

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, 1937.

YEAR 1936.

Gentlemen,

World economy, particularly during the last months of the year 1936, has shown a further improvement as compared with the previous year, contributory causes being the Tripartite Monetary Agreement and the alignment of the currencies which formed the gold bloc. General Remarks

It appears that the recovery is only partly due to a return to more healthy economic conditions: it is rather the result of temporary State intervention, of artificial credit expansion, and of huge expenditure on armaments.

It must be noted, moreover, that the rise in world prices, which is due to the gradual re-establishment of equilibrium between demand and supply is of greater benefit to countries producing raw materials, whereby importing countries are more and more compelled to forgo, as far as possible, the importation of raw materials and food-stuffs, and to make use of the stocks accumulated in previous years. This is noticeable in the comparatively small expansion in international trade.

On the other hand, it is only through the clearing of the international political horizon that the improvement noticeable in the past year can be consolidated by genuine factors of lasting economic progress.

Agricultural production, which closely affects economic conditions, has been unsatisfactory in certain countries, owing to unfavourable climatic conditions. Unemployment, although reduced, is still at a fairly high level; international trade has not increased *pari passu* with production, and has continued to be hampered by the instability of exchanges, especially up to last September, by the lack of medium and long-term capital movements, by the dictates of nationalistic policies, and, for a good part of the year, by the exceptional obstacle of "sanctions."

The bitter struggle for predominance in the exchange market, with its far-reaching consequences and fluctuations from one to the other of the three most important world monetary centres, has certainly influenced the psychology of the "saving" masses and of

those engaged in the various branches of economic activity. For those in possession of assets, unrest, lack of confidence and often panic have for too long alternated violently with short periods of calm to allow of the re-establishment of a period of tranquillity in the immediate future.

The uncertainty and instability of the principal financial markets were accompanied by a similar situation in international political relations, thus retarding still further the return of confidence which is essential to the re-establishment of normal economic relations.

The monetary events of the past year can be compared, for importance and its far-reaching consequences, with those of 1931, but, whereas the departure from the gold standard of sterling opened up a period of diverse systems of money control and of acute international economic contrasts, which resulted in a shrinkage of trade, the alignments which have taken place after five years seem to be the first step towards a less unstable relation between the internal and the external purchasing power of the various currencies.

The features of the foreign exchange market were in the early part of 1936 the attacks on the currencies of the gold bloc, the defence of which required large exports of gold, and later a process of adjustment, following on the currency alignments. In the first period the weakness of the currencies of the gold bloc contributed to the strength of sterling and dollars, which, as the result of their respective monetary policies, maintained with considerable stability the positions attained in 1934.

The Belga has also been mainly stable in the period under review, during which the gold standard was resumed by re-establishing, as from the 31st March, the convertibility into gold of the notes of the National Bank at a parity depreciated by 28 per cent. as compared with that fixed in 1926. Shortly afterwards, however, Poland, owing to commercial difficulties, was compelled to break away from the gold bloc, by introducing strict exchange control.

The attention of the international market remained, however, mainly concentrated on the French franc, which was subjected to heavy pressure, particularly between May and June. In spite of the intervention of the British and American Exchange Equalisation Funds, for the purpose of minimising the spot rate fluctuations, the

pressure was noticeable in the high margin on forward rates and in the gold losses, which greatly reduced the reserve of the Banque de France. (1) These circumstances, largely due to the action of the French people themselves, and causing in their turn increased internal financial and economic difficulties, helped to cause the French Government to propose to Parliament, on the 25th September, the reduction of the gold content of the franc, after having obtained from the United States and Great Britain the assurance that they would co-operate for the success of the operation.

As a result of the law of 1st October, 1936, the French franc has lost its character of a currency having a fixed gold content and has assumed temporarily the nature of a managed currency, between two limits corresponding to a gold content of 49 and of 43 milligrammes of gold of a fineness of 900/1000, involving a depreciation at the rate of 25·19 and 34·35 per cent. respectively, as compared with the franc of 1928. At the same time an Exchange Equalisation Fund was set up, with 10,000 million gold francs at the new parity, obtained through the re-valuation of the gold reserve of the Banque de France.

The features of the Swiss franc and of the Dutch guilder in the first period of 1936 were similar to those of the French franc, since the international exchange market felt that the above currencies would be unable to maintain their gold parity if it should be abandoned by the French franc. In fact, as from the 27th September, the Swiss franc was moved from a fixed gold parity of 290·32 milligrammes of fine gold to a variable parity between 215 and 190 milligrammes of fine gold, involving a depreciation of 25·94 per cent. and 34·56 per cent. respectively. As a result of the re-valuation of the gold reserve of the National Bank an Exchange Equalisation Fund was set up, amounting to 538·6 million Swiss francs. Holland, following the English example, confined its action to placing an embargo on the export of gold and created a similar fund, amounting to 300 million guilders in Treasury Bills.

In face of the action taken by the countries which formed the gold bloc, the Italian Government, as will be seen later, after

(1) A premium on forward sterling in Paris on the one month quotation reached a maximum of 36·76 per cent. in June and was 23·47 per cent. in September; whereas the premium on forward dollars reached the highest level of 35·29 per cent. in May and June, and was reduced to 25·27 per cent. in September.

mature consideration, re-established on the 5th October the gold value of the lira on the same level, as compared with the principal foreign currencies, as had been fixed in the stabilisation law of the 21st December, 1927, and which had been affected, with damaging results for our country, by the subsequent devaluation of all the above-mentioned currencies. After the re-establishment, on the new basis which reduced by about 41 per cent. the gold content of the lira, of the parity of 19 lire to the dollar, the Government have reserved the option (as in the United States of America) to carry out, if necessary, a further devaluation of 10 per cent.

As regards the minor currencies, the following features may be mentioned: a further devaluation by 15·99 per cent. of the Czechoslovakian crown and of 27·536 per cent. of the Roumanian leu; the adoption of the pound by Greece and Turkey as the basis of their respective currencies; and also the adoption by the Latvian lat of the sterling basis.

The agreement concluded on the 25th September, between the United States, Great Britain and France, to which other countries which aligned their currencies have adhered in principle, including Belgium, has substituted for the old conflict between the currencies of the sterling bloc and of the gold bloc (while the dollar maintained an apparently independent position, though in reality connected with sterling—a connection which was in fact established in 1934 and maintained in the two years 1935 and 1936) a new grouping, which is the first honest attempt towards wide international co-operation which has been made since September, 1931. This agreement is better defined as a monetary truce, since, while the desire is expressed “to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations,” it is said immediately after that “the Government of the United States and the Government of Great Britain, in their policy towards international monetary relations, must take into full account the requirements of the internal prosperity of the United States Republic and of the British Empire, while the French Government will naturally take into account similar considerations regarding the economic needs of France and of its over-seas possessions.” It is always subject to these considerations that the contracting parties express their intention to act in such a way that

“the greatest possible equilibrium in the system of international exchange should be maintained,” and they insist on the necessity of a common action to relax progressively the present system of quotas and exchange controls, with a view to their abolition.

Conversations which have since taken place, with the object of defining technical conditions for co-operation between the signatory countries, especially in connection with gold movements, led to fresh agreements, founded on the principle of reciprocity, by which the United States have declared that they are willing to sell gold to the exchange equalisation funds and foreign Treasuries, and/or fiscal agents operating on behalf of such Treasuries and guaranteed by them, provided that they, in turn, are prepared to sell gold to the United States at the price, and on the conditions, which are regarded by the United States Treasury as best suited to the public interest.

With the recent changes which have taken place in the currency systems, the exchange equalisation funds have acquired a paramount influence over international financial relations. The available means and the operations of the funds are kept in the greatest secrecy. Every precaution is taken to prevent speculative activity in the exchanges, and the path is left open for fresh adjustments of the value of currencies to national economic requirements and to isolating the home money market from the influences of the international market. It remains doubtful, however, whether the exchange equalisation funds can always easily check exchange speculation, if, for more or less well founded reasons, there is a general gain or loss of confidence in any particular currency: nor, on the other hand would it be possible to alter frequently and unilaterally the value of any currency without causing retaliations on the part of others in order to neutralise, at least partly, its effect.

Considering more recent events, especially in connection with international capital movements, and money rates, the process for the settlement of the various currencies on a sound basis, both internal and external, seems still far from finality, while the final stabilisation rates of certain European currencies are still uncertain, and the relation between the value of dollars and sterling still remains to be definitely fixed. It may be noted, however, that the extreme contrasting tendencies have been considerably narrowed down. (1)

(1) The sterling rate in New York, which had risen to over 5 dollars, fell suddenly, after the continental alignments, to close upon the old parity of 4.86 $\frac{2}{3}$.

Whereas the production of gold is increasing, (1) contrary to the most reliable anticipations of a few years ago, a steady migration of the metal towards the countries having a favourable balance of payments, or whose currencies, owing to the particular circumstances of the time, enjoy special confidence, is going on. This causes a disturbance in the export, as well as in the import, markets. In 1936, while the outflow of gold from the countries of the gold bloc contributed towards causing the fall in the respective currencies the influx into the United States has become a cause of great concern and has accelerated the process of credit expansion. (2)

The silver market, although having been less disturbed than in the years 1934 and 1935, still remains unstable. While production has further increased, (3) the United States Treasury have reduced their purchases at home and in the countries with which special agreements have been concluded.

The markets which were not subject to monetary disturbance maintained great liquidity, since, in order to meet contingencies and for financial reasons, a policy of easy money has been pursued. The low rates of interest have caused a further development in the activities of private enterprise and enabled the Governments to obtain on easy terms the necessary loans.

In New York the official discount rate of the Federal Reserve Bank has remained unchanged at $1\frac{1}{2}$ per cent. The steady inflow of gold and the increase in the Federal Public Debt, which in 1936 rose from 30.6 to 34.4 thousand million dollars, have brought about, in spite of efforts to check it, a credit expansion in which the elements of inflation are not lacking. It should be noticed, however, that in the

(1) The world output of gold in the past year amounted to 1,089,000 fine kilogrammes, as against 964,000 fine kilogrammes in 1935.

(2) In the first nine months of 1936 in France a net outflow of gold of 1,061,000 fine kilogrammes was recorded, while the United States and Great Britain during the whole year recorded a net inflow of 992,000 and 1,040,000 fine kilogrammes respectively.

The present gold movements, as is known, are not so dependent on trade as on capital movements. According to the calculations of the United States Treasury it is reckoned that between January, 1935, and September, 1936, there has been a net inflow of foreign capital into the United States of 2,282 million dollars.

(3) The world production of silver in 1936 amounted to 7.8 million fine kilogrammes, against 6.5 million fine kilogrammes in 1935.

money market a slight rise in the short-term rates has taken place as opposed to a fall in the medium and long-term rates, (1) owing to the investment of available funds in the money market and to the action of the Treasury in promoting the funding of the floating debt.

Also in London the discount rate has remained unchanged, at 2%. The monthly averages of money rates have been fairly steady, with a hardening in June and December of a seasonal nature. (2) Credit has further expanded and month by month in the year 1936 the banks' statements have shown new high records in the volume of deposits.

On the other hand, in the countries which formerly belonged to the gold bloc, the financial market, though directed towards a policy of easy money, was affected by the trend of the exchanges and by the outflow of capital.

The discount rate of the Banque de France was subject to wide fluctuations, reaching a maximum of 6% in May and June, with a minimum of 2 per cent. in the last months, the market rates fluctuating accordingly.

It was almost the same in the Dutch market, although money rates remained at a considerably lower level than in France ; whereas the Swiss market was very slightly affected by the monetary events and the rates became easier. (3)

The New York Stock Exchange has been definitely on the rise : the improvement in economic conditions, the high dividends, and the large money resources have contributed towards a progressive rise especially in shares.

In London the collapse of the gold bloc, by enhancing the hope of a new era of development in world trade, accelerated the Stock Exchange boom which had been in progress in the preceding months, thanks to the favourable trend of domestic economic development.

The French Stock Exchange was affected by the uncertainty of the economic and financial position. The prices of home securities were weak, until the de-valuation took place, but, after the alignment, a definite rising tendency set in, especially in the case of equities and foreign securities.

(1), (2) and (3) (See Table on page 10).

MONEY AND INTEREST RATES IN THE LEADING FOREIGN MARKETS.

(PER CENT. PER ANNUM.)

101

Year 1936	UNITED STATES				GREAT BRITAIN				FRANCE				SWITZERLAND				HOLLAND			
	Official discount rate of the New York Federal Reserve Bank.	Private Discount Rate for 90 Days' Bank Bills.	Rates for Day to Day Money.	Average Yield on Domestic Bonds.	Bank Rate.	Average Rate for 90 Days' Bank Bills.	Rate for Day to Day Money.	Average Yield of 3-50% War Loan.	Official Discount Rate.	Average Private Discount Rates.	Average Rate for Day to Day Money.	Average Yield of Long Term Bonds.	Official Discount Rate.	Average Private Discount Rates on Bank and First-Class Bills.	Rate for Day to Day Money (End of Month).	Average Rates on Bonds of the 12 Cantonal Banks.	Official Discount Rate.	Average Private Discount Rates.	Average Rates on Monthly Loans.	Average Yield of 4% Netherland's Loan, 1934.
January	1-50	0-125	0-75	4-04	2-00	0-56	0-50	3-10	5-00-4-00	4-24	3-64	4-93	2-50	2-48	2-50	3-92	3-00	2-39	2-331	4-05
February	1-50	0-125	0-75	3-95	2-00	0-56	0-50	3-10	4-00-3-50	3-73	3-40	5-00	2-50	2-37	2-50	3-92	2-50	1-27	1-621	4-06
March ...	1-50	0-125	0-75	3-95	2-00	0-56	0-50	3-11	3-50-5-00	3-61	3-01	5-24	2-50	2-26	2-50	3-92	2-50	1-21	1-652	4-07
April ...	1-50	0-125	0-75	3-97	2-00	0-56	0-50	3-08	5-00	5-01	3-59	5-25	2-50	2-25	2-50	3-92	2-50	1-16	1-262	4-055
May ...	1-50	0-125	0-98	3-96	2-00	0-56	0-50	3-09	5-00-6-00	5-86	4-06	5-32	2-50	2-25	2-50	3-92	3-50	2-17	1-855	4-07
June ...	1-50	0-125	1-00	3-94	2-00	0-78	0-50	3-13	6-00-5-00 4-00	5-63	5-36	5-38	2-50	2-25	2-50	3-92	3-50-4-50 4-00-3-50	4-02	3-904	4-13
July ...	1-50	0-125 0-1875	1-00	3-90	2-00	0-59	0-50	3-12	4-00-3-00	3-40	3-13	5-36	2-50	2-25	1-50-2-00	3-92	3-00	2-04	1-746	4-005
August ...	1-50	0-1875	1-00	3-85	2-00	0-56	0-50	3-10	3-00	3-13	2-80	5-63	2-50	2-25	1-50-2-00	3-94	3-00	1-36	1-193	4-03
September	1-50	0-1875	1-00	3-79	2-00	0-56	0-50	3-06	3-00-5-00	3-48	2-98	5-62	2-50-2-00	1-98	1-50-2-00	3-94	3-00	1-32	1-333	4-02 3-99
October...	1-50	0-1875	1-00	3-75	2-00	0-56	0-50	3-04	3-00-2-50 2-00	2-45	1-89	4-56	2-00	1-69	1-50	3-56	2-50	1-95	2-500	3-98
November	1-50	0-1875	1-00	3-71	2-00	0-56	0-50	3-07	2-00	2-11	1-73	4-68	2-00-1-50	1-46	1-00	3-50	2-50	0-96	1-562	3-99
December	1-50	0-1875	1-00	3-67	2-00	0-84	0-50	3-15	2-00	2-13	1-61	4-87	1-50	1-25	1-00	3-50	2-00	0-82	1-528	3-99

Italian economy in 1936 assumed a particularly national character. Well fitted for the effort to overcome obstacles and difficulties in the way of attaining its great goal, in the first part of the year, it had, in the realisation of the Imperial idea of Mussolini, the best inducement to prove itself worthy of the new and wider field of endeavour. The Italian Market

The economic siege and the hard fought and gloriously won war have created powerful forces, indicating the soundness and the possibilities of the economic structure, which was not weakened but well tempered by the struggle in which every Italian felt himself engaged.

The Italian market in every branch has followed the line of action which was clearly set, finding in itself such financial and economic resources as made possible the triumph due to the bravery of the fighting forces and to the faith and discipline of a strong and laborious people.

The Fascist Government regulated in every field, by timely decrees, the life of the country, and the party leaders, assisted by corporative and syndical bodies, were active in the performance of tasks of the highest value, which are still being carried out, and are specialising in the delicate task of price control.

Economic developments thus show evidence of a firm and constant will, aiming, in accordance with the "plan" drawn up by the Duce, at establishing gradually and methodically the country's economic structure on a basis which will finally ensure the greatest possible national economic independence.

Sanctions have given the most decided impetus towards the achievement of this plan and the economic life of the nation now proceeds within the framework of an organisation which is no longer imposed by special contingencies but has become normal in its development.

In the period of sanctions the scarcity of means of international payments imposed a reduction in the supplies of raw materials and goods from abroad. However, by utilising stocks, by technical alterations, by exploiting every national resource, and making use of agricultural and industrial by-products, the home manufactures

engaged in meeting the exceptional military requirements, in addition to the normal needs of the population, were able to maintain a satisfactory level, although various branches have been seriously hit by the shrinkage in exports.

By the timely provisions for reducing the foreign indebtedness of Italian banks and for attaining the largest measure of liquidity at home, it has been possible to face the financial sanctions and to meet all the credit needs of the home industries.

Subsequently, when international trade was resumed, and through the currency alignment, Italy was able to take part in the progress which has been made in world economy.

Signs of improvement in internal conditions are in fact visible, apart from the monetary factor, in the tendency towards the re-establishment of equilibrium between prices and costs, the greater confidence in investments, the considerable rise in deposits, due chiefly to the creation of fresh savings, the improvement in the stock markets, the satisfactory industrial output, the development in domestic trade, and the revival of tourist traffic.

Foreign Trade

An interesting aspect of economic events in Italy in 1936 is shown, as already mentioned, by the trend of foreign trade, excluding trade with Italian colonies. The above trend is shown by the total value of imports, which, between 1935 and 1936, fell from 7·7 to 5·8 thousand million lire, and the value of exports, which showed a smaller fall from 4·5 to 3·8 thousand million lire. At first sight these may appear favourable figures, since they show that the adverse balance of visible trade has been reduced from 3·2 to 2·3 thousand million lire, namely, by about one-third.

Analysing them, however, the effects of sanctions, which were enforced wholly or partially by the countries which took about one-half of the total exports, are apparent. After the contracts concluded prior to the 18th November, 1935, had been carried out, Italian exports to sanctionist countries, subsequent to January, 1936, were reduced to negligible figures.

At the same time, the war requirements called for large supplies from abroad, and for limitation, in other than war industries, of the

supply of foreign currencies required for the import of the necessary raw materials. In view, moreover, of the difficulties and the expense of market dislocations imposed on the export industries by the sanctionist bloc, it is apparent that a large adverse balance of visible trade was inevitable.

The effects of this hard fought war on two fronts were met, and minimised first by the imposition of counter-sanctions, consisting of the repeal of existing trade agreements with sanctionist countries and the strict check on imports from them, through the adoption of the licence system, by which imports were reduced to less than half their normal level. Moreover, trade was increased with non-sanctionist countries, in particular Germany and the United States. The maintenance of a large interchange of goods with these two countries was an element of the greatest importance for the resistance of Italy at the time of the sanctions.

The action of the State and the initiative shown by exporters were effective in securing, with the victory in the field, the victory of the Italian people on the sanctionist front, which was sealed by the repeal of sanctions in the month of July.

From the moment trade negotiations were resumed with former sanctionist countries, with the exception of the U.S.S.R., which resulted in agreements regulating Italy's trade by clearing arrangements on a parity basis, with a margin in Italy's favour whenever old indebtedness remained to be settled. As a result, trade was immediately resumed, with considerable benefit to Italian exports, which received further valuable assistance from the alignment of the lira. Imports have also shown a decided tendency to rise, owing to the larger quotas which were granted, in view of the generally improved exchange position and also of the desirability for not curtailing further the supply of raw materials for industries other than war industries, and, moreover, owing to the necessity of filling gaps in home agricultural output.

Thus, at the end of the year Italy's foreign trade has decidedly revived. The expansion of exports will now depend to a large extent on the improvements in the technique of production and trade organisation, and on the direction of foreign trade policy.

Agriculture

An unfavourable feature affecting the economic position of the country was the poor harvest, due to adverse climatic conditions, of most of the crops. In particular, the production of cereals was affected, and the wheat, rye, oats, barley and rice crops sank to the lowest levels of the last decade. Maize, however, gave a better yield, since conditions in the later part of the season were more favourable for that crop. The food requirements of the country which could only to a limited extent be satisfied by a larger use of home grown beans and potatoes, had to be met by additional imports, especially of wheat, from foreign countries. The Government have taken steps to relieve the distress of the farmers in the most seriously affected districts, by granting credit facilities and organising pools for the sale of agricultural produce at standard prices, in order to ensure a reasonable remuneration to the farmers for their goods. The pooling of wheat was made compulsory by legislation, and for other cereals voluntary pools were arranged. The marketing of rice was regulated by the Ente Nazionale Risi. The industrial crops, particularly hemp, flax and cotton, gave more satisfactory yields, thus contributing to the national economic independence. For these too legislation was enacted for regulating the areas under cultivation and for pooling the crops under the control of the appropriate corporative bodies. The crop of sugar beet, in spite of the larger acreage sowed was unsatisfactory.

Legislation was also enacted as a result of the very poor crop of olive oil, requiring the grading of home produced oils and reducing the excise and import duties on oil-seeds. As regards wine, measures were taken for utilizing, if necessary, a portion of the surplus 1935 stocks for distillation purposes. At the time of the new vintage, the grapes used for the manufacture of household wine were exempted from excise duty, and under a new Decree, which has recently been approved by the Cabinet, measures have been adopted for the regulation throughout of wine production.

A new department has been set up at the Ministry of Agriculture and Forestry for agricultural planning, the marketing of produce and financing it; this affords further evidence of the particular importance which the Government attaches to agricultural problems.

Industry

During 1936 industrial activity, stimulated by the needs of the moment and by the pressure of sanctions, was marked, as already

mentioned, by a definite tendency towards the attainment of the greatest possible economic independence.

This line of action required the modification of the industrial plant and of technical processes, in order to secure the fullest exploitation of national resources, which enabled certain industries mainly devoted to the export trade, to meet the difficulties imposed by sanctions. Thus, certain branches of the mining industry and those making use of products of the soil for manufacturing purposes, were busily engaged also during the period of the sanctions, in manufacturing goods to replace those formerly imported from abroad.

The Government, assisted by the syndical organisations, adopted timely measures for helping the technical transformation of industries which were not sufficiently developed to meet national requirements. Action was especially directed towards the development of coal-mining and towards promoting the production of synthetic liquid fuel, the use of various agricultural products or by-products for the production of alcoholic fuel, the development of crops for the supply of raw materials for making cellulose, and the use of other raw materials, in order to extend the production and use in the textile industries of natural and artificial Italian fibres. (1)

The need for making the fullest possible use of the industries which are most essential for national defence induced the Fascist Government to extend State control to them. With the same object in view, steps were taken to exploit and co-ordinate more effectively the national sources of electric power. (2)

The well-planned re-organisation of national economy has found a powerful instrument in the control of the creation of new industrial plant and the expansion of existing plant. This task, which had been

(1) Among the bodies which have been created for the exploitation of national resources, the following may be mentioned: the Azienda Carboni Itali (coal), the Azienda Italiana Petroli Albania (oil), the Azienda Nazionale Idrogenazione Carburanti (petrol), the Azienda Minerali Metallici Italiani (metals), the Ente Nazionale per la Cellulosa e per la Carta (cellulose and paper).

(2) Particular importance attaches to the provisions of the Royal Decree Law No. 886 of the 16th April, 1936, by which a Central Electricity Board was set up, with the task of controlling all activities concerning the production, distribution and use of electricity, and the studying and carrying out of all provisions for ensuring an increase of the available electric power which may be needed in case of war, and of promoting and regulating the civil mobilisation of all electricity enterprises.

The Board has been given full powers of control over these enterprises, which may also be exercised by the appointment of officers for disciplinary purposes. For the execution of its technical tasks, an office for the mobilisation of electric power has been set up, including a special body of observers for surveying the output, distribution and use of electricity.

entrusted by the law of 1933 to a special Board, has now been transferred to the Corporations which are more competent to appreciate the problems concerning each economic branch of economic activity, not only as regards immediate requirements, but also with a view to the possibilities and necessities of the future.

Similarly, under the Royal Decree Law No. 1296 of the 16th April, 1936, and the Royal Decree Law No. 1689 of the 11th May, 1936, the existing voluntary consortiums, as well as special bodies and institutions which had been set up to regulate certain branches of production, (1) were placed under the control of the respective Corporations, so as to ensure that their action should conform to the general policy.

Limited Companies

In the year 1936 there was a net increase of 125 limited Companies with a paid-up capital of 710 million lire; on the 31st December, 1935, 19,353 Companies were in existence with a capital totalling 44.8 thousand million lire. The average capital of each Company is thus 2.3 million lire, which is slightly higher than it was at the end of 1935.(2)

Important provisions affecting Companies were enacted in 1936, especially as regards the income tax assessment, the dividends and audit.

As regards the fiscal provisions, the Royal Decree Law No. 1231 of the 8th June, 1936, introduced a new basis for tax assessment subject to adjustment according to the actual results. The same law provides for the taxation of untaxed reserves of previous years, if and when distributed to shareholders, allowance being made for certain expenditure.

Regarding dividends, the Royal Decree Law No. 1744 of the 5th October, 1936, by which a progressive tax on dividends was imposed,

(1) The Istituto Cotoniero Italiano (cotton), the Ente Nazionale della Moda (fashions), the Azienda Minerali Metallici Italiani (metals), the Camera Agrumaria (citrus fruit), the Ente Nazionale Serico (silk), the Ente Nazionale Risi (rice), the Azienda Carboni Italiani (coal), the Ente Nazionale per la Cellulosa e per la Carta (cellulose and paper), the Ente Nazionale per l'Artigianato e le Piccole Industrie (handicraft and small industries), and others.

(2) The amount of new capital issued by limited companies was 2,962 million lire, of which only 354 million were in respect of 1,976 new companies, and the balance of 2,680 million lire was in respect of increased capital of existing companies. On the other hand, capital reductions amounted to 2,252 million lire, of which 925 million lire were due to the winding-up of 1,851 companies, whilst 1,327 million lire were written off the capital of existing companies. In the various categories the most important increases affected chemical companies (443 million), mining companies (290 million), metallurgical companies (145 million lire); whereas the most important reductions were for banks (145 million lire) and financial companies (194 million lire).

has re-established freedom in the distribution of profits by Companies. The progressive taxation is intended to avoid speculative fluctuations in share values and to oblige the directors of limited Companies to refrain from the policy of making too lavish distributions of profits to shareholders.

The audit changes which were enacted by the Royal Decree Law No. 1548 of the 25th July, 1936, aimed at making more effective the control exercised by Auditors.

Another measure enacted by the Royal Decree Law No. 163 of the 4th February, 1937, regulates the re-valuation of plant on the basis of the currency alignment, forbids the total or partial distribution of the proceeds of such re-valuation, or their use for increasing the capital of the Companies. The proceeds of such re-valuation may be placed to reserve and are not subject to the progressive tax on dividends enforced by Royal Decree Law No. 1744, of the 5th October, 1936. The above measures are intended to ensure that the balance sheet of Companies shall not be inflated by premature re-valuation of their assets.

The trend of bank deposits in the year 1936 has been favourable. Deposits The total amount thereof rose in the year from 61·5 to 68·9 thousand million lire. Of the latter amount 8·2 thousand million lire were held by public law credit institutions, 9·7 thousand million lire by public law banks, 10·5 thousand million lire by other joint stock banks, 19·3 thousand million lire by the larger savings banks, and 21·2 thousand million lire by the Post Office Savings Bank.

The importance of the rise in deposits as an index of the economic recovery is shown by the fact that the increase has not only taken place in the case of ordinary savings banks and the Post Office Savings Bank, but also in the case of the joint stock banks.

After a lengthy period of steady shrinkage in business, Stock Stock Exchange Exchange activity revived considerably during the last months of the year 1936 ; the volume of transactions rose to the same level as that reached in the middle of 1935 and the prices of shares rose to nearly double the lowest quotations touched in June, 1932.(1)

(1) The more active shares were those of the electrical, motor car and rayon companies. Between December, 1935, and September, 1936, the rise in prices was slow and well distributed among all groups, whilst from September to December, 1936, it became swifter and moved from one group to the other. The general index of share values, calculated by Professor Bachi, was 12·55 per cent. in September, and 28·77 per cent. in December, 1936, higher than in December, 1935. Among the most affected were four of the five textile groups, whilst the industrial groups serving exclusively the home market, which had not fallen substantially in previous periods, were less affected,

The above trend was brought about by higher internal prices and in the case of certain industries, particularly the textile industry, by the better openings for export trade as a result of the repeal of sanctions, and by the conclusion of new commercial agreements. Moreover, the re-valuation of industrial plant cannot be disregarded as a psychological factor. The influence of the progressive tax on dividends has been scarcely noticeable, since it was partly set off by the repeal of the limitation of dividend distributions above 6%.

Dividends distributed in 1936 gave an average yield slightly below 5% and, in the case of bearer shares (owing to the 10% tax) rather less than $4\frac{1}{2}\%$ based on the value of shares in December of that year. (1) On the other hand, the yield on Government securities is slightly above 5%. This is due to the requirement of last October of a cash margin of 25% for contango operations, in order to curtail speculation.

Owing to such provisions, the amount of cash transactions has increased, being mainly in respect of Government securities, whereas transactions in shares are almost entirely for contango settlement. (2)

Price Levels and
Cost of Living.

In Italy, as well as in many other countries, the trend of wholesale prices and of the cost of living has shown during 1936 a constant tendency to rise, which has been maintained during the first months of 1937. On the Italian market this tendency, which was the outcome of the rise in world prices and in the exchange rates, began to be noticeable during the second half of the year 1934.

(1) Professor Bachi calculates the following yields on Government securities and on shares which have paid a dividend in the last twelve months :—

1936			On Government Securities	Yield (per cent.) On Quoted Shares	Difference
July	...	...	4.65	5.20	— 0.55
August	...	...	4.69	5.15	— 0.46
September	...	...	4.63	5.45	— 0.82
October	...	...	5.21	4.89	+ 0.32
November	...	...	5.12	4.86	+ 0.26
December	...	...	5.10	4.78	+ 0.32

(2) In 1936 cash transactions in bonds amounted to 860.5 million lire and contango transactions to 3,508.4 million lire, so that cash transactions were in the proportion of 19.7 per cent. of the total.

In the same period cash transactions in shares amounted to 47.2 million lire and contango transactions reached 5,084.3 million lire, so that the cash transactions were only 0.9 per cent. of the total.

Between September, 1935, prior to the beginning of the Abyssinian War, and September, 1936, when prices of certain commodities were fixed subsequent to the alignment of the lira, there was an increase, according to the indices of the Central Statistical Institute, of 7·7 per cent. in wholesale prices, 9·3 per cent. in retail prices and 7·8 per cent. in the cost of living. Further rises, of 5·6, 5·5 and 4·1 per cent. respectively, have taken place between September, 1936, and February, 1937.

The rising tendency has been checked by the severe price control exercised by a special Board, which was created in October, 1935, as part of the Executive of the National Fascist Party. This Board, which was formed with the object of preventing violent movements in the domestic market and unjustifiable rises in the cost of living during the exceptional period of the Abyssinian War and of the economic siege, has extended its control subsequently to all commodities, by virtue of Royal Decree Law No. 1746, of the 5th October, 1936.

This decree, which formed part of the legislation respecting the the alignment of the lira, contains drastic regulations for avoiding unjustifiable and excessive rises in prices, especially in those commodities and services which primarily affect the cost of living, and for safeguarding thus the purchasing power of the lira and the welfare of the less well-to-do classes.

The regulations apply to prices of commodities, to rents of all kinds, and to services, each group being separately considered. As regards commodities, it is forbidden to sell these at prices higher than those fixed by the Central Price Control Board and by its subordinate Provincial Inter-syndical Boards, and, in cases where prices are not so fixed, at a price higher than that ruling in the month of September, 1936. In the case of rents of town houses and country estates, no increase was permitted for a period of two years, and a similar limitation applied also to the prices of certain essential services such as water, electricity, gas, transport and freights.

Prices, however, have not been definitely fixed in every case, allowance having been made for readjustments due to actual and unavoidable increases in costs.

The Central Price Control Board may, therefore, authorise and regulate such adjustments as may become necessary, with the co-operation of the Syndical organisations, who examine the demands for price revisions, which have to be submitted to the Central Board.

A greater elasticity is permissible for those commodities which are not in general use or which may be regarded as luxuries. There has been, therefore, a tendency to equalise the returns in industry and commerce, since the drastic regulations concerning the prices of commodities in more general use are offset by lesser restrictions on the prices of more expensive commodities, and in particular of those commodities the importation of which from abroad is permitted.

In order to make the above regulations effective, heavy penalties have been prescribed, and in certain cases applied to those guilty of illegal hoarding, and all attempts to cause an artificial shortage of commodities in more general use, by camouflaging their nature, have been severely punished.

The Budget

The ordinary Budget for the financial year 1935-36 closed with an actual deficit of 1,550 million lire, or 1,657 million lire less than had been estimated. The ordinary Budget does not include the appropriations for extraordinary requirements in East Africa, which, in the course of the financial year, amounted to 11,135·5 million lire. (1)

For the present financial year, the estimated surplus of 20 million lire in the ordinary Budget, is the result of financial proposals, indicated in the last Report, for the purpose of increasing receipts by 2,323 million lire, mainly in respect of the larger yield from excise duties and business taxes which were subject to various

(1) The extraordinary appropriations for East Africa were made and distributed as follows :—

APPROPRIATIONS.			ALLOCATIONS TO MINISTRIES.		
Decree	Total Amount (millions of lire)		Ministries		Appropriations (millions of lire)
June 27th, 1935, No. 1044	1,000	...	Colonies	...	3,650
September 5th, 1935, No. 1676	2,500	...	War	...	4,667·3
October 21st, 1935, No. 1855	30	...	Navy	...	1,125
December 9th, 1935, No. 2112	1,000	...	Air	...	1,350
January 6th, 1936, No. 1	640	...	Foreign Affairs	...	0·8
February 6th, 1936, No. 181	1,530	...	Home Affairs	...	329·7
March 9th, 1936, No. 409	950	...	Finances	...	12·7
April 16th, 1936, No. 593	1,440·5	...			
May 11th, 1936, No. 839	2,045	...			
Total	11,135·5	...	Total	...	11,135·5

adjustments. It should be noted, however, that subsequent provisions, which were necessary in the light of changed economic conditions, such as the reduction in the sale price of petrol and other mineral oils after the repeal of "sanctions" and the reduction of customs duties and the abolition of the *ad valorem* duties after the alignment of the lira, will result in reducing the estimated additional yield from these taxes.(1)

Special mention should be made of the readjustment which is taking place in the accounts of the State Railways, for which in the past year a deficit of 900 million lire had been estimated. By an increase of about 600 million lire in receipts, due to improved traffic returns, and the reduction of about 300 million lire in expenditure, the position should be balanced in the present year.

The net increase of 646 million lire in expenditure for the financial year 1936-37, as compared with the previous financial year, is due almost entirely to the interest on the 5 per cent. Consolidated Loan, which was issued to meet the special requirements in East Africa.

From the above estimates it is reasonable to hope that the adverse Exchequer cash position will not be too unfavourable, since, if certain items of expenditure expand and certain revenues are curtailed, there should be larger yields from direct taxation, business taxes and excise duties, as the result of increased manufacturing activity through the revival of domestic trade, rising prices, and the fuller assessment of incomes. Moreover, fresh receipts will accrue from the progressive tax on dividends of limited Companies, which

(1) The following are the details of the foregoing taxation changes :—

- (a) The yield of the increased duties on petroleum, petrol, crude oils, lubricating oils and by-products, which was estimated at 645 million lire, will show a fall as a result of the subsequent reductions in the duties, which had also been heavily raised with the object of limiting the consumption of these products during the economic siege.
- (b) The increased Customs duties on cotton, wool, coal and coke ; the new excise duty on artificial textile fibres ; the increased excise duty on the consumption of electric power, the additional yield from which was estimated at 613 million lire. However, the above items will also be affected by subsequent provisions, such as the repeal of *ad valorem* Customs duties, and the reduction of Customs duties on commodities in more general use.
- (c) A licence tax on imports, the yield from which was estimated at 180 million lire.
- (d) Various provisions relating to business taxes, including a transport tax to balance the railway budgets, the net additional yield from which is estimated at 832 million lire.

will be operative for the financial year of the Companies in being on the date of publication of the Decree instituting the tax (5th October, 1936).(1)

Special importance attaches to the fiscal reform effected by the Royal Decree Law No. 1639 of the 7th August, 1936, by which, in addition to a requirement for the closer assessment of incomes and of transfers of capital, in order to ensure a more equitable distribution of the fiscal charges, the whole system is adjusted on Corporative lines and the Syndicates have to co-operate with the Revenue Authorities. Accordingly, incomes are assessed in the light of the individual's occupation, based on the average yearly income earned by persons engaged in each Corporative activity. The law empowers local assessors to establish, in collaboration with the Syndical bodies, uniform standards of assessment subject to individual fluctuations. Under the new order it will be possible, therefore, on the one hand to check evasion and to assess incomes and transfers of capital with greater exactitude, and, on the other, the taxpayer will not be liable to unjustifiable assessments by the Revenue Authorities.

Moreover, by requiring all taxpayers to establish a domicile for taxation as well as for civil purposes and by setting up a fiscal register, on which the names not only of the actual but also potential taxpayers are inscribed, a better basis for fiscal inquiry and for the ascertainment of actual tax-paying capacity has been ensured.(2)

The estimates for the financial year 1937-38 include an increase of about 3,500 million lire in expenditure as compared with the previous year. Of this amount, over 1,200 million lire, are accounted for by the new permanent charges for organising and developing the territories in Italian East Africa, charges which increase fourfold the expenditure of the Colonial Office. Further, an increase in expenditure of 941 million lire falls upon the Finance Ministry, chiefly in respect of additional interest on Public Debt. The armaments programme,

(1) So far no very substantial increases are included in the supplementary estimates. The most important are those due to the requisition of wool (124 million lire), the supplies of material for the War Ministry (48 million lire), the purchase of material and maintenance of arsenals (56 million lire), the purchase of liquid and solid fuel for the Navy (28.8 million lire), defence works in the home territory (22 million lire), public works in the Caserta district (34.7 million lire), the contribution to the National Insurance Institute for Ex-Service Men policies (30 million lire), and the contribution to the National Fascist Social Insurance Office for family subsidies (32.2 million lire).

(2) Among fiscal measures mention should be made of the new national body which has been created for collecting municipal excise duties.

especially for the Navy and the Air Force, which was necessitated by the international situation, has brought the total of ordinary expenditure on the armed forces, from 4,800 to 5,500 million lire.

A net increase of receipts of 285 million lire is estimated, as compared with the financial year 1936-37, chiefly on account of the extraordinary real estate duty and of the increase, on a conservative calculation, of certain items of revenue based on their present yield and on the visible signs of gradual recovery.

In order to meet the expenditure required for Empire develop- Real Estate Loan
ment and for further defence requirements, real estate has been called on to make its contribution, since, although to some extent affected by the crisis, it now enjoys better conditions and benefits from the consequences of the currency alignment. The Royal Decree Law No. 1743, of the 5th October, 1936, authorised the issue of a 5 per cent. redeemable loan, to be paid off in 25 years by drawings, beginning from the 1st January, 1938. Owners of real estate, with few exceptions, are required to subscribe to the loan for an amount equal to 5 per cent. of the value of the property owned, which is calculated, after deducting existing mortgages, on the basis of the rateable value assessed in 1936. They are also liable to a special duty for a period of 25 years, which is fixed at the rate of 3.50 per mille of the value assessed as above.

The loan has been so arranged as to ensure a perfect relation between the annual yield of the special duty and the sum required by the Exchequer for meeting the interest and sinking fund on that part of the loan to which subscription is compulsory. Immediate remission of the duty may be secured by a cash payment of 90 per cent. of the amount to be subscribed, while, subsequently, remission can be obtained at any moment by surrendering the bonds. Immediate redemption has undoubted advantages for the tax-payer, both because it reduces considerably the total burden of the duty and because the value of the property is automatically higher.

This operation has been facilitated by the authority given to all banks to allow advances against the new bonds up to 90 per cent. of their face value, within the limits of 10 per cent. of their available funds ; and by the authority given to the Banca d'Italia to grant on

similar terms advances to other banks. It is reasonable to expect that such advances will not lead to a heavy increase in the circulation of notes, both owing to the liquidity of the banks and to the facilities available for these requirements.

On the other hand, the banks which have received such advances must remember that their repayment must be made partly out of existing savings and partly out of fresh savings, and that, therefore, in addition to the sums which their customers will be gradually repaying, they will also have to set aside a certain portion of the funds available from other sources.

The numerous owners of property valued at less than 10,000 lire are exempted from compulsory subscription. Thus, the small land-owner has not been made liable for a charge which he would have found very burdensome.

Owing to the exemptions which have been allowed and to the basis of the valuation, the average yield of the loan should be substantially less than 5 per cent. of the total value of the private real estate in the country.

The Banca d'Italia is contributing towards the success of the operation not only by making advances to banks without the necessary means, but also by enabling its local branches to make direct advances in cases where the local banks are unable to meet the demands of their customers.

In order to assist in the financing of the general land reclamations scheme, the Treasury has been empowered by the Royal Decree Law No. 2370 of the 19th December, 1936, to issue special registered bonds called "Credit Certificates for Financing Land Reclamation." By means of these bonds those entrusted with reclamation work will be able to market without difficulty the annuities owing to them as a State contribution.(1)

(1) The bonds will be issued within limits which shall be fixed every six months by Decree of the Prime Minister on the basis of the annuities due from the State which the concessionnaires, on receiving the bonds, return to the Treasury. For the first six months of the year 1937 the limit has been fixed by the Decree of the 18th February, 1937, at 400 million lire.

The bonds, which are redeemable in 30 years, bear interest at the rate of 5 per cent. per annum and are exempt from all present and future taxation, being to all effects and purposes equivalent to other Government securities, of which they enjoy all the guarantees and privileges.

The banks and insurance companies are authorised to take over such bonds and to use them as security, or to include them in their legal reserves and to transact therewith all financial operations which may be necessary.

The past year was of exceptional importance with regard to ~~The Money Market~~ the defence of the lira, in view of the complex economic and financial problems which arose. These were solved, thanks to the special organisations already in existence, for a considerable time.

The Under Secretary of State for Trade and Exchanges, as a result of the extension of his functions, was in a position to regulate Italy's trade relations with other countries, and under the Royal Decree Law No. 1131 of the 8th June, 1936, his jurisdiction was extended to Italian East Africa.

The National Institute of Exchange, having been in its turn converted into an executive organ of the Under Secretary, was finally reorganised under Decrees of the Finance Minister, dated the 4th March, and the 23rd June, 1936, by which its functions were confirmed as the sole controller of foreign exchanges and gold, as well as administrator, on behalf of the Treasury, of foreign credits and securities subject to requisition. In the course of this reorganisation the Committee of the Institute was dissolved and its functions were transferred to a new Board, while a new Technical Committee was set up, presided over by the Governor of the Banca d'Italia, for examining the demands for exemption and all controversial matters concerning the compulsory handing over of foreign credits and securities.

The task of enforcing the foreign exchange regulations continued to be entrusted, on the technical side, to the Inspectorate for Exchange Operations of the Banca d'Italia. The latter has also been concerned with the carrying out of the Royal Decree Law No. 1614 of the 28th August, 1935, by which the handing over to the Institute of foreign credits and foreign or Italian securities issued abroad was made compulsory. The Inspectorate has received altogether about 70,000 declarations and has sent out over 74,000 demands.

The regulations for the handing over of foreign assets were completed by the Royal Decree Law No. 1631 of the 7th August, 1936, which required Corporations or persons of Italian nationality owning foreign credits or securities, of which they had come into possession after the 28th August, 1935, to surrender them at current rates and prices. Subsequently, by the Royal Decree Law No. 2197

of the 28th December, 1936, it was deemed desirable to exempt from the obligation of surrendering such assets Italian citizens who were re-establishing their residence in Italy or foreigners having acquired Italian citizenship after the 8th January, 1937, and also Italians residing in Italy possessing foreign securities received as dowry or inherited from foreigners.

Moreover, since the alignment of the lira required an adjustment of the exchange rate in the case of foreign credits and securities still due for surrender under the Royal Decree Law No. 1614 of the 28th August, 1935, the above Decree provided that, as from the 6th October, 1936, the current rate of exchange should apply.

Finally, in order to assist in the recovery of foreign trade relations, the same Decree allowed commercial companies, corporations and firms, the scope of whose activities was mainly in foreign countries, to maintain accounts in foreign currencies and use for their own trade requirements foreign balances or proceeds of foreign securities, from the surrender of which to the Institute they had been exempted.

With the same object, the Royal Decree Law No. 1 of the 11th January, 1937, has established a system for enabling exporters to receive advances from the banks on sums due to them from foreign countries, to be settled under clearing arrangements.

In the past year, progress has been made—either in normal course of events or through special agreements concluded with the various countries—in thawing the frozen lire balances owned by foreign holders, which had been blocked under the Decree of the 16th November, 1935, in the so-called “old lire accounts.” Moreover, as from the 1st December, 1936, foreigners and residents abroad have been entitled to open with the banks who are agents for the Institute or which work under the auspices of the Banca d'Italia, “free accounts” in lire or foreign currencies, which are not subject to any restrictions whatsoever, either for payments in Italy or for the conversion of the lire into other currencies.(1)

(1) “Free accounts” may be composed of the following:—

- (a) Remittances in freely transferable foreign currencies and bank notes ;
- (b) Remittances in Italian token coins ;
- (c) Remittances of drafts in lire or foreign currencies issued by members of the Italian diplomatic and consular services abroad ;
- (d) Amounts collected in lire for consular rights or dues by representatives of foreign countries in Italy ;
- (e) Remittances of drafts in lire or foreign currencies issued in respect of bunker supplies ;
- (f) Foreign currencies payable by banks in urgent cases without special authority
- (g) Amounts in foreign currencies transferable abroad, duly authorised by the National Institute of Exchange ;
- (h) Cheques, orders of payment or *giro conto* drawn upon another free account ;
- (i) Amounts in respect of imports from countries with which clearing arrangements are not in force, subject to special authorisation of the National Institute of Exchange.

The National Institute of Exchange, in agreement with the Inspectorate for the Defence of Savings and the Granting of Credit Facilities, has given instructions concerning the rates of interest to be allowed on such accounts, and the use to which the funds therein deposited may be put.

At the same time, foreigners and residents abroad have also been entitled to open "free deposits" in which foreign as well as Italian securities may be held, provided that these are purchased by means of a remittance in a freely transferable foreign currency, or by using balances held in a "free account."

In accordance with precedent, the Finance Minister has been authorised to issue 1 to 3-year Treasury Bills in foreign currencies, to be placed abroad. The above Bills, according to the Ministerial Decree of the 6th March, 1937, may be issued in United States dollars, sterling, Swiss francs, French francs, guilders, and Swedish kronor.

Moreover, in order to increase the receipts from the invisible item represented by visitors to the country, the Royal Decree Law No. 410, of the 20th March, 1936, authorised the National Institute of Exchange to issue special Tourist Letters of Credit, Orders for payment for Reimbursement of Tourist Services and Tourist Cheques, non-transferable, drawn in lire upon the Institute itself, for delivery against payment in freely transferable foreign currencies.

The service of the issue of Tourist letters of credit and cheques abroad was entrusted to banks and touring agencies, while the regulation of the operations was entrusted to specially authorised banks and agents in Italy.

The National Institute of Exchange fixes, with the approval of the Finance Minister, the rates for Tourist Lire. These were originally fixed at a discount of about 25 per cent., as compared with the official rate, while, after the alignment of the lira, there has been a margin in favour of the Tourist Lira, of about $6\frac{1}{2}$ per cent., which has recently been raised to about 10 per cent.

Appropriate regulations have fixed the daily maximum amounts of Tourist Lire which each person may use (1) and the procedure for the re-exportation of the unused Tourist cheques and letters of credit, as well as of unspent lire.(2)

(1) The limits were fixed for each person over four years of age at 250 lire per day, which were reduced to 200 lire for holders of hotel coupons of the Federazione Nazionale Fascista Alberghi e Turismo, or to 150 lire for holders of other tourist coupons. In February, 1937, the above limits were raised to 350, 300 and 250 lire respectively.

(2) Holders of tourist letters of credit and tourist cheques can obtain the refund in foreign currencies of unused sums within the limit of 1,250 lire per person, which in February, 1937, was raised to 1,500 lire, at the selling rate for tourist lire, with a deduction of 5 per cent. to cover commission and expenses.

On the other hand, it has proved necessary to restrict the return to Italy of Italian currency and bank notes and lira securities of all kinds, and of coupons thereof. Thus, under a Decree of the 25th May, 1936, it was forbidden to introduce from abroad into Italy, Italian currency or bank notes by mail, or to introduce lira securities or coupons in any other form than by a mail remittance to the Banca d'Italia or to one of the banks who are agents for the Institute. Moreover, travellers were forbidden to export or import more than a certain amount of Italian currency either in the form of notes or coins.(1)

At the same time, the Institute granted greater facilities for the supply of foreign currencies to those who have to travel abroad.
(2)

An event of paramount importance in 1936 was the provision of the Royal Decree Law No. 1745 of the 5th October, 1936, by which the gold content of the lira was reduced from 0.07919 to 0.04677 grammes fine.

As already mentioned, the above provision was due to monetary events and to the trend of the markets in recent years.

(1) Persons entering or leaving Italy may not bring into or take out of the country more than 300 lire in bank notes of denominations not exceeding 100 lire and currency notes, nor more than 50 lire in Italian coin. Further limitations apply to the inhabitants of the frontier zone who, on account of their work or other reasons, must frequently cross the border.

(2) The supplies of foreign currencies for persons travelling abroad must be entered in the passport and a special form must be filled in for the necessary control.

Banks who are agents for the National Institute of Exchange may supply travellers direct up to the equivalent of 2,150 lire. Other authorised agents may supply up to the equivalent of not more than 500 lire per person. Larger supplies must in any case be authorised in advance by the National Institute of Exchange.

The quotas which have been fixed with countries with which tourist agreements have been concluded are the following :—

- (a) AUSTRIA.—Austrian schillings to the equivalent of 2,650 lire.
- (b) GERMANY.—Registered marks or other means (tourist or hotel coupons) up to the equivalent of 2,650 lire, which can be increased to 3,000 lire by reducing accordingly the amount in lire which the traveller is entitled to have.
- (c) SWITZERLAND.—Foreign currencies up to 2,150 lire, tourist and hotel coupons, to be entered in the passport for a further 1,000 lire, plus the Italian currency to which the traveller is entitled, so that altogether a sum of 3,500 lire is not exceeded. The same person may not obtain the above supplies more than three times in one year.
- (d) HUNGARY.—Registered pengöes up to 2,650 lire, which may be raised to 3,000 lire by reducing accordingly the amount of lire which the traveller is entitled to have.
- (e) FRANCE.—Foreign currencies and coupons up to 2,650 lire which may be raised to 3,000 lire by reducing accordingly the amount in lire which the traveller is entitled to have.

In the years 1927-28, by the stabilisation of the two leading Latin currencies, the period of monetary uncertainty following the War seemed at an end ; but world economy had not shaken off the effects of the previous general inflation of currencies and credit.

The expansion of paper money had its effect on investments and purchasing power, causing a rise in world gold prices to about 50 per cent. above the pre-war level. The crisis which came in the autumn of 1929, and subsequent developments showed the artificial nature of what had appeared to be a position of natural equilibrium.

The fall in prices, the slowing down of economic activity and the difficulties in the way of international trade, gave rise to problems of the maintenance of outlets for export trade, of preserving the earning capacity of business enterprises, and of reducing the growing burden of indebtedness. Owing to these difficulties the two great English-speaking countries were forced, in 1931 and 1933, respectively, to abandon the gold parities of their currencies, many other countries following suit.

Further similar problems had to be solved in those countries which had remained faithful to gold and which found themselves placed in a particularly disadvantageous position owing to the trend of prices and the dislocation of international trade, largely dominated by the countries with a depreciated currency.

Due consideration should be given to the fact that trade relations are more dependent upon the stability in prices and exchange rates than upon the stability of the currency's gold content, and it may be said, in fact, that the stability of the gold content of a currency is only important because it expresses simply and approximately the basis of the stability of that currency, measured in commodities and in other currencies. This was the experience of long periods of economic normality, during which the value of currencies moved very slightly.

But if, in those days of limited fluctuations in prices and of normal trade relations, confidence in the gold standard was consistent with the stability of internal and international trade relations, after the fall of the pound, and still more after the fall of the dollar,

there is no doubt that the traditional conditions attached to fixed gold content currencies was broken.

For about five years the value of gold has swiftly appreciated in terms of commodities and it has become most unstable as a measure of values. The purchasing power of currencies with a fixed gold content has increased and this appreciation of purchasing power in terms of commodities has, as the result of devaluation of other currencies, led to a rise in their exchange rates.

The provision of the 5th October, by which the gold content of the lira was reduced by 40.94 per cent., re-establishes the equilibrium which existed at the time of the previous stabilisation, both in the relation between the lira and other currencies and between internal and world price levels.

In fact, on the new gold basis, the change in home prices as compared with the year 1928, expressed in gold, is in close conformity with the average changes which have taken place in the leading foreign markets. Thus, the handicap on Italian exporters who were affected by the fact that the fall in internal gold prices during recent years had been much smaller than in the countries where currency depreciation had taken place has been eliminated.⁽¹⁾ Moreover, the alignment of the lira should considerably improve the yield from Italian shipping freights and from remittances of Italians abroad, both in lire and in foreign currencies, items which are of great importance for Italy's balance of payments.

The special conditions under which the adjustment of the gold content of the lira has taken place should not, however, lower the internal and external purchasing power in terms of commodities and exchange rates of the currency below the levels corresponding to the period which immediately followed the previous stabilisation. At the present gold prices the purchasing power of the new lira exceeds by over 30 per cent. the purchasing power of the lira of 1927 in respect of commodities of international use.

(1) In the trade agreements concluded with former "sanctionist" countries up to last September (France, Norway, Czechoslovakia and Sweden) compensating premiums at the rate of 15 per cent. have been fixed in favour of Italian exporters, while, on the other hand, a compensation duty of 20 per cent. was charged to Italian importers. The above premiums and duties were cancelled at the time of the alignment of the lira.

In the domestic market the rise over the 1927 level is more than 25 per cent. in the case of wholesale prices and about 20 per cent. for retail prices. There is thus a considerable margin for the inevitable adjustment of prices within the limits of the purchasing power of the 1927 lira. However, the position needs to be carefully watched, so that rising world prices or the course of local events may not reduce too much or too quickly the above margin. The currency, which, by virtue of the strict control over international movements of merchandise, gold and capital, has been partly released from the traditional rules governing the gold reserves, is now dependent on the wise management of the monetary and financial policy rather than on automatic control.

Article 4 of the Decree altering the gold content of the lira provided that the proceeds of the re-valuation of the gold reserve of the Banca d'Italia should go to the State. The above provision was carried out under the Royal Decree Law No. 43 of the 4th January, 1937, and the proceeds have been credited, as from the 5th October, 1936, to the Treasury account with the Banca d'Italia, as in the case of the 1927 stabilisation.

The Revaluation of
the Bank's Reserve

In conformity with Sub-section III of the Royal Decree Law No. 375 of the 12th March, 1936, the new statutes of the Banca d'Italia were drawn up and approved under Royal Decree Law No. 1067 of the 11th June, 1936, which was substituted for the previous one of the 21st June, 1928, No. 1404.

Reform of the
Bank's Statutes

In last year's report an outline was given of the reform by which the Bank, either directly or through associated institutions (the Istituto Mobiliare Italiano, the Syndicate for advances against industrial securities, the National Institute of Exchange, the Inspectorate for the defence of savings and the granting of credit facilities) was entrusted with the control of the money market, of the exchange, of capital and credit, and of banks and banking operations.

The Banca d'Italia, from a limited company of private shareholders, has been transformed into a public body and its capital of 300 million lire has been subscribed, under Article 20 of Royal Decree Law No. 375 of the 12th March, 1936, by savings banks, public law credit institutions, public law banks and insurance companies. The

300,000 shares of 1,000 lire, which constitute the new capital, have been entirely taken over by the consortium referred to in the above Decree, which was formed on the 9th April, 1936, under the chairmanship of the Governor of the Banca d'Italia. The savings banks which were already shareholders were allotted new shares to the full amount of their existing holding.

Under the new statutes the shares are transferable between authorised shareholders, subject to the permission of the Board.

The powers of the Bank are vested in the General Meeting of Shareholders, the Board of Directors, the Committee, the Governor, the Director-General, and the Deputy Director-General. The General Meeting may be attended by shareholders holding not less than 100 shares, with the right of one vote for every 100 shares up to 500 and an extra vote for every further 500 shares, the position of the smaller shareholders thus being more favourable, as compared with the larger ones, than was the case under the old Statute.

The Board of Directors, which, prior to the reform consisted of 31 members, of whom 26 were appointed annually by the local boards of the chief branches of the Bank, and 5 by the General Meeting, now consists of 15 members, who remain in office for three years, and of whom 12 are appointed by the branch meetings of shareholders, and 3 by the Insurance and Credit Corporation. Thus, the opportunity for regional representation has been maintained, together with the new principle of corporative representation.

The Committee consists now of 5 members, compared with 11 under the old order, and it includes 4 Directors selected at the first meeting of the Board in each year and the Governor. The office of Chairman of the Board has been suppressed.

The Governor, the Director-General and the Deputy-Director-General are appointed or dismissed by the Board, and both appointment and dismissal must be approved by a Royal Decree, proposed by the Prime Minister, in conjunction with the Finance Minister, subject to the approval of the Cabinet.

There are considerable changes which affect the administration of branch offices; the Board of Directors is now responsible for

the nomination and appointment of the officers who serve in the local branches.

These innovations, and others of a minor character, which are contained in the new statutes, are aimed at combining simply and effectively the independence of the Bank with the security of public interests, and mark fresh progress in the direction of greater departmental elasticity and managerial centralisation.

The alterations which, in the last few years, have taken place in the ratio of reserve to the circulation of notes, and in the credit and debit position between the Bank and the Treasury, have required that new arrangements should be made regulating the financial relation between the Bank and the State. These were approved by the decree of the Finance Minister dated the 31st December, 1936.

Financial Convention with the State

As from the 1st January, 1936, the circulation tax on notes will be at the rate of one-tenth of the official discount rate, with a minimum of $\frac{1}{2}$ per cent., the circulation being calculated after the deduction of the whole amount of the reserve in gold, or its equivalent held by the Bank and the notes issued for advances to the Treasury.

The limit for temporary advances to be granted to the Treasury has been increased from 450 to 1,000 million lire, allowance being made for larger advances against Treasury Bills whenever exceptional State requirements arise.

At the same time the Treasury has been relieved from keeping at the Bank a fixed amount of 50 million lire in respect of Treasury services. The concession to the Banca d'Italia of collections and payments and other services on behalf of the Treasury, which was renewable every two years and expired on the 31st December, 1936, has now been extended until the 31st December, 1950, and the Bank's yearly remuneration from such services has been raised from 21.9 million to 30 million lire.

It has also been arranged that the State shall receive all net profits after the allocation of 20 per cent. to ordinary reserve, the payment of a 4 per cent. annuity to the Real Estate Mortgage Institute (formerly belonging to the late National Bank) a 6 per cent. dividend to the shareholders, and, finally, a further 20 per cent. for a special reserve fund with the approval of the Finance Minister.

The Royal Decree Law No. 376 of the 12th March, 1936, relating to medium and long-term credits, provided for the making of additional regulations for the necessary alteration of the statutes of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities, which was set up as an independent section of the former, and of the Institute for Industrial Reconstruction.

Consequently, by the Royal Decree Law No. 1042 of the 25th May, 1936, the whole assets of the financial section of the Institute for Industrial Reconstruction, now dissolved, have been transferred to the liquidation section, the latter having undertaken all outstanding financial operations and the repayment of the capital of the former section within a period of twenty years. Under the Royal Decree Law No. 957 of the 28th May, 1936, the new statutes of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities have been promulgated. They came into force as from the 9th June, 1936.

The scope of the above institution has been extended by increasing to twenty years the maturity of the loans which the Istituto Mobiliare Italiano may grant, and by increasing the amount which the Syndicate may re-discount at the Banca d'Italia within limits which shall be determined by Orders of the Finance Minister.

The position of the Bank for International Settlements did not show any substantial change in the year 1936 and very slight alterations are apparent in the various items of its balance-sheet.(1)

The almost universal tendency towards the abandonment of the automatic system of currency control made more desirable frequent intercourse between the monetary authorities of the leading countries and the use of a common centre where important gold transactions could be effected without the interference of private interests.

The Bank for International Settlements has met the above requirements. If the various monetary events which have occurred since its creation have necessarily curtailed its activities, still the Basle Bank, keeping faith with the letter and the spirit of its statutes, has been able to maintain throughout the political complications

(1) The total assets and liabilities of the Bank have changed from Swiss Frs. 656,405,137.89 on the 31st December, 1935, to Swiss Frs. 616,283,626.38 on the 31st December, 1936.

of latter years its character as a purely international institution, free from all political influences in the conduct of its banking and monetary policies.

In this the central banks of the leading world markets with the same aims and with the same obligations and rights. These are essential conditions for enabling the Bank, in a future which to-day appears not far distant, to attain in the fullest degree the objects for which it was founded.

As already stated, the shares in the capital of the Banca d'Italia can only be held in registered form by savings banks, "public law" credit institutions, and banks and by insurance companies. Shares and
Shareholders

On the 31st December, 1936, the institutions holding the 300,000 shares were constituted as follows :—

88 Savings Banks	...	...	185,056 shares
11 Public Law Credit Institutions and Banks	...	...	68,444 „
10 Insurance Companies	...		46,500 „
Total : 109 Shareholders			300,000 shares

At the end of 1936, of the 500,000 shares forming the old capital of the Bank, 487,821 had been repaid.

The cash turnover of the Bank for the year 1936 amounted to 594,129 million lire, an increase of 28,903 million lire on the previous year. Receipts aggregated 297,356 million lire and outgoings 296,773 million lire, as against 281,530 and 283,696 million lire respectively in 1935. Cash
Displacement

The circulation of banknotes on the 31st December, 1936, totalled 16,525.1 million lire, of which 1,480 million lire represented the total amount sent to the branches of the Bank in East Africa. Moreover the Bank held 756.5 million lire in coin and currency notes issued by the State. Circulation

Bank money orders and demand drafts outstanding at the same date amounted to 725.7 million lire ; whereas the deposits in current

account totalled 705·8 million lire. Thus, the total liabilities requiring reserve cover amounted to 17,956·6 million lire.

On the 20th March the figures were as follows :—

Notes in circulation, including
remittances to East Africa 15,871·3 million lire

State coin and currency notes
held by the Bank ... 687·3 „

These figures are given officially in order to complete the figures disclosed at the meeting of the Insurance and Credit Corporation and subsequently at the meeting of the Fascist Grand Council. They assume greater significance when the exceptional circumstances of the past year are considered.

The Empire has been gained through the gigantic effort of the whole nation under the guidance and by the will of the Duce : productive activities in every section have made the largest contribution towards the achievement of this goal, while the economic siege was an attempt to deprive the country of every weapon, and, in fact, to starve it.

At the end of the year the circulation of notes had not substantially increased : actually, as compared with the pre-war period, taking into account the changes in the value of the currency, the increased population, and the higher standard of living, it may be regarded as having been reduced.

Also, apart from the realisation of Imperial aims during the past year, it should be noted that in most countries during 1936 the circulation of bank notes has considerably expanded.(1)

Although in all cases this development was caused by higher price levels, the increased volume of trade, wages and salaries, it may be said that the larger note issues were only partially due to an

(1) The following table shows the percentage rate of increase in the note circulation of certain leading countries at the end of 1936, as compared with previous year :—

	31st December, 1935	31st December, 1936	Change per cent.
	in millions.		
Banca d'Italia (Lire)	16,296·5	16,525·1	+ 1·40
Bank of England (£ sterling) ...	411·7	467·4	+ 13·53
Reichsbank (Rm.)	4,285·2	4,980·1	+ 16·22
Bank of France (Frs.)	81,150·2	89,341·9	+ 10·09
Federal Reserve Bank (Dollars) ...	3,709·1	4,278·8	+ 15·36

improvement in the economic position, since in other countries it was caused to a large extent by purely negative factors, such as disguised inflation for unproductive objects and the return of capital not seeking investment but looking for safety after the monetary adjustments of the autumn.

The comparison shows, moreover, that the issue of notes in Italy has been maintained in close relation to productive activities and to the actual needs of the country, thus safeguarding the confidence which, thanks to the constant vigilance of the issuing bank, is inspired by the notes.

In conformity with the provisions of Article 4 of the Royal Decree Law No. 1745 of the 5th October, 1936, the reserve of gold or its equivalent held on the 30th September, 1936, has been re-valued on the new gold basis fixed by Article 1 of the same Decree.

On the 31st December, 1936, the reserve held by the Bank Reserve against notes in circulation and other sight liabilities amounted to 4,012·6 million lire, as follows :—

Gold in hand(1)	.....	.....	3,958·8 million lire
Balances abroad	.....	.....	62·8 „ „
			<hr/>
			4,021·6 million lire
			<hr/>

On the 20th March, 1937, the above figures were unchanged.

In 1936, there was a further development of the use of gold as a means of settling international differences. Its holding and use have been confined still further to central banks, to the Exchange Equalisation Funds, and to Governments for the purpose of meeting trade and financial deficits ; whereas the importance of gold as a basis for the internal credit of the nation is becoming more and more merely symbolic.

The classic rules of the gold standard, which functioned in normal times before the War in certain countries, have proved to be inoperative and inapplicable in the attempts to apply them extensively in most countries in the period 1925-31.

(1) Since 1928 the gold deposited in London during the War has not been included.

The system has proved to be too rigid ; it lacks the necessary elasticity to cope with the economic changes and to overcome crises or check booms. That the gold points should be fixed solely on the cost of insurance, freights and money rates may be reasonable in conditions of balanced trade if prices are stable, and in exchange markets in which only legitimate business and not speculative business is carried out. Otherwise, the restricted margin for fluctuation leads to frequent alternating movements of gold, which cause, in addition to lack of confidence and alarm, sudden credit restrictions which bear unfairly on economic life without discouraging speculation.

So much respect was paid to the sacred rules of the gold standard that, though feeling its drawbacks, no one in the past had dared openly to remedy them. Indirect measures, with a limited scope and with no practical effect, were adopted. The different usages of the various gold markets permitted at times a widening of the gold points by the delivery of gold bars not acceptable on markets to which they were being sent, the melting and refining costs thus having to be added to the costs, or through using gold coin instead of bars. By these means it was possible to gain time and to allow for exchange fluctuations within wider limits, without touching the reserves. Many central banks, in fact, covered with the formula (which has no longer any significance) " minting rights," the margins between the buying and the selling price of gold, in order to gain greater freedom of action in managing the exchange rates.

Experience has shown that such palliatives are of no use when there are other deep-rooted causes of monetary disturbance ; they are equally inadequate for absorbing the shocks of widespread economic changes, the course of which it is impossible to check.

Although the relation of a currency to a fixed gold content is necessary as a yardstick to ensure confidence for savings and for national economic developments, there must, however, be sufficient margin for smoothing out the constant changes and alterations which are taking place in the varying factors which affect the international value of that currency.

The price levels in various countries are not, nor can they be, constant and fixed : seasonal factors and temporary influences must

find vent in slight exchange fluctuations rather than in an increase or reduction of the national gold reserve. In this way these factors, instead of reacting on the credit basis, will affect directly the external purchasing power of the currency, which is called the exchange, and thus re-establish the balance quickly and effectively.

If, however, the exchange should become abnormally strong or weak, then, and only then, should the authorities who are responsible for the management of that currency intervene with all the means at their disposal, in order to effect the necessary adjustment, either by Customs policy or by any other means at the disposal of the State for regulating economic conditions.

The Bank's credit with the State for 146,321 Kilogrammes of fine gold deposited at the Bank of England during the War has not been altered and remains at the figure of 1,772·8 million lire. This gold is not included in the reserve.

Treasury Liabilities
to the Bank.

Temporary advances to the Treasury, made in accordance with Article 21 of the Decree of the 31st December, 1936, amounted at the end of the year to 1,000 million lire, and the extraordinary advances against Treasury Bills to 2,000 million lire.

On the 31st December the amount of Bills discounted was 1,266·7 million lire ; advances against securities granted by the Bank were 1,599·3 million lire, and deferred payments at the clearing-houses 21·2 million lire ; whereas the Government or Government guaranteed securities owned by the Bank amounted to 1,523·3 million lire. Thus the interest-earning investments of the Bank totalled 4,420·5 million lire.

Investments

The official discount rate, which had remained at 5 per cent. since the 9th September, 1935, was reduced to $4\frac{1}{2}$ per cent. on the 18th May, 1936. The average rate for discount operations carried out in 1936 was 4·69 per cent.

Following a special agreement entered into under the aegis of the Treasury, in accordance with the terms of Article 6 of Royal Decree Law No. 376 of the 12th March, 1936, and of Royal Decree Law No. 1042 of the 25th May, 1936, for the final settlement of the

Institute for
Industrial Recon-
struction

relation between the Bank and the Institute for Industrial Reconstruction, the amount owed by the latter to the Bank on the 31st December, 1936, was 4,708·1 million lire.

It should be mentioned that, in order to carry out the necessary banking reconstruction between the years 1931 and 1934, recourse had also to be made to the issue of notes corresponding to the figure above recorded. This figure would have been greatly exceeded if, as was mentioned by the Finance Minister at the meeting of the Insurance and Credit Corporation on the 23rd February last, the management of the Institute for Industrial Reconstruction had not, from the start, called upon public savings through various issues of bonds, and carried out important contango operations. In this way it was possible to defer and restrict recourse to the note circulation of the central bank.

On the other hand, it was not possible, in a period of economic difficulties arising out of the world crisis, to attain the object for which the Institute for Industrial Reconstruction had been created, namely, the speedy liquidation of a large number of institutions and firms, among which it should be noted that many were called upon to make important efforts to meet the war requirements in East Africa and to carry out the programme of national defence.

The Institute for Industrial Reconstruction was thus obliged, as was largely the case with the late Liquidation Institute, to nurse a large number of enterprises under its control through credits guaranteed by the State.

It is to be hoped that the programme which has been constantly aimed at by the management of the Institute for Industrial Reconstruction will be realised.

Mention should be made of the fact that, by the creation of the Inspectorate for the Defence of Savings and the Granting of Credit Facilities, the danger of a repetition of past mistakes, which had required the intervention of the State and brought such heavy burdens upon it, would be eliminated.

The Inspectorate is to-day alert and sees to it that, in the section relating to medium and long term credit, only such institutions

operate as have been created and are organised for that purpose, and it will prevent any over-lapping, which may cause a resumption of the banks' participation in industries and the consequent freezing of their assets.

In the above section the Istituto Mobiliare Italiano is now active in meeting to the fullest extent actual requirements, as was authoritatively recognised at the last session of the Insurance and Credit Corporation, with the valuable co-operation of the Syndicate for Advances against Industrial Securities, and the united efforts of the two institutions have proved of the greatest advantage in securing a more rational and economic distribution of medium term credit.

Through the active and close co-operation with the branches of the Banca d'Italia, the Istituto Mobiliare Italiano is placed in contact with industrial undertakings even of medium and lesser importance in every district and is able to perform thoroughly its valuable work.(1)

The premises owned by the Bank, which under its new constitu- Premises
tion represent a capital investment of the Bank, are entered in the
1936 balance-sheet at 138.1 million lire.

The activity of the Inspectorate for the Defence of Savings and Control over Banks
the Granting of Credit Facilities has in its first year already been
the object of an exhaustive report at the last session of the
Insurance and Credit Corporation. It will suffice here to mention that,
in carrying out its vast and delicate tasks, the Inspectorate has
constantly availed itself of the various services, and especially
of the branch organisation of the central bank, which enabled it to
carry out effectively its control over the activities and position
even of the less important banks in the smallest centres.

As regards the technical advice which it has been required
to give, the central bank, when examining the demands for the
opening of new branches by banks, has followed generally the principle

(1) On the 31st December, 1936, the outstanding business of the Istituto Mobiliare Italiano and the Syndicate for Advances against Industrial Securities amounted to 1,950 million lire, whilst further operations involving 390 million lire were in course of completion.

of favouring such openings only in those centres which had no banking services ; whereas it has expressed disapproval of the opening of new branches in those centres which were already sufficiently provided with other bank offices. Experience has on many occasions shown that these new banking branches would not be able to carry out useful work in connection with the actual requirements of the various centres, but would have ended by encroaching upon the activities of existing banks, thus intensifying competition which, in the public interest and to ensure the full attainment of the objects set out in the Law, it is desirable to discourage.(1)

Further efforts have been made to eliminate, through amalgamation or absorption, banks which served no useful purpose or were in a precarious condition, and to close the less efficient or redundant branches.(2)

In 1936 nine applications were made for opening new banks and three obtained the required authority. In this field the central bank, when expressing its opinion, recommended the creation, in

(1) In 1936, 113 applications were made, by which 56 banks—28 banks and 28 savings banks—asked for permission to open 244 branches. The competent Ministries first, and subsequently the Inspectorate, authorised the opening of 103 branches, as compared with 25 in the previous year.

14 banks have been authorised to carry out tax collecting functions and to extend their activities in neighbouring districts.

(2) In 1936 the applications for absorption or amalgamation numbered 28, involving 55 banks. Up to the present 11 of the above applications have received the prescribed authorisation.

Other applications, on which the Banca d'Italia gave the technical advice for which it is competent, concerned :—

The changing of a partnership into a limited company :—

1 application, which was rejected ;

The taking over of branches of banks which were being wound-up :—

28 applications concerning the taking over of 445 branches of banks, of which 413 were admitted ;

The transfer of branches :—

110 applications, of which 98 were authorised ;

Authority to grant agricultural credits or their extension to other districts :—

27 applications, of which 16 were agreed to ;

The assumption of responsibility for the winding-up of other banks :—

4 applications, of which 2 were granted ;

Increase of capital :—

1 application, which was rejected ;

Change of name :—

2 applications, both granted.

Applications for the granting of loan facilities, exceeding the limit of one-fifth of the bank's resources, amounted in the year 1936 to 57, involving a sum of 127,518 million lire, out of which 45 applications, involving a sum of 109 million lire, were admitted.

Out of 11,041 cases in which loan facilities exceeded the prescribed limits, involving an aggregate sum of 6,259.3 million lire, when the laws for the safeguarding of savings came into force, only 27 remained on the 31st December, 1936, with a total of 76.6 million lire, a reduction of 19.2 million lire as compared with the 31st December, 1935.

the centres unprovided for, of typically local banks which, as long as they are carefully and economically run, can carry out most useful work, for which they are particularly suited, in respect of the more modest industries, tradesmen and small owners. It has been proved that, where such banks are lacking, usury in its various forms may easily rear its head.

In the Register which has been set up at the Inspectorate six banks have obtained the authority to collect deposits, and 135 banks have been struck off.(1)

Altogether, on the 31st December, 1936, the number of banks operating in Italy was 2,099, working in 3,944 centres through 7,755 counters, whilst 815 banks were in course of liquidation.

During the past year the offices of the Bank carried out 149 inspections, 38 of which were made in order to ascertain whether the terms of the Bank cartel were being observed, which brings the number of total inspections, carried out since the provisions for the safeguarding of savings were first enforced, to 3,430.

The Profit and Loss Account for the year 1936 shows the following results :—

				Profit and Loss Account
				Lire
Gross Profits	...	...	...	320,036,915·42
Expenditure and Losses	...	...	...	248,791,692·36
Net Profit	...	...	...	<u>71,245,223·06</u>

- (1) 81 at the conclusion of legal proceedings for compulsory winding-up ;
 192 on the judgment of a deed of arrangement or compulsory winding-up ;
 11 on account of authority to receive deposits having been withdrawn ;
 14 on account of absorption by other banks ;
 10 on account of cessation of business

The gross profits arise from :—				Lire
Discount Operations	...	...		122,494,661·28
Interest on Advances	...	...		109,571,571·31
Interest on the Deferred Payments at the Clearing Houses	...			1,465,375·82
Interest on Current Accounts	...			9,684,126·11
Various Commissions	...	...		15,179,390·81
Profits on Foreign Business	...			631,833·68
Miscellaneous Profits	...	...		14,448,035·86
Interest on Government Securities				33,652,671·82
Income from Real Estate	...			9,664,622·32
Interest on Colonial Branches Fund	...	...	...	460,000·00
Profits arising from the liquida- tion of late Note-issuing Banks				2,784,626·41
Total	...	...	...	<u>320,036,915·42</u>

Expenditure and taxes are as follows :—				Lire
Administration Expenses	...			101,239,326·59
Directors' Fees, etc.	...	...		1,772,873·20
Transport of Specie and other Values	...	...	...	1,414,683·29
Printing of Notes	...	...		10,583,019·00
House Property Account	...			2,269,209·67
Foreign Business Expenses	...			16,309·78
Various Taxes	...	...	...	33,169,927·97
Unpaid Bills	...	...	...	6,891,876·11
Various Amortisations	...			35,869,557·34
Interest and Annuities	...	...		18,693,752·51
Charities and other Contributions				2,500,000·00
Contributions towards Employees' Pension Fund	...	...		8,873,606·90
Depreciation of Bills against Losses, etc.	...	...	...	10,000,000·00
Temporary Staff Pension Fund				3,000,000·00
Compensation on Re-paid Shares	...	...	...	12,497,550·00
Total Expenditure	...	...		<u>248,791,692·36</u>
Net Profit	...	...		71,245,223·06
Total	...	...	...	<u>320,036,915·42</u>

In accordance with the terms of Article 54 of the Statutes, Dividend of the Ministerial Regulations and at the suggestion of the Auditors, the Board of Directors of the Bank have decided to submit to the General Meeting the following distribution of net profits for the year 1936 :

20 per cent. to the Ordinary	Lire
Reserve Fund	14,249,044·61
20 per cent. to the Extra- ordinary Reserve Fund ...	14,249,044·61
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	281,060·00
To the Shareholders at the rate of 6 per cent. on the paid-up capital for 7 months (1st June to 31st December, 1936)	10,500,000·00
Balance of Profits to the State ...	31,966,073·84
Total net Profit	<u><u>71,245,223·06</u></u>

The results of the past year, which are submitted for your Conclusion approval, are characterised by the satisfactory trend in a period marked by the greatest events in our history.

The foundation of the Empire, a necessity for the life of our people and for their progress, imposes on our existence a standard which is the reflection of the genius who conceived it and animated it, and who is our guide through every obstacle towards the great goal set by the age-long traditions of our race.

Within the framework of the nation's economic life, which is to-day wider, safer and more full of promise, we feel the necessity of expressing our deep gratitude and profound devotion to His Majesty, the King of Italy, Emperor of Ethiopia, and to the Duce, the tenacious and untiring builder of the greatness of our country.

V. AZZOLINI,

Governor.

BALANCE SHEET,

31st December, 1936.

PROFIT AND LOSS ACCOUNT.

BANCA

PAID-UP CAPITAL

BALANCE SHEET,

ASSETS.			
Gold in Hand.....	L.	3,958,820,988.61	
Balances Abroad	,,	62,780,444.48	
Total Reserve ...		L.	4,021,601,433.09
Gold deposited abroad, due by the State.....	,,	1,772,798,105.00	
Cash in Hand.....	,,	767,517,622.53	
Inland Bills.....	,,	1,266,658,586.30	
Bills for Collection.....	,,	13,883,711.78	
Advances to Customers {			
Against Government Securities and Mort- gage Bonds.....	L.	1,599,273,209.53	
Against Silk and Cocoons.....	,,	19,483.35	
	L.	1,599,292,692.88	
Investments (Government Securities owned by the Bank)	,,	1,533,269,874.41	
Cr. Accounts in the Kingdom :			
Deferred Payments at Clearing Houses.....	L.	21,254,808.19	
Other Accounts	,,	35,532,944.60	
	L.	56,787,752.79	
Advances to the Treasury—Temporary.....	,,	1,000,000,000.00	
" " " Extraordinary, against Treasury Bills	,,	2,000,000,000.00	
Premises	,,	138,091,433.36	
Credit with Institute for Industrial Reconstruction	,,	4,708,097,530.74	
Other Assets	,,	1,546,444,631.45	
	L.	20,424,443,374.33	
Securities and other valuables deposited.....	,,	37,573,462,823.70	
	L.	57,997,906,198.03	
Amounts written off in past years.....	,,	287,447,941.51	
TOTAL		L.	58,285,354,139.54

43rd YEAR.**D' ITALIA.**

Lire 300,000,000.

31st December, 1936—XV.—E.F.**LIABILITIES.**

Notes in circulation	L.	16,525,123,550.00
Demand Drafts Outstanding	,,	725,684,216.33
Current Accounts	,,	705,843,271.23
Total Sight Liabilities ...	L.	17,956,651,037.56

Capital	,,	300,000,000.00
Statutory Reserve	,,	14,100,878.54
Deposit Accounts	,,	529,198,335.03
Treasury Current Account	,,	7,983,504.73
"Internal Debt Sinking Fund Office" Current Account	,,	12,972,583.80
Other Liabilities	,,	1,532,291,811.61
Net Profits for the Year.....	,,	71,245,223.06

	L.	20,424,443,374.33
Securities and other valuables deposited.....	,,	37,573,462,823.70
	L.	57,997,906,198.03
Amounts written off in past years.....	,,	287,447,941.51

TOTAL	L.	58,285,354,139.54
--------------------	-----------	--------------------------

PROFIT AND YEAR

		Dr.	
Expenditure	Expenses in respect of:	Administration L.	101,239,326.59
		Board of Directors, etc..... "	1,772,873.20
Taxes		Transport of specie and other valuables	1,414,683.29
		Printing of notes	10,583,019.00
		House Property Account ...	2,269,209.67
		Stamps and commissions on foreign business..... "	16,309.78
		Circulation tax on notes ...	17,145,262.99
		Circulation tax on demand drafts	456,393.62
		Income Tax	9,075,776.05
		Additional Income-Tax	1,844,927.58
		Real Estate Tax	1,194,644.80
		Bank Shares transfer tax... "	1,347,294.00
		Weights and measures control tax	1,250.20
		Stamp duties..... "	580,386.22
		Contribution for Government supervision	200,000.00
		Other tributes	1,323,992.51
		Unpaid bills	L. 6,891,876.11
		Amounts written off..... "	35,869,557.34
		Interests and annuities..... "	18,693,752.51
		Charities and other contributions	2,500,000.00
		Contribution to Employees' Pension Fund	8,873,606.90
		Depreciation of bills against losses, etc.	10,000,000.00
		Temporary Staff Pension Fund	3,000,000.00
		Compensation on reimbursed shares	12,497,550.00
		Net profit to be divided.....	L. 248,791,692.36
			" 71,245,223.06
		TOTAL	L. 320,036,915.42

DISTRIBUTION

To ordinary Reserve Fund	
„ Extraordinary Reserve Fund	
Dividend to Shareholders at the rate of 6% for seven months (L. 35 per share	
Annual contribution to the Reserve Fund of "Credito Fondiario"	
To the Treasury	

Audited and found correct on the 10th March, 1937—XV.

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

GUIDO PIERINI,
Chief Accountant.

LOSS ACCOUNT

1936—XV.—E. F.

		Cr.		
Profits from the Year's business	Re-discounts brought in from previous year.....	L.	45,951,359.95	
	Year's discounts	"	86,568,279.98	
			<hr/>	
	less: re-discounts carried forward ..	"	132,519,639.93	
			<hr/>	
				122,494,661.28
	Interest on advances.....	L.	109,571,571.31	
	Interest on Cr. accounts	"	11,149,501.93	
	Commissions	"	15,179,390.81	
	Interest, discount and exchange profits on foreign business, less re-discount charges	"	631,833.68	
Profits from Investments	Other profits.....	"	14,448,035.86	
			<hr/>	
	Interest on Government Securities.....	L.	33,652,671.82	273,474,994.87
	Revenue on real estate	"	9,664,622.32	
	Interest on investment of Colonial Branches Fund ..	"	460,000.00	
	Profits arising from the liquidation of late note- issuing banks.....	"	2,784,626.41	
			<hr/>	
				46,561,920.55
			<hr/>	
TOTAL			L.	320,036,915.42

OF NET PROFIT

.....	L.	14,249,044.61
.....	"	14,249,044.61
. 1,000).....	"	10,500,000.00
.....	"	281,060.00
.....	"	31,966,073.84
		<hr/>
TOTAL NET PROFIT TO BE DISTRIBUTED	L.	71,245,223.06

VINCENZO AZZOLINI.
Governor.

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