to Switzerland, ceased to be in force on the 10th December, when a "Clearing" Agreement was entered into which includes payments of all kinds, in addition to commercial payments.

Developments in the international situation did not enable the Bank to extend its operations apart from those in gold, which have been considerably increased in 1935 by several Central Banks. However, also in the past year, as the meeting-place of the Central Banks of most countries in the world, it afforded in the monetary and banking field an opportunity for frequent contacts, the utility of which, especially in a period of international political tension, cannot be minimised.

Moreover, the Bank for International Settlements, as in previous years, has also in 1935 effectively fulfilled important international financial tasks, among which the technical assistance for carrying out the monetary conventions relating to the Saar Settlement may be recalled.

On the 31st December, 1935, the shares of the Bank were inscribed in the names of 10,921 shareholders, of whom 10,768, holding 497,302 shares, were domiciled in the Kingdom and 153, holding 2,698 shares, resided abroad. Shares and Shareholders

During the year 2,656 transfers were made for 124,651 shares, as against 3,385 for 162,219 shares in 1934.

The cash turnover recorded by the Bank for the year 1935 amounted to 565,226 million lire, an increase of 101,217 million lire on the previous year. In-payments aggregated 281,530 million lire and out-payments 283,696 million lire, as against 231,940 million lire and 232,069 million lire respectively in 1934. Cash Displacements

The reserve held by the Bank against notes in circulation and other sight liabilities on the 31st December, 1935, compared as follows with the amounts held at the end of 1934 :— Reserve

	1935	Inc. + or dec. — as com- pared with 1934
Gold in hand	3,027·2	— 2,784·3
Balances abroad	367·4	+ 301·0
Foreign Treasury Bills and Bank Notes	—	— 5·3
Total	<u>3,394·6</u>	<u>— 2,488·6</u>

In the report of the year 1934 various important reasons were given for the fall in the gold reserve. It must be added that these elements were considerably accentuated, especially during a certain period of the year 1935, by the necessarily large supplies of raw materials and commodities, and also by the obstacles which were relentlessly opposed to our exports, which culminated in the embargoes brought about by economic sanctions.

The so-called "invisible" exports, which in the past had very largely contributed towards maintaining an equilibrium in the balance of payments and in 1933 were conservatively estimated at the figure of 2,000 million lire, continued in the year 1935 to show the shrinking tendency which had been recorded in the previous year, chiefly on account of world economic conditions.

Many Italians abroad have been compelled, in order to carry on their activities to consume the savings which they had previously remitted to Italy so that the fresh remittances were almost insufficient to offset withdrawals.

Freights, owing to the conditions of international trade and to the ever-growing competition for the transport of both passengers and goods, were not in a position to show any increase in their contribution towards the assets side of the balance of payments. Nor can the requirements for transport and supplies in East Africa be disregarded, since, although they ensured greater activity for the Italian mercantile marine, which has been fully equal to the task, a considerable outlay in foreign currencies for meeting foreign ports and Suez Canal dues and other expenditure became necessary.

The income from tourist traffic has also been adversely affected by the elements already existing and which were further accentuated in the year, namely the competition of countries with depreciated currencies, the intense propaganda against travelling abroad in other countries, and the reduced means of those classes which had previously formed the largest contingent of the faithful visitors to our country. (1)

(1) Adequate measures were adopted to counteract the injurious effects of these elements, such as the creation of special tourist hotel vouchers and petrol vouchers, and quite recently the creation of special tourist cheques issued by the National Institute of Exchange, by which the collection of the total proceeds of foreign currencies arising through the lire requirements of tourists will be ensured.

It should, however, be noted that the reserve does not include either the gold derived from the spontaneous and very large offers made to the State by all classes of Italian citizens, wherever they resided, nor the means derived from the compulsory transfer of all foreign assets to the State, which was required to be made by all Italians resident in Italy. These assets constitute altogether an important special reserve at the exclusive disposal of the State for any future emergency in the interests of the nation.

It should be noted, moreover, that the public character which foreign trade has assumed in the light of recent events, considerably minimises the former significance of the gold reserve held by the Central Bank, since the whole of the available means of payment abroad must be concentrated in the hands of State Departments.

The management of credit and of the note circulation is no longer based on an automatic relation to the holdings of bullion and specie. Under the Corporative and Fascist régime credit control must be adjusted to the actual possibilities and economic needs of the country, while the purchasing power of the currency must be safeguarded by an adequate control of price levels, ensuring a stable relation between the credit system and the economic life of the nation, as has been ensured by the banking reform which has been carried out by the Government.

Without reference to the remote past, it can be seen that gold, which had been accumulated in the course of many years of thrifty living and constant saving, in addition to being the proceeds of the sweated labour of emigrants which, as outposts of civilisation and progress, contributed towards the prosperity of wealthy countries, has been utilised without hesitation when the fortunes of the nation were at stake, and it is not out of place to recall the fact that a part of the Bank's reserve which was used in the Great War, is still in the capital of Great Britain, where it was sent as cover for credits which were required for an effort far exceeding Italy's economic and financial capacity, in order to secure the common victory.

The above references to the functions and prospects of the nation's gold reserves are a clear proof of the absolute necessity for Italy to ensure to its people the possibility of expansion and to its

industries the necessary raw materials for normal manufacturing requirements.

These paramount necessities of life for our people are generally appreciated and, therefore, to-day, in spite of the provisions of the Royal Decree No. 1844 of the 28th October, 1935, it is deemed proper to divulge facts and figures which show how utterly indispensable it is to pursue the discipline which has been spontaneously accepted by every Italian.

By the Royal Decree No. 1293 of the 21st July, 1935 (1) the application of the first paragraph of Article 4 of the Royal Decree Law No. 2325 of the 21st December, 1927, by which the Banca d'Italia is obliged to hold a reserve in gold or in foreign currencies of countries where the convertibility of notes into gold is in force, of not less than 40 per cent. of the amount of its notes in circulation and all other sight liabilities combined, has been suspended.

The necessity of developing the home production, especially concerning national defence, has caused in the last few months a considerable increase in imports, the foreign trade deficit being thereby raised.

Had it been necessary to apply the rules set forth in the Royal Decree No. 1377 of the 17th June, 1928, the Bank would have been called upon to enforce such a deflation and contraction of credit as to cause the most serious disturbance in the economic position of the country.

In connection with the above-mentioned Decree of the 21st July, 1935, a further Decree No. 1647 of the 5th September, 1935, empowered the Finance Minister to adopt measures for co-ordinating

(1) The Finance Minister clearly defined the nature of the objects of the temporary suspension of the cover limit in the following statement: "This decision of the Government must not be interpreted as any change in the monetary policy which has so far been followed. On the contrary it is evidence of the determination to pursue that very policy for the defence of the country's credit and of the lira.

"The suspension is purely temporary and, therefore, the country is in duty bound to the strictest discipline in foreign trade, in order to confine the outflow of gold within the limits required for the payment of commodities which are indispensable to the nation, with the object of returning as soon as possible to the 40 per cent. cover ratio."

the temporary suspension of the reserve ratio requirements with the other regulations regarding the circulation of notes and the conventions relating thereto which had previously been concluded between the Treasury and the Bank.

The circulation of bank-notes moved upward, especially in the second half of the year, 1935, so that on the 31st December, the outstanding amount was 16,297 million lire, which amount, however, may be actually reduced to 15,457 million lire, as will be explained hereafter, against 13,145 million lire outstanding on the 31st December, 1934, thus showing an actual increase of 2,312 million lire. Note Circulation

It should be added, however, that, when the period of more intense Treasury requirements came to an end, the circulation, without any pressure, was gradually reduced, so that on the 20th March, 1936, the total amount outstanding was 14,490 million lire, in addition to the coin and currency notes included in the cash holdings of the Bank.

The reasons for the increased note issue are to be found in the development of commercial and industrial activities in connection with the East African campaign and in the holding by the Bank of the large amount of 840 million lire in currency notes and coin. (1)

Thus, the larger note issue which has taken place in the year, being consistent with the vital necessities and constantly increasing

(1) A similar tendency has been noticeable in the circulation of notes of other central banks, as will be seen by comparing the respective figures at the end of the last two years, as follows :—

		(in millions)	
		1934	1935
Bank of England (£ sterling)	... ..	397·7	411·7
Federal Reserve Banks (Dol.)	... ..	3,261·4	3,768·5
Reichsbank (Rm.)	... ..	3,900·6	4,285·2
Bank of Poland (Zl.)	... ..	981·1	1,007·2

The note circulation of the Banque de France at the end of 1935 amounted to 81,150 million francs, against 83,412 million francs at the end of 1934, but the gold reserve of the Bank was reduced in that period from 82,124 to 66,296 million francs : whereas the amount of bills discounted rose from 3,793 to 9,735 million francs.

numbers and higher standard of living of the population, the effect on price levels has been almost negligible. (1)

Meanwhile, there has been a greater demand for bank-notes against silver coin, the latter remaining in the Bank's tills instead of, as at one time, being an attraction, especially to the poorer classes.

Thus, the confidence which the notes are enjoying and their almost unchanged purchasing power prove that they are adequate for the needs of the nation, and also that the Italian people have a correct appreciation of events in the light of future economic prospects.

As regards the State circulation, mention should be made of the Royal Decree Law No. 874 of the 20th May, 1935, by which the withdrawal of silver coin was authorised, currency notes being issued in its place. On the 30th September, 1935, the circulation of coin and currency notes issued by the State amounted to 2,363.4 million lire, against 2,143.9 million lire outstanding on the 31st December, 1934.

(1) In the following table the figures of the Bank and State circulation are given, together with those of the outstanding share capital of limited companies and of the population of Italy in the period 1900-1935:—

(BASIS 1900 = 100).

Year	Circulation		Share Capital		Popu- lation (000 omitted) (a)	Year	Circulation		Share Capital		Popu- lation (000 omitted) (a)
	In million lire	%	In million lire	%			In million lire	%	In million lire	%	
1900	1.603	100	2.212	100	32.452	1918	13.874	865	10.258	464	35.994
1901	1.605	100	2.286	103	32.614	1919	18.552	1.157	13.014	588	36.147
1902	1.624	101	2.301	104	32.785	1920	22.000	1.372	17.784	804	36.585
1903	1.682	104	2.466	111	32.894	1921	21.476	1.339	20.350	920	(e)38.023
1904	1.722	107	2.694	122	33.138	1922	20.279	1.265	21.395	967	38.370
1905	1.849	115	3.482	157	33.249	1923	19.674	1.227	23.523	1063	38.639
1906	2.044	127	4.175	189	33.402	1924	20.514	1.279	28.418	1285	38.929
1907	2.239	142	4.699	212	33.628	1925	21.450	1.338	36.481	1649	39.296
1908	2.298	143	4.923	223	33.948	1926	(b)20.178	1.258	40.412	1827	39.628
1909	2.365	147	5.067	229	34.206	1927	19.802	1.236	42.253	1910	40.001
1910	2.469	154	5.220	236	34.547	1928	18.720	1.167	44.951	2032	40.392
1911	2.679	167	5.363	242	34.814	1929	18.347	1.144	49.596	2242	40.706
1912	2.711	169	5.505	249	35.239	1930	17.314	1.080	52.280	2363	41.069
1913	2.783	173	5.642	255	35.598	1931	15.930	993	50.852	2299	41.439
1914	3.593	224	5.755	260	36.120	1932	15.307	955	49.601	2242	41.809
1915	5.050	315	5.813	263	36.670	1933	14.878	928	47.782	2160	42.214
1916	6.330	394	6.038	273	36.758	1934	14.780	922	44.319	2003	42.625
1917	10.173	634	7.257	328	36.563	1935	(c)17.308	1.079	(d)44.363	2005	43.009

(a) Exclusive of the Colonies the population of which on the 21st April, 1931, was 2,326,268.

(b) Including silver coins of 5, 10 and 20 lire issued to replace currency notes.

(c) Exclusive of 840 million lire of coin and currency notes held by the Bank.

(d) End July.

(e) Including the figures relating to the new Provinces.

The amount of circular cheques issued by other banks thereto authorised moved from 489·8 million lire on the 31st December, 1934, to 491 million lire on the 31st August, 1935.

The average amount of bills discounted in 1935 was 3,921·9 Discounts million lire against 3,642 million lire in 1934. The highest level of 4,897·6 million lire was reached on the 31st December and the lowest of 3,366·7 million lire on the 20th June, 1935. The number of bills discounted was 1,091,547 representing an aggregate amount of 14,168·2 million lire, showing an increase in the number of 178,578 and in the amount of 1,121·9 million lire over the 1934 figures.

Moreover, 8·1 million lire of securities and coupons were discounted against an amount of 3·6 million lire in 1934.

The official discount rate, as already mentioned, was reduced from 4 per cent., as it stood on the 26th November, 1934, to 3½ per cent. on the 25th March, 1935, and subsequently it was raised to 4½ per cent. on the 12th August and to 5 per cent. on the 9th September.

The average discount rate moved from 3·10 per cent. in 1934 to 4·16 per cent. in 1935, the rate for 1933 having been 3·87 per cent.

The total amount of advances against securities granted by the Advances Bank in the year 1935 was 24,625·4 million lire, compared with 20,409·5 million lire in 1934, whilst the average advances outstanding in the past year amounted to 2,139·1 million lire, against 1,329·9 million lire in 1934. The highest and lowest levels were 4,090·5 and 1,045·4 million lire respectively on the 31st December and the 20th January (2,449·7 and 468·0 million lire in 1934).

Apart from the above figures, the amount relating to deferred payments at the clearing-houses moved from 156·6 on the 31st December, 1934, to 109·6 million lire at the end of 1935.

The average amount of discounts, advances and deferred pay- Summary of the Bank's Credit Operations ments at the clearing-houses moved from 5,023·2 in 1934 to 6,123·8 million lire in 1935. The total outstanding on the 31st December, 1935, was 9,097·7 million lire, against 6,611·4 million lire on the 31st December, 1934.

The Industrial
Liquidation Section
of the Institute for
Industrial
Reconstruction

The credit of the Bank with the Industrial Liquidation Section of the Institute for Industrial Reconstruction amounted on the 31st December, 1935, to 802·3 million lire, compared with 1,091·3 million lire at the end of 1934, and 1,137·9 million lire at the end of 1933.

Gold abroad due by
the State

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.

Investments

The average investments of the Bank in Government securities moved from 1,380 million lire in 1934 to 1,384·8 million lire in 1935, the figure at the end of the year having risen from 1,384·8 to 1,398·7 million lire.

Premises

The buildings owned by the Bank for premises at the end of 1934 appeared in the balance sheet at 155·5 million lire. In the year 1935 additions in respect of expenditure on alterations and new purchases of land and buildings totalled 600,000 lire, whereas the reimbursements in the year amounted to 100,000 lire and a sum of 10 million lire was written off in respect of buildings recently purchased or constructed, so that the Premises Account in the 1935 balance sheet is reduced to 146 million lire.

Colonial Branches

The gradual settlement of the economic situation in Libya, the promising development of certain activities in Somaliland, and commercial operations of considerable importance in Eritrea, caused the colonial branches of the Bank to be particularly active, and results were either satisfactory or more promising.

The turnover of these branches increased considerably, compared with the previous year, which is evidence that the Bank has carried out with greater intensity its programme for the economic development of the various colonies.

The Tripoli branch has carried out its work in order to meet the fresh requirements of the economic situation and the results would have been substantial, had it not been for the writing off of some items relating to previous years which, however, are regarded as recoverable.

Considerable progress was recorded in the results of the Consortium managing the Tripoli warehouses, which was due to the

constant pains which had been taken to improve the technical organisation of the various services.

In Cirenaica, where order has been fully restored, the economic situation has improved, thanks to the effective action of the special body set up for colonisation. It is expected that, as soon as the extensive new roads and the work of the new port of Bengasi are completed, trade conditions will reap great reward both from the land and the sea traffic. The Bengasi branch, though showing few changes as compared with the previous year, has given satisfactory results.

The Rhodes branch has closed the year with a small profit, which leads one to hope for an improvement in agriculture and trade activities in the Aegean possessions.

As from the 1st March, 1935, the Bank has taken over, in accordance with the convention entered into with the local Government of Eritrea, the Customs warehouses of Massaua, which have been amalgamated with the bonded warehouses, thus forming a general warehouse, to meet the intense activity which has developed in that port. The Bank has provided for placing this new enterprise on a new and more rational basis, which has favourably affected the organisation of the port and maritime services of that city. The results of the first nine months have been satisfactory.

The exceptional trade and industrial activity which has developed in Asmara, owing to the military operations, has greatly affected the work of that branch of the Bank. The changed conditions of the local market made it possible gradually to write off a large number of doubtful assets and, moreover, very appreciable profits were made in the year 1935.

Without entering into details regarding the various industries, mention should be made of the mining industry, especially concerning mica and gold. Of the former, a mineral for which there is a keen demand, very important quantities have been found, and it is hoped that a considerable daily output will be possible, with limited expenditure. For the latter it is now proved that it is no longer merely in an experimental and tentative stage, and the Government have given their full attention to intensifying the prospecting and

have adopted various measures in favour of the concessionnaires for a rational exploitation of the mines. Although during the past year a considerable scarcity of native labour was experienced, the output of gold from the various concessions was considerable.

In Somaliland the carrying on of new work has increased the volume of business and brought about a change in the agricultural and industrial situation of the colony.

The improvements which have taken place in many concessions have been really remarkable, thanks to the new impulse which has been given to colonisation, to technical improvements, and to the expansion of the cultivated zones.

The growing of cotton, which was partly abandoned in the past, has now very good prospects of expansion, whilst the cultivation of bananas has been extended with very good results, thanks to the provisions made by the Government for further development.

The great impetus given to house and road construction and to motor transport has required the employment of much labour and capital.

The Mogadiscio branch was consequently very active, although the balance sheet for the year showed a small loss. (1)

It is not out of place to examine briefly what the Bank has done in connection with the Decrees for the safeguarding of savings. Such an examination is desirable, as in the present year a decade

(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 1935:—

							(00,000 omitted)
							Lire
Cash displacements	...	...	...	...	...	...	16,609·1
Bills discounted	...	...	...	...	...	...	201·8
Advances	...	...	...	...	...	...	87·1
Interest bearing current accounts	...	...	...	...	{ receipts	...	822·5
					{ payments	...	755·9
					{ balance	...	104·1
Savings Deposits	...	...	...	...	{ receipts	...	28·5
					{ payments	...	22·2
					{ balance	...	26·4
Foreign Currencies	...	...	...	...	...	...	258·2
Orders to pay	...	...	...	...	{ transmitted	...	337·4
					{ met	...	139·3
Demand Drafts	...	...	...	...	{ issued	...	1,295·0
					{ paid	...	989·9

will have elapsed since the Decrees were issued. The provisions adopted at the time for creating a better organisation of the credit system of the country have been largely applied, excluding certain cases not covered by the Law which, however, were dealt with by analogy, and the work which has so far been carried out has undoubtedly proved most useful.

Among the most important results of the enactment of the Decrees must be recorded the large reduction in the number of the less efficient banks and branches of banks, a reduction which has been arrived at by amalgamations, which have immediately eliminated useless banks or duplication of branches, by causing banks and their branches to be closed when their activities had ceased to be profitable, and, finally, by carefully scrutinising every demand or application which was made during this period for obtaining the authorisation of the Finance Ministry to create new banks or open new branches of existing ones.

It has thus been possible to curb the tendency of those banks which aim at extending indiscriminately the sphere of their activities.

In the year 1935, 64 applications were made by 40 Banks for opening 76 new branches, of which 24 were accepted, relating to the opening of 25 branch offices.

Demands for amalgamation numbered 18, concerning 38 banks, of which 10 were approved.

No applications were made for opening new banks. Two Institutions which were not entitled to collect deposits made applications to be authorised to do so, but in both cases they were rejected.(1)

Applications for the granting of loan facilities exceeding the limit of one-fifth of the Bank's resources amounted to 45, involving

(1) The following are the further applications which, according to the existing regulations, were submitted to the Bank's technical advice, for approval by the Finance Ministry: 6 applications for altering the status, of which 3 were granted; 9 applications for absorption of branch offices of other banks, relating to 26 centres, only one being granted; 61 applications for transferring 64 branch offices, of which 57 were authorised; 36 applications for authority to carry out or extend agricultural credit, of which 21 were approved; 19 applications for extending the activities of rural banks, of which 9 were favourably received; 5 applications for taking over the liquidation of other concerns, which were all accepted.

a sum of 185.9 million lire, compared with 41 applications involving a sum of 315.6 million lire in 1934 ; 28 applications involving 146.8 million lire were admitted.

The inspections which were carried out since the control was established up to the 31st December, 1935, numbered 3,281. It should be noted that some banks have been visited two or three times and that the above figure does not include inspections carried out in cases where banks were not recognised as carrying on banking functions.

During the past year 118 banks have been removed from the register of the Finance Ministry for the following reasons :—

76 on account of liquidation ;

16 on account of authority to receive deposits having been withdrawn ;

13 on account of amalgamation ;

3 on account of having been closed owing to lack of business.

Thus, on the 31st December, 1935, the number of banks recorded in the register as above was reduced to 3,043, divided as follows :—

962 joint stock banks and bankers ;

102 first-class savings banks and pawnbroking establishments ;

1,979 rural, agricultural and smaller banks.

Of the above banks 2,241 were active in 4,066 centres having altogether 8,083 counters.

Profits The results of the past year may now be considered, separating, as usual, the gross profits of the branches from those of the Head Office. The former amounted to 192,899,558 lire, against 113,186,372 lire in 1934, thus being increased by 79,713,186 lire. The profits of the Head Office amounted to 144,091,232 lire, against 142,540,750 in 1934, showing also an increase of 1,550,482 lire. Thus, the gross profits amounted to 336,990,790 lire as compared with 225,727,123 lire in 1934, an increase of 81,263,667 lire.

Discount operations yielded 159,539,980 lire, an increase of 36.7 million lire compared with 1934.

The amount of bills carried forward from last year's balance sheet is 45,951,360 lire, against 31.1 million lire brought in for that year.

The interest on advances amounted to 90,701,262 lire, an increase of 47.8 million lire on the previous year.

Deferred payments at the clearing-houses yielded 2,853,305 lire against 1.6 million lire in 1934.

The refund of the tax on notes issued for account of the Liquidation Section of the Institute for Industrial Reconstruction amounted to 2,409,916 lire, or 0.3 million lire less than in the preceding year.

Miscellaneous receipts amounted to 29,302,878 lire, including commissions totalling 6,760,020 lire.

Investments yielded altogether 49,397,687 lire, of which 38,316,588 were in respect of interest on Government securities. Last year's figures were 46.5 and 35.2 million lire respectively.(1)

The gross expenditure for 1935 amounted to 236,128,025 lire, Expenditure and Taxes or 35,660,609 more than in 1934.

Administration costs accounted for 92,556,067 lire, or 2.1 million lire less than in the previous year. The salaries of the staff included in the above figure amounted to 78.2 million lire, or 1.3 million less than in 1934.(2)

The outlay for taxes was 17,788,359 lire, or 1.2 million lire less than in the preceding year.

The interest allowed on current accounts totalled 5,087,817 lire, or 1.1 million lire less than in 1934.

In addition to an amount of 39.8 million lire which has been charged in respect of unpaid bills, there has been added a further

(1) As already mentioned, the interest is not included on the securities owned by the Bank, which were handed over by the late Istituto di Liquidazioni, and which are annually employed for further reducing the liabilities of the Liquidation Section of the Institute for Industrial Reconstruction.

(2) The figure of 78.2 million does not include the salaries, which are charged to the Real Estate Mortgage Institute of the late National Bank, amounting to 238,321 lire.

amount of 10 million lire to meet further possible losses or depreciation on the bills.

Moreover, a sum of 27,958,056 lire has been set aside for various amortisations, this being an increase of 15·2 million lire on the corresponding sum allocated for that purpose in 1934.

Finally, 2·5 million lire were spent in the course of the year for charity or public utility purposes.

Against gross profits totalling 336,990,790 lire gross expenditure aggregated 236,128,025 lire, thus leaving a net profit of 100,862,765 lire, which is 45,603,059 lire more than for the year 1934.

The Board of Directors of the Bank, having considered the Report of the Auditors, in accordance with the terms of the Decree 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 1934 ;
L.30,000,000	to the shareholders as dividend, equal to the one distributed for the years 1922 to 1934, 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.48,052,495	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 23rd January, 1933. (1)

L.100,862,765

(1) It should be noted that, as in previous years, a sum of about 28·8 million lire has been allocated towards reducing the liabilities of the Liquidation Section of the Institute of Industrial Reconstruction, this amount being the 1935 interest on the Government securities which have been handed over by the late Istituto di Liquidazioni to the Bank since 1926, in partial repayment of its debt, such interest not appearing among the profits in the Balance Sheet.

The results of the past year, which are submitted for your Conclusion approval, show that the Bank has steadily persevered in its traditional course, constantly strengthening its organisation and adjusting it to the needs of the economic welfare of the country.

The vote which you are casting to-day is of a very special nature and goes beyond the expression of your rights. The approval of the Balance Sheet for the past year, which has been conducted under the old order, concludes a period, enriched by glorious traditions, which has lasted about 90 years. The whole nation must be thankful to the shareholders of the Banca d'Italia for having effectively contributed towards endowing the country with a strong and powerful organism, the action of which, from the outset, has been directed towards the highest interests of the State.

It is well to remember that the Bank of Genoa, only four years after its foundation, was able to afford to the Sardinian Government a loan of 20 millions for conducting the 1849 campaign, and the importance which that operation bore to the Risorgimento has been likened to a victory in the field.

After the amalgamation of the former bank with the Bank of Turin, of which one of the most active promoters and a regent of the Bank was the Count of Cavour, and when the Kingdom of Italy was in the making, as the various provinces of the Peninsula were redeemed, the National Bank, then of Sardinia, was invariably more concerned with the discharge of its high political and economic duties than with the restricted object of reaping banking profits. The opening of new branches and the absorption of local banks kept pace with the march of the armies, while the Bank was always prepared to place its credit organisation at the disposal of trade and industry. Nor was the scope of the Bank confined to these objects. It supplied, or assisted in the supply of, the capital required by the country in a period of rapid expansion and development, as was the time of the Risorgimento, when destruction of wealth was repeatedly caused by the wars of independence.

In fact the National Bank imported large quantities of appreciated specie even when its notes were inconvertible, irrespective of costs and of the losses involved, being sustained in this policy by

the steady support of the Count of Cavour, who did not forget, among the grave responsibilities falling upon him during the decade of his political activity, that he had been a member of the Council of Regents of the Bank of Turin.

The contributions and the work performed by the Bank, from the unification of the Kingdom up to the Great War and after, are too well known to require illustration at this juncture. But, looking back, it will be seen that the spirit of sacrifice and self-denial which in the early days of the Risorgimento took the form of individual effort, has evolved into collective forms of self-denial and sacrifice as the national soul has moulded itself into a well-tempered unit under the sign of Fascism.

The mass of the people, forming a conscious solid block, partakes to-day in the efforts aimed at the achievement of political and economic independence.

I am sure I am interpreting the general feeling when I express our heart-felt greetings and most fervent wishes for the valorous troops fighting in East Africa who, regardless of their supreme sacrifice, are ensuring to the Mother Country the necessary outlet for the life of future generations and the place to which they are entitled by reason of their age-long contribution towards world civilisation.

The nation is at one in the superb effort towards overcoming the obstacles placed in the way of the realisation of its destinies. I am certain, therefore, that, in recalling with a justifiable sense of pride the traditions of almost a hundred years' standing of the powerful financial Institution founded by your forefathers, you will be unanimous in applauding the measure which, through the inspired and resolute action of the Duce, finally incorporates the Banca d'Italia as one of the fundamental Institutions of the Régime, thus completing the cycle which was inaugurated by the Count of Cavour.

V. AZZOLINI,
Governor.

BALANCE-SHEET

31st December, 1935.

PROFIT AND LOSS ACCOUNT.

BANCA
AUTHORISED CAPITAL
OF WHICH IS PAID-UP

BALANCE SHEET,

ASSETS.			
Gold in Hand.....	L.		3,027,264,149.17
Other Gold Assets :	L.		367,371,115.28
Total Reserve.....	„		3,394,635,264.45
Gold deposited abroad, due by the State.....	„		1,772,798,105.00
Cash in Hand.....	„		861,883,943.37
Inland Bills.....	„		4,897,631,190.84
Bills for Collection.....	„		40,750,523.27
Advances to Customers {			
Against Government Securities and Mort- gage Bonds.....	L.	4,089,827,327.58	
Against Silk and Cocoons.....	„	669,633.05	
	L.		4,090,496,960.63
Investments (Government Securities owned by the Bank)	„		1,398,717,418.57
Cr. Accounts in the Kingdom :			
Deferred Payments at Clearing Houses.....	L.	109,640,596.96	
Other Accounts	„	88,678,352.90	
	L.		198,318,949.86
Shareholders' uncalled Capital.....	„		200,000,000.00
Premises	„		146,001,393.40
Credit with Liquidation Section of Institute for Industrial Reconstruction.....	„		802,333,809.19
Other Assets :			
“ Credito Fondiario ” Fund.....	L.	30,000,000.00	
Investment of Extraordinary Reserve	„	32,485,000.00	
„ „ Shareholders' Special Reserve	„	161,226,858.07	
Other Debtors	„	1,547,572,623.63	
	L.		1,771,284,481.70
Securities and other valuables deposited.....	L.		19,574,852,040.28
	„		40,464,131,812.86
Amounts written off in past years.....	L.		60,038,983,853.14
	„		404,714,229.44
TOTAL	L.		60,443,698,082.58

D' ITALIA.

L.500,000,000.

L.300,000,000.

31st December, 1935—XIV.—E.F.**LIABILITIES.**

Notes in circulation	L.	16,296,510,950.00	L.	16,296,510,950.00
Less Currency Notes and Coin held by the Bank ..	,	840,363,050.00		
Net Circulation	L.	15,456,147.900.00		
Other Sight Liabilities	,			1,090,342,085.00
Total Sight Liabilities	L.		L.	17,386,853,035.00
Capital	,			500,000,000.00
Statutory Reserve	,			100,000,000.00
Extraordinary Reserve	,			32,500,000.00
Deposit Accounts	,			285,166,121.46
"Internal Debt Sinking Fund Office" Current Account	,			4,334,203.79
Other Liabilities :				
Shareholders' Special Reserve.....	L.	163,655,564.25		
Shareholders' Special Reserve Invested in Premises.....	,	46,000,000.00		
Other Creditors.....	,	955,480,350.05		
			L.	1,165,135,914.30
Net Profits for the Year.....	,			100,862,765.73
			L.	19,574,852,040.28
Securities and other valuables deposited.....	,			40,464,131,812.86
			L.	60,038,983,853.14
Amounts written off in past years.....	,			404,714,229.44
		TOTAL	L.	60,443,698,082.58

PROFIT AND YEAR

		Dr.	
Expenditure	Expenses in respect of:	Administration	L. 92,556,066.70
		Board of Directors, etc.....	,, 1,920,645.25
		Transport of specie and other valuables	,, 1,486,154.03
		Printing of notes	,, 12,899,715.53
		House Property Account ...	,, 1,486,337.04
		Stamps and commissions on foreign business.....	,, 198,936.44
		Circulation tax on notes ...	,, 10,155,370.90
		Circulation tax on demand drafts	,, 305,087.83
		Income Tax	,, 1,909,196.70
		Additional Income-Tax	,, 1,539,632.75
		Real Estate Tax	,, 1,199,780.53
		Bank Shares transfer tax...	,, 1,575,085.00
		Weights and measures control tax	,, 5,228.25
		Stamp duties.....	,, 318,182.13
		Contribution for Govern- ment supervision	,, 200,000.00
		Other tributes	,, 580,795.18
		Unpaid bills	L. 39,762,443.61
	Amounts written off.....	,, 27,958,055.97	
	Interests and annuities.....	,, 16,589,013.29	
	Charities and other contributions	,, 2,500,000.00	
	Contribution to Employees' Pension Fund	,, 8,382,297.70	
	Depreciation of bills against losses, etc.	,, 10,000,000.00	
	Temporary Staff Pension Fund	,, 2,600,000.00	
		L. 236,128,024.83	
	Net profit to be divided.....	,, 100,862,765.73	
		L. 336,990,790.56	
	TOTAL	L.	336,990,790.56

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 12th March, 1936—XIV.

ARTOM VITTORIO,
CORTESI ARTURO,
EMILIANI MARINO,
NESI ADOLFO,
STRINGHER DIEGO.
Auditors.

GUIDO PIERINI,
Acting Chief Accountant.

LOSS ACCOUNT

1935—XIV.—E. F.

		Cr.	
Profits from the Year's business	Re-discounts brought in from previous year..... L.	31,058,895.97	
	Year's discounts "	174,432,443.79	
		205,491,339.76	
	less: re-discounts carried forward ..	45,951,359.95	
		159,539,979.81	
	Interest on advances..... L.	90,701,261.63	
Interest on Cr. accounts ..	5,559,480.92		
Commissions ..	6,760,019.58		
Interest, discount and exchange profits on foreign business, less re-discount charges..... "	79,586.60		
Other profits..... "	22,542,858.75		
		285,183,187.29	
Profits from Investments	Interest on Government Securities..... L.	38,316,587.79	
	Interest on "Credito Fondiario" Fund..... "	1,200,000.00	
	Revenue on real estate ..	6,622,713.42	
	Interest on investment of Colonial Branches Fund ..	400,000.00	
	Profits arising from the liquidation of late note- issuing banks..... "	2,858,385.93	
		49,397,687.14	
By Liquidation Section of Institute for Industrial Reconstruction, circulation tax on notes outstanding on its behalf			2,409,916.13
		336,990,790.56	
TOTAL		L.	336,990,790.56

OF NET PROFIT

.....	L.	30,000,000.00
.....	"	281,060.00
.....	"	13,874,116.26
.....	"	8,655,093.76
.....	"	48,052,495.71
TOTAL NET PROFIT TO BE DISTRIBUTED	L.	100,862,765.73

VINCENZO AZZOLINI.
Governor,

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