

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, 1938.

YEAR 1937.

Gentlemen,

The favourable prospects for world economic conditions which appeared at the beginning of the year were not maintained towards the close of the year 1937. The revival in production and international trade which started in 1935 developed in all countries throughout the year 1936, especially in certain countries, including the United States and Great Britain, but in the last quarter of the past year it was abruptly checked. The fall in prices of commodities in international markets, the recurrent crises in France, the economic recession in the United States, and the large fluctuating gold movements, were the leading factors apart from international political events, some of them of great importance, contributing to the setback of the general economic revival. General Remarks

In terms of gold the value of international trade fell in 1937 by over 50 per cent., as compared with the pre-depression year 1929, but in volume trade by last summer had almost resumed the level of that year. In view of the restrictions existing in almost every country, it may be said that this revival was due primarily to a considerable strengthening of internal economic conditions in the different countries, which in turn were affected by requirements in connection with the rapid development of rearmament in the last two years, involving vast employment of capital and labour. On the other hand, in certain countries it is an inevitable and easily comprehensible evolution, in view of the many social and political factors that led to the adoption of economic measures, aiming at the highest possible degree of independence.

The monetary agreement between Great Britain, the United States, Holland, Belgium and Switzerland, which was the outcome of the original Anglo-French-American Tripartite Agreement, did not yield any constructive results, least of all in dealing with the problem of currency stabilisation. The various Treasuries concerned confined their action to maintaining a certain stability in the exchange market and in the sterling-dollar rate, which was possible thanks to the already vast and in certain cases increased means at the disposal of the Exchange Equalisation Funds. No new factor has arisen for rendering more stable or more generally applicable and accessible

the existing convention between the signatory countries. An initiative in this direction, which could only have been taken by one of the two major Financial Powers, failed and none of the Governments concerned went beyond the letter of their respective undertakings, which, as is well known, may be cancelled on a twenty-four hours' notice.

In the spring a fresh wave of gold de-hoarding, more violent than and different in character from that which took place in the autumn of 1936. While in the latter year the movement was due to improved investment conditions, especially in the share market in the United States, in April, and May 1937, it was the result of various contributory causes which produced wide fluctuations on the London market. London, in fact, was the recipient of large amounts of gold due to heavy remittances from Russia, to the continuous rise in the world production of gold (1), and to the de-hoarding of private holdings, for which the largest purchaser was the United States Treasury. Meanwhile, rumours were spreading to the effect that in view of the abnormal situation which had arisen, a reduction in the gold purchase price in America was imminent; this accelerated the movement, which became a gold scare, and was marked by a large influx of European funds into American banks. The United States Government denied the rumours through the Secretary of the Treasury, maintaining its policy unaltered and purchasing all the gold which was on offer at the price of \$35 per fine ounce.

The influx of capital into the United States by means of gold remittances, aggravated the already existing problem of how to neutralise the effects of gold imports on the credit structure of the country without the dangers of inflation, and to prevent the reaction of a sudden withdrawal of the foreign short-term deposits. Already

(1) The output of gold for last year, was estimated at 1,270,000 kilogrammes, as against 1,124,000 kilogrammes in 1936.

The output of silver in 1937 also reached a new high level without causing any instability in the market, as a result of the policy of the United States Treasury, which has maintained practically unaltered the purchasing price of foreign silver. The lapse of the 1933 London Silver Agreement on the 31st December, 1937, did not cause any special disturbance in the market. As a matter of fact this agreement, concluded between the leading producing and consuming countries in order to ensure stability of the international price of silver, by taking over the output and limiting sales, and which came into force on the 1st January, 1934, for a period of four years, had lost much of its importance six months later, when the "Silver Purchase Act" was passed in the United States by which that country attained a dominating position in the silver market. For 1937, the output of silver has been estimated at 8.87 million kilogrammes, against 8.06 million kilogrammes in 1936.

in December, 1936, the United States Government had decided to sterilise newly imported gold by creating a special gold fund at the Treasury not to be employed, and providing on the other hand for an increase in the reserve held at the Federal Reserve Banks by the member Banks of the Federal Reserve system.

Three months after this gold de-hoarding movement had taken place a new slump on Wall Street and an economic setback in the United States, coupled with the outbreak of war in the Far East, and the prolonged uncertainty of the French situation, led to a resumption of gold hoarding. The spring rumours of a revaluation of the dollar were replaced by rumours of a further devaluation; the beginning of a lack of confidence in the dollar resulted in a widespread and rapid withdrawal of the funds which had been previously invested in the United States; in view of this sudden change, the United States Government felt that it was necessary to change its credit policy by authorising the desterilisation of about 300 million dollars of the gold received from Europe, which had been sterilised a few months before. In the autumn, for the first time for many years, considerable quantities of gold were returned to Europe.

On the 30th June, 1937, the French Government was obliged, under the stress of several internal factors, to repeal the monetary law of 1st October, 1936, by which limits had been fixed to fluctuations of the gold content of the franc. By a decree dated 22nd July, 1937, the Central Bank's reserve was revalued on the basis of a gold content of 43 milligrammes of gold of 900/1000ths fineness. The proceeds, amounting to about 7,000 million francs, were assigned to a special fund for supporting the prices of Government securities. Consequently, as from the end of June, 1937, the French franc became a currency with no fixed relation to gold.

As in the previous year, the dominating feature of the money markets during 1937 was the great abundance of funds which, as a matter of fact, in certain cases has become still more accentuated. In Switzerland and Holland these conditions were especially marked as a result of the influx of foreign funds, the investment market as well as the money market being affected. In Switzerland, the influx was so great that the National Bank was obliged to take

steps to check it by fixing stringent terms for deposit accounts and not allowing interest on foreign current accounts. This state of affairs enabled both Holland and Switzerland to pay off or convert both their foreign and internal loans, with a consequent reduction of the financial burdens of the borrowers.

With few exceptions, as in the case of the United States and France (1), official discount rates remained unchanged, whereas the rates for long-term investments had a tendency to harden both in New York and Paris, but settled at somewhat lower levels in other markets. In London, after the fall in the prices of Government securities which was caused by the news of additional borrowing for the rearmament programme, there was a recovery (2).

During the year there were fluctuating movements of capital on a large scale, shipments of gold being made to and from Great Britain, the United States, Holland and Switzerland; thus there was an increase in foreign funds available on those markets which, although finding it a matter for concern, received fresh inflows of capital, whereas countries with smaller resources were obliged to pay off gradually and with difficulty credits previously obtained abroad and other debts. From this aspect the position has not improved, and, as a matter of fact, the events of 1937 have rather increased the difficulties, leaving for solution the very problems arising out of the last three years, which continue in varying degrees to disturb the economic conditions of different countries. It may be hoped, however, that after the setback which has taken place there will be an improvement in economic conditions; in this event the setback should be regarded rather as a readjustment, especially in the case of countries where the earlier revival did not equally affect all branches of economic life, and where it probably developed too rapidly. In any case, an essential preliminary of better times is the establishment of political conditions that would

(1) In August and September, the discount rates of the Federal Reserve Banks were reduced. The rate for the Federal Reserve Bank of New York was lowered from $1\frac{1}{2}$ per cent. to 1 per cent.

In France, the official discount rate was changed six times from a minimum of 2 per cent. to a maximum of 6 per cent. falling to 3 per cent. in the last months of the year. The French market has been constantly subject to the influence of capital movements and of the Government's continuous demands for funds. Frequent changes in the Bank rate curtailed business in stocks and shares, both for public and private securities, and markets were constantly disturbed by the high rates for forward exchange transactions.

(2) In Great Britain, the Bank of England was able to exercise a powerful stabilising influence on the money market, by the reduction of the reserve in the Banking department, by purchases of gold on behalf of the Exchange Equalisation Fund, though on a smaller scale than in the previous year, and lastly by temporary increases in the fiduciary issue.

ensure the security which is the basis for any sound and lasting economic development, but it is also essential to attain currency stabilisation, in order to restore normal conditions in world trade.

The connection between economics and politics which has varied in character and degree throughout history has been more conspicuous as a result of the adoption by many countries of systems of national or imperial economic autarchy. The Italian Market

Guided by the experience of sanctions and by the shortcomings of the existing agricultural and industrial system, the Fascist Government have been heading towards autarchy. The economic siege was the determining factor which started the new historic phase of Italy's economic life, under the stress, as proclaimed by the Duce at the Capitol, "of realising in the shortest possible time the highest possible degree of independence for the economic life of the country." This essential necessity has been proved even more unavoidable in the light of the events which marked the development of the country from its constitution as a kingdom right down to the last imperial enterprise.

At the same time as Italy was politically united, a new economic unit was formed which from the start was faced with the most serious difficulties; in addition to the already formidable internal problems and others equally important, there had to be faced others arising out of the new trade and business relations with other countries. The inferiority of Italy in this respect was very marked; she was poor in natural resources and above all in the main raw materials; she did not possess an economic organisation suited for her new needs, while other countries with which she was establishing relations were the possessors of well organised and well tried economic systems. On the other hand, in Italy, also on political grounds, the principle of free trade was regarded as one of the fundamentals of all agreements, whereas abroad the protectionist doctrine had begun to be adopted. All efforts to develop exports typical of the country met increasing obstacles and difficulties owing to the progress made in other countries, some of which, formerly good customers, were able as a result of more intense exploitation of national resources or by the creation of vast colonial empires, to dispense at least partially with Italian goods.

Trade which, in the first decades, showed considerable development, and swelled the general volume of business, was suddenly cut off or reduced, thus gravely affecting Italy's purchasing power abroad which affected closely the welfare of the Italian people (1). Moreover, emigration, which was one of the most important sources on the credit side of the Italian balance of payments, was also progressively reduced to almost negligible proportions as a result of restrictions imposed in other countries, and of difficulties of all kinds which it had to meet. Apart from considerations not purely economic, emigration was a most important source of supply of foreign currencies through the remittances of emigrants, whose attachment to the mother country was also shown in a constant demand for home manufactures and products.

To-day, Italians who have largely contributed to the development and wealth of other countries find in the mother country and the Empire a field for their activities ; the loss of gold which formerly accrued from emigrants will be made good in other ways more in keeping with the new dignity of the Italian people. The Duce gave expression to one of Italy's historic needs when he stated that every effort must be made to make the country to the greatest possible extent economically self-supporting. The results to be achieved do not consist merely in the provision of the technical means for attaining economic independence, but in making this independence a foundation for a balanced economic system of the country and for the development of its resources. Bearing in mind these two aspects of the question it is clear that the attainment of autarchy should be reached through the solution of three main problems, technical, financial and organisation.

The progress in the technique of agricultural and industrial processes is continuous and is progressively affecting the relations between agricultural and industrial countries as well as between countries well provided with, or poor in raw materials. The applica-

(1) Thus the production of drawn silk, one of the most traditional and characteristic Italian products, as a result of the partial closing of North American outlets, where competition of other countries began to be felt, was reduced to about one-third in the post-war period of that of the pre-war period, with a further reduction to one-fourth after the world crisis, owing to reduced purchasing power in importing countries, to the fall in prices and also to stronger competition from artificial silks and from other markets producing natural silk.

Exports of wine have also, subject to fluctuations, been halved since the beginning of the century, as the result of the high duties imposed by importing countries and of the change of taste in those countries.

tion of science to industry has already introduced in Italy the extensive use of processes for utilising domestic raw materials and power resources ; the plans for autarchy envisage a number of new achievements on these lines (1).

This new tendency is justified considering that the importation of partly or wholly manufactured goods, besides involving a large outlay of foreign currencies, implies a state of inferior or incomplete industrial organisation which can and must be rectified by the zealous hard work of the Italians ; it is this spirit which is overcoming the difficult problem of finding raw materials where nature has been niggardly.

The problem of organisation may be summed up in the need for securing co-ordination between public bodies and producers through which the development of autarchy may be best achieved under the system of corporations. And since it has remained a cardinal feature of the system to encourage initiative, allowing it a fair remuneration in order that it may be maintained and renewed, but on the other hand discouraging excessive or illegitimate profits, in the sphere of autarchic production the first problem to be faced is to establish a proper balance between production and demand, and between cost of production and sale prices. For the solution of this problem, on the one hand action on the part of the State is effective since it can directly alter costs through taxation and customs dues ; on the other hand the corporations must see that producers are prepared to produce a normal output of the goods required at a remunerative price.

(1) Technical progress in industry has lessened Italy's dependence on foreign countries ; as regards sources of power by the development of the use of electricity ; in the case of textiles by an extension of the use of artificial fibres ; by the substitution of light metals and alloys for iron and copper ; and, lastly, in the chemical industry by the adoption of processes employing natural elements available in unlimited quantities, or domestic raw materials.

The plans for achieving self-sufficiency discussed and approved last autumn, provided for new technical industrial processes, *inter alia*, for the production of cellulose for the manufacture of paper and rayon and for the extraction of alcohol and other hydro-carbides from vegetable or mineral resources, with which the country is fully supplied. For other products, such as textile fibres, iron and copper ore, coal, hides, and oil seeds, it is contemplated at this first stage that imports will still be necessary ; such imports, in certain outstanding cases provide the raw materials for industries, *e.g.*, the textile and engineering industries, which are or will shortly become self-supporting from the exchange aspect, since they sell manufactures of a value which is greater than, or at least equal to, the value of the imported raw materials. In other cases the plans for autarchy provide for the organisation of production on the basis that each industry should comprise every stage of manufacture, starting with the raw materials. The most important is the plan for the conversion of iron and steel plants, some of which use as raw material scrap iron, whereas various considerations make it desirable that they should be organised for working the ore.

Finally, the solution of the financial problem is simplified by the existence of a central control over the credit system, by which the savings of the people are directed in such channels of investment as the political and corporative organs regard as being the most useful for the achievement of autarchy.

The foregoing observations indicate the close connection between these problems which for the purpose of analysis have been dealt with separately. If they are examined as a whole, the guiding principles to be followed will emerge, *e.g.*, in the first place to measure the effort to be made and the period in which to make it, having regard to costs and other effects of the initial changes required in the system of production ; next, the degree of autarchy to be achieved, and the preparation of supplies to satisfy temporary needs ; finally, the selection between processes involving different types of plant and varying working costs of utilising different materials, machinery and labour.

Foreign Trade and Exchanges.

The value of foreign trade, excluding the trade with the Italian colonies, reached in 1937 a considerably higher figure than in any year between 1932 to 1936. The increase was most marked in the case of imports, which at 13·500 million lire were about four-fifths more than in 1934, which should be used for purposes of comparison since in the two following years foreign trade relations were affected by exceptional conditions, *e.g.*, the Abyssinian War and the application of economic sanctions. Exports, also, though in a lesser degree, have considerably expanded, reaching a total of 7·900 million lire, which is about three-fifths more than in 1934. The changes in the value of Italian foreign trade as compared with 1934, is due to variations both in the quantities and prices of the commodities exchanged.

The indices which have been compiled by the Federation of Fascist Industries, make it possible to appreciate particularly the value of each of the above-mentioned factors. In the case of chief imports there has been an increase of 98 per cent. in the average purchase price expressed in lire, as a result partly of the reduction in the gold content of the lira, and partly of the increase in the prices of raw materials at the source. The rise in prices has been offset to a very small extent by a fall of 10 per cent. in the volume of imported goods.

The higher value of exports, however, was due partly to an increase of 43 per cent. in the average sale prices and partly to an increased 11 per cent. in the volume of the exported goods.

As compared with 1936, it will be found that there has been a considerable increase both in value and in volume for imports and exports, the rise in volume being at the rate of 47 per cent. in the case of imports and 62 per cent. in the case of exports. Whereas in the case of imports prices were almost immediately adjusted to the new value of the lira, rising by about 66 per cent., in the case of exports the rise did not exceed 26 per cent. and consequently the adverse balance has increased from 2,100 million lire in 1936 to 5,600 million lire in 1937.

The heavier purchases abroad are due on the one hand to increased domestic manufacturing activity, which requires larger imports of raw materials and machinery for the output of manufactured goods for export or for the organisation and exploitation of the new territories of the Empire, and, on the other hand, to exceptional needs among which may be mentioned the need for replenishing stocks which had been greatly reduced in previous years, and supplementing the insufficient 1936 crops of wheat and olives.

The circumstance that raw materials and partly manufactured goods have been freely admitted for import in order to enable the home industries to supply the domestic demand with home-made products rather than foreign manufactures, and also to increase the output of goods for export, is an indication of a foreign trade policy which aims at reducing imports of manufactured goods for direct consumption while developing export trade. A form of autarchy is achieved as a result of the importation of commodities which are indispensable for the manufacture of goods for export by which the payment of the imported raw materials contained in them can be met.

The exports of textiles increased in value by 140 per cent. as compared with the previous year, almost reaching the 1931 level, and, providing a considerable supply of foreign exchange. Among the exports typical of the country—agricultural produce was higher

in value by 50 per cent. than in 1936, and in the particular case of citrus fruit, the value of exports was more than doubled.

Bearing in mind that the heavy imports of certain foodstuffs were exceptional, and that several foreign raw materials should be gradually substituted by home production, through the completion of the plans for autarchy, the foreign trade reports for 1937 may be regarded in a less unfavourable light than they appear at first sight. The reduction in the price of exported goods expressed in gold which resulted from the realignment of the lira favours increased outlets for Italian manufactures. In considering the distribution of foreign trade, it will be found that there has been a substantial revival with formerly sanctionist countries. As compared with 1934, exports increased considerably with these countries, and consequently the adverse balance in their case was proportionately much smaller than on the aggregate, representing altogether less than one-seventh of the total. On the other hand, it will be found that imports increased more than exports with non-sanctionist countries owing to the larger purchases made in Germany and in the United States.

It is worth mentioning that the trade balance is less unfavourable with the countries with which Clearing Arrangements have been concluded, in spite of the fact that in the aggregate the Clearing accounts closed in 1937 with an indebtedness of over 300 million lire as against a credit balance of over 200 million lire at the beginning of the year.

The survey has so far been confined to the trade of Italy with foreign countries, this limitation being desirable in order to have a clear idea of the influence of foreign trade on the country's currency position. However, in order to appreciate better the efforts made by the nation in the sphere of production, it must be recorded that in recent years, and particularly in 1937, trade with the Italian colonies, consisting mainly of exports from the mother country, has been greatly developed. In 1937, exports to the colonies amounted to 2,600 million lire with a 50 per cent. increase as compared with the previous year, so that now the exports to the colonies represent in value about one quarter of Italy's total exports, whereas imports from the colonies amounted to 300 million lire,

a figure double that of 1936. Therefore, if the foreign and colonial trade figures are added together, imports amounted to 13,800 million lire and exports to 10,400 million lire, resulting in a reduction of the adverse balance to 3,400 million lire.

In the past year the activities of the Under-Secretaryship of State for Trade and Exchanges, in the field of control of economic relations with foreign countries, were continued and increased, and in recognition of the importance of its work, the Under-Secretaryship was raised to Ministerial status by Royal Decree Law No. 1928 of the 20th November, 1937.

The capital of the National Institute of Exchange which had been subscribed by the Banca d'Italia, has been repaid by the Treasury and, consequently, the Statutes of the Institute were amended by a Decree of the Finance Minister dated 24th April, 1937.

The Inspectorate for Exchange Operations of the Banca d'Italia carried out the technical tasks entrusted to it by the Ministry for Trade and Exchanges, and by the National Institute of Exchange, including the requisition of foreign credits and securities on behalf of the Treasury, and the duties of inspection performed in collaboration with the competent organs of the Ministry of Finance. The amount of foreign exchange realised is considerable. By the 31st December, 1937, 68 per cent. of the foreign credits and 59 of the foreign securities which had been originally declared, had been taken over. In the case of securities sales were made in the first place of those which were standing at a high level and were easily marketable. The number of inspections carried out in the past year were 556—144 by the Head Office and 412 by the Branch Offices. In most cases the inspections disclosed an understanding of and compliance with the regulations; in cases where it was found that the law had been broken deliberately for personal gain or for securing profits not compatible with national interests, summonses were taken out on which the Finance Minister was able to convict the offenders, applying the penalties provided under the law, as a warning that the regulations will be strictly enforced. The Inspectorate have also set out in a publication the complicated provisions relating to Exchange Controls, in order to facilitate the task of the bodies entrusted with the execution of the provisions of the law, and of those concerned with their observance.

Under the Royal Decree Law No. 2375, of the 6th December, 1937, fiscal reliefs were granted to foreign investments in Italy if made not later than the 31st December, 1939, resulting from the cession to the National Institute of Exchange of foreign freely convertible currencies. The above provisions extend and complete those previously enacted relative to "free accounts" and "deposits of foreign securities," by which foreign capital could be invested safely and remuneratively in Italy both on a short and long term basis.

Lira Rates

From the date of realignment on the 5th October, 1936, until the 31st December, 1937, the rate of the lira in New York, apart from a very slight fluctuation in November, remained steady at its gold parity. In other markets the lira rate has always promptly adjusted itself, within negligible margins, to the changes in the gold values of the respective currencies. The above conditions are evidence of the success of the new stabilisation of the lira.

Agriculture

The climatic conditions, with few exceptions, have been generally favourable to the more important crops. Technical improvements in cultivation partly offset adverse weather conditions, so that on the whole 1937 gave satisfactory crops, in most cases above the average of previous years. The wheat and maize harvests were especially good, but in spite of this, as a measure of prudence and in order to create adequate stocks, Prefects were empowered by a Ministerial Decree of the 8th September, 1937, to enforce as a temporary measure an admixture of other cereal flour with wheat flour not exceeding 10 per cent. for the manufacture of bread of all kinds, except special kinds required for medical purposes. Cereal crops in general, legumes and potatoes, yielded sufficiently for home requirements. The yields of olive oil and wine were such as to adjust satisfactorily the unfavourable situation created in the case of oil by the short crop of olives in the previous year, and in the case of wine by the excessive production of 1935. In order to stabilise permanently the olive oil market, the Government took steps to improve and increase the cultivation of olive trees, and also to prevent heavy fluctuations in the prices of oil. In the case of wine growing, an enactment of the 10th July, 1937, No. 1266, provided for the regulation of the planting of vines and of wine production, and also for an increase in the production of alcohol from this source.

As regards industrial crops, sugar beet, owing to unfavourable weather at harvest, was not as satisfactory as was expected. Cotton and hemp, on the other hand, gave larger yields, and contributed to the improved position for textile materials.

There was also a considerable improvement in 1937 in the livestock position as a result of larger supplies of fodder and of higher meat prices which led to an increase in the raising of cattle.

To sum up, although in certain sections of the industry, principally in the case of crops for textile manufactures, oil and live stock, much remains to be done, in 1937 Italian agriculture contributed appreciably to the execution of the plans for making the country economically self-supporting. The Government has devoted considerable attention to this by promoting the development of Institutions for the improvement of agriculture and the protection of incomes from the soil. The policy of collective sales and of pools has been encouraged, and in the case of wheat the procedure has been greatly simplified. The system has been extended to other products where the value of a controlled market has been recognised (1), while in other cases measures have been taken for regulating the areas under cultivation (2).

In keeping with the world economic trend which in the first ^{Industry.} months of the year witnessed a continuation of the progress achieved in 1936, and also as a result of the quickened movement towards economic independence, the industrial output expanded very considerably in 1937. This is clearly indicated in the general index number prepared by the Ministry of Corporations which shows that, apart from the short period of seasonal depression in the summer, the figure has remained constantly above the average for the year 1928, and high levels have been reached which were not even touched in the year 1935, which from an industrial point of view has been that of greatest activity since the great crisis. The modification of plant

(1) The Royal Decree Law No. 521 of the 8th March, 1937, made compulsory the pooling of wool shorn in 1937. The Royal Decree Law No. 1812 of the 15th April, 1937, fixed the sale prices for home grown cocoons. The Royal Decrees No. 2119 and No. 2169, of the 6th November, 1937, extended the pooling system to manna and saffron, while under a Decree of the Prime Minister dated 5th June, 1937, an agreement was made establishing the selling price of essence of bergamotte.

(2) The Royal Decree Law No. 236 of the 22nd February, 1937, regulated the cultivation of castor beans, while the Ministerial Decree dated 12th October, 1937, has limited the area to be planted with tobacco in 1938.

and the alterations in technical processes strictly connected with the intensified exploitation of home resources, have continued, while both Government and private initiative designed to secure the independence of particular branches of industry, have been duly co-ordinated under the direction of Corporations (1).

The greater activity achieved over the whole field of industry is reflected in the progress of different branches. Thus, in most sections of the mining industry output was considerably increased as compared with previous years, with the object of attaining the highest possible degree of economic independence in fuel and metals. Equally, in the metal and engineering industries, in 1937 there was a considerable development of the activity which started early in 1935. For many products such as pig iron, iron alloys, zinc, aluminium and quicksilver, the latter helped by exceptional conditions obtaining on the international market, high levels never previously touched, were reached. In the heavy industries—of vital importance for national defence—mention must be made of the provision which through the constitution of the “Finsider” has brought under the same control four of the largest Italian manufacturing enterprises. The essential task of the new organisation are technical co-ordination and the financial support for the companies in which it has become a partner, in order to ensure, by rationalisation, a higher return from these industries which, as already mentioned, meet the fundamental needs of the country.

There was also greater activity in the chemical industry, output establishing a new record in many cases.

Noteworthy progress, as compared with 1936, was made by textile manufactures, particularly in those industries concerned with the spinning and weaving of home produced yarns. The Government have encouraged this development, firstly, by offering special prizes while at the same time regulating output (2), and, secondly,

(1) The activity of the Corporation was mainly devoted in 1937 to preparing plans for autarchy in the various branches of production. The plans were examined by the Central Committee of Corporations to which were added experts and editors of the leading daily papers, which thus formed a “Supreme Court of Autarchy,” which laid down the lines of future policy. The Corporations were also entrusted with the examination of applications for new industrial plant or for the extension of existing plant, and fifteen new technical Committees were created for examining the more important problems in the field of economic self-sufficiency.

(2) Under the Royal Decree Law No. 1267 of the 29th March, 1937, the output of silk was regulated for the five-year period 1937 to 1941. Export bonuses for drawn raw silk, and a minimum guaranteed price for cocoons were fixed, and measures were taken for pooling the whole output. As a result of these measures the appropriations of the Ministry of Corporations in respect of the National Silk Institute, were increased by 400,000 lire for each of the five years 1937 to 1941.

by the creating of special bodies to assist technical progress in these industries and the consumption of home textile manufactures (1).

The paper mills have also been more busily engaged in spite of the difficulties for the supply of the raw material; the same difficulties further depressed activity in building trade.

Significant proof of increased industrial activity is given by the output of electric power which has reached 15,000 million kilowatt-hours produced almost entirely by the hydro-electric stations. The above figure is a record and exceeds by 1,000 million kilowatt-hours the 1936 output. Such development merits mention since it has led to substantial saving in coal imports from abroad. In this connection the provisions of Royal Decree Law No. 2101 of the 5th November, 1937, enable the Minister of Public Works to cancel concessions for the use of public waters for hydro-electric installations when the conditions agreed for the construction of the plant are not carried out within the scheduled time. The Minister is also empowered to see that concessions are only granted to firms which are technically and financially equipped to carry out the work without delay.

The greater industrial activity favourably affected employment, with the result that the indices of labour employed in industrial establishments have, for the first time since the world crisis, reached a level higher than the average for the year 1929, while a corresponding increase is shown in working hours in the factories (2).

(1) Under the Royal Decree Law No. 1057 of the 28th April, 1937, a new National Industrial Institute was created in Rome, with a capital of one million lire; the objects of the new Institute were :—

- (a) to co-operate in carrying out the regulations and policy of the textile and clothing corporations, for the manufacture of home-produced textile fibres,
- (b) to promote any objects designed to increase the output of home-manufactured textile fibres, either natural or artificial,
- (c) to make propaganda for the use of new fibres in the home textile industry,
- (d) to encourage the wider use of domestic textiles.

Under the Royal Decree Law No. 1559 of the 8th July, 1937, a contribution of two million lire per annum for five years, beginning with the year 1937-1938, had to be paid to the Ente Nazionale della Moda (Fashion Institute) an appropriation to this amount figuring in the Extraordinary Budget of the Ministry of Corporations.

(2) The index number of employment in industry, according to the statistics of the Fascist Federation of Industry (based on 1929) rose steadily from 93.66 to 110.80 between January to September. It fell to 107.13 in December owing to the usual seasonal influence. The index number of hours worked in the factories on the same basis rose from 76.13 in January to 93.37 in December, after reaching its highest point of 102.52 in September.

Moreover, in the past year the efforts of the Government to assist the workers have been marked by fresh legislative provisions, notably in the case of heads of families (1).

In the year 1937, 2,195 new limited companies were formed with a paid-up capital amounting to 2,300 million lire and existing companies increased their capital by 3,300 million lire, the total of new money invested for the period in question being 5,600 million lire. During the same period reductions of capital amounted to 2,700 million lire, with the result that the net investments for the period were 2,900 million lire, with a net increase of 665 in the number of companies. At the 31st December, 1937, the number of limited companies in existence was 20,018, with a paid-up capital aggregating 47,700 million lire. The amounts recorded for the year 1937 are the highest since the great war; the creation of the two new companies, "Finmare" and "Finsider," alone involved a sum of 1,800 million lire.

A provision of exceptional importance affecting limited companies was the special tax on their capital enacted by the Royal Decree Law No. 1729 of the 19th October, 1937, subsequently amended by Law No. 19 of the 13th January, 1938. The object of this tax is the same as that on real property (Royal Decree Law No. 1743 of the 6th October, 1936), *i.e.*, it aims at adjusting taxation so as to distribute equitably the relative burden on the various forms of investment and on the various classes of tax-payers who are called upon to provide the Exchequer with the additional funds needed to meet expenditure for the conquest and exploitation of the Empire.

(1) In accordance with the dispositions of the Central Committee of Corporations in the spring of the past year wage agreements were made in respect of the more important classes of workers, as a result of which wages rose by between 9 to 12 per cent. The Royal Decree Law No. 1768 of the 29th March, 1937, reduced the normal working hours in industry to 40 per week, in accordance with previous agreements of the various Federations in October, 1934.

Special enactments regulated the employment of temporary farm labour for wheat harvesting, rice cleaning, and the gathering of olives.

Under the Royal Decree Laws Nos. 1048 of the 17th June, 1937, and 1237 of the 21st July, 1937, the granting of family allowances was extended to all categories of workers. Under the new regulations, families are divided into three classes, those with one child, those with two or three children, and those with four or more children, and each is granted allowances according to the number of children. Employees with salaries exceeding 2,000 lire per month or employees of the State or of State controlled Institutions are not included.

In the case of trades, banks, insurance companies, the professions, or in art, rates have to be fixed by means of collective agreements. Payment of the allowances is made by the Social Provident National Fascist Institute through the "Mutual Disease or Other Purposes Institutions." This Institute was authorised by the Royal Decree Law No. 1436, of the 14th July, 1937, to advance up to 100 million lire for these allowances.

The assessment of the new tax was made on the capital subscribed and paid up as on the 5th October, 1936, and the ordinary and extraordinary reserve funds appearing in the balance sheet closed prior to that date ; in special cases allowances, some of considerable importance, were provided for in consequence of the above-mentioned amendments. The tax is at the rate of 10 per cent. on the assessable value which is to be calculated in the aforesaid manner, and the rate is halved in the case of companies whose balance sheet showed a deficit for the period prior to the date on which the decree came into force.

The Central Bank and all companies subject to the control of the "Inspectorate for the Defence of Savings and the Granting of Credit Facilities" are exempt from the new tax. The tax has to be paid in fifteen instalments, to be made bi-monthly at the same time as ordinary taxation, between the 10th March, 1938, and 10th July, 1940. Certain facilities were afforded for the payment of the tax in shares regularly quoted on the Stock Exchange, and also for payment made in advance before 30th June, 1938, whereas companies that elect to pay by fifteen instalments are compelled to set aside each year a reserve equal to one-fifth of net profits until the full amount required for meeting the tax is reached. By this means it is intended to make good as soon as possible the capital absorbed by the tax.

In consequence of the new levy some changes have been made in the special sliding tax on dividends of limited companies, the minimum rate of dividend on which the sliding tax becomes payable having been raised by 20 per cent.

As a result of the economic recovery there have been in the Finance Market finance market many important issues of bonds and shares.

In addition to the two important issues made by the Institute for Industrial Reconstruction ("Finmare" and "Finsider") of which mention has already been made, there were municipal bond issues for Rome, Turin and Genoa, and a more recent issue of the

National Fascist Party for building the Casa Littoria (1) (headquarters of the Party in Rome), and the issue of the Institute for Public Utility Undertakings for financing electrical industries involving an increase of capital of the Piedmont and Southern Electric Companies. Moreover, substantial issues were made by important companies such as Anic, Montecatini, Italgas and Southern Railways.

Stock Exchange activity was not very great for bonds, whereas the new issues contributed to much keener business for shares.

Government securities, which were very extensively dealt in during the years 1933 to 1936, firstly as a result of the first conversion of the 5 per cent. Consols into the 3½ per cent. Redeemable Loan of 1934, and subsequently by the issue of the 5 per cent. Rentes in 1935, were much quieter in 1937; in fact contango operations in bonds, consisting mainly of Government securities, after falling from the peak of 7,300 millions in 1934 to 3,500 million lire in 1936, fell further to 1,900 million lire in 1937. On the other hand dealings in shares, which had fallen from the high-water mark of 7,900 million lire in 1935, to 5,100 million lire in 1936 rose again to 7,800 million lire in 1937. The most active period was in March and April, when a substantial rise in prices took place, which, however, was checked by the requirements of a 25 per cent. deposit for either the purchase or sale of securities. Stock Exchange activity revived in the last quarter of the year as the result of the above-mentioned decree for establishing a special tax on the capital of companies. This was due to the fact that the market was already expecting provisions similar to those applied in the case of real property, and had already discounted them by lowering share prices to a limited extent, while immediately after the enactment of the law interest in share values revived, in particular for companies which increased their capital through the distribution of bonus shares.

It should be borne in mind that in recent years a number of important enactments had favoured the setting aside of large

(1) Under a Royal Decree Law to be published shortly the National Fascist Party was authorised to issue a loan for the purpose of raising funds for building its headquarters in Rome. Within these limits the Fascist Party decided to make a first issue of 62.5 million lire in bonds at an issue price of 99 per cent. bearing interest at the rate of 5 per cent. to be paid half-yearly on the 1st April and the 1st April, beginning on the 1st October, 1938. The placing of the bonds which are guaranteed by the State as regards capital and interest, and are exempt from present and future State or local taxation, and rank as eligible securities for obtaining advances at the Central Bank, was effected under the ægis of the Banca d'Italia. Bonds are redeemable by law by means of twenty-five yearly drawings at the Banca d'Italia beginning in February, 1939.

reserve funds by limited companies; first of all the Decree Law of September, 1935, by which the distribution of profits by companies was limited to 6 per cent. and following on the re-alignment of the lira, the Royal Decree No. 163 of 4th February, 1937, which laid it down that the proceeds of the revaluation of the capital resources of limited companies could only be utilised for amortisation. It was only after the introduction of the special tax on the capital of the companies that it became permissible to make a distribution of reserves by the issue of bonus shares, for a capital amount not exceeding double the amount due in respect of the tax, and on the further condition that an additional issue of half the amount of the bonus shares should be made for cash payment. The provisions of the February Decree were further amended by allowing the revaluation of the capital resources of companies in order to enable them to meet the burdens involved in the new tax. Naturally the adjustment of the balance sheets arising from the changed value of the currency as well as from the distribution of reserve funds in the shape of new shares do not alter the financial position of the companies. Further, the dispensations authorising such operations enabled companies to dispose immediately of profits on which, under previous regulations, there were severe restrictions both from the point of view of their entry in the balance sheet and their distribution. It is easy, therefore, to understand that the stock markets, on learning the particulars of the new tax, reacted favourably; in consequence there was a larger volume of dealings at higher prices, whereas the comparative freedom of the Italian position from the influence of world conditions prevented the stock markets from being affected by the heavy depression which in the autumn prevailed in the leading foreign markets.

But, even if the nature of the above-mentioned decree is such as to maintain an active share market, the future movement of prices must be in keeping with the actual basis of yield on the shares concerned (1).

(1) The banks have again been called upon to co-operate in connection with the new special tax on the capital of limited companies. In fact, under the October Decree and other relevant dispensations, companies which pay in full in advance either in cash or partly in cash and in shares are entitled to obtain advances secured on four months' bills up to 80 per cent. of the amount so paid. Moreover, a Decree of the Prime Minister dated 15th November, 1937, extended to banks, other than the Central Bank, including those which hold deposits in excess of 100 million lire, or such other banks as may be nominated by the Inspectorate, to grant such advances.

The banking reform which was enacted by the Royal Decree Law of March, 1936, has been improved and brought to completion by the Royal Decree Law No.1400 of the 17th July, 1937, which amended the previous decree in accordance with suggestions made by Parliament on particular points, and as a result of experience gained. First of all, mention should be made of the change by which "Banks of Public Law" became known as "Banks of National Interest," and also of the authority granted to private persons and also foreigners to hold shares in such banks, provided that they give up their voting rights at the Shareholders' General Meetings.

The final date of registration for shares of the Banks of National Interest, was fixed for the 28th February, 1938, while for the registration of shares of other banks constituted as public or private companies, it was fixed for the 31st December, 1937. The inclusion of the credit organisation within the Corporative system was the object of the Royal Decree No. 1878 of the 1st July, 1937, which added to the already existing Colonial Economic Advisory Bodies, a Credit and Insurance Advisory Committee. Moreover, a Decree of the Prime Minister of the 18th September, 1937, in pursuance of a provision of the basic July Decree, constituted a new Corporative Technical Credit Committee, in place of the one created in February, 1936, whose task was originally confined to considering problems connected with the distribution of banking functions. Various decrees had granted to all banks the right of syndical association.

The status and activities of the Agricultural Banks were finally settled by an Act approved by the Royal Decree Law No. 1706 of the 26th August, 1937, which, in accordance with the suggestion made by the banks themselves, changed their name to "Rural and Handicraft Banks." The banks are subject to the direct control of the Inspectorate; a special form of Co-operative Society with limited liability has been created in which, however, members are responsible for the liabilities of the Society up to an amount to be fixed in the Articles of the Society, but not to be less than ten times the amount of the member's share in the capital of the Society. The Act has also brought about certain changes in the sphere of the business conducted by these Societies, increasing from 25 to 40 per cent. the transactions which may be carried out with non-members, and enlarging moreover the number of other Banking Institutions

with which they are entitled to deal. These changes aim at strengthening the resources of these banks and enabling them to carry out more remunerative business, as well as granting special credit facilities on a small scale to handicraft workers.

The desirability of improving the tourist organisation, having regard to the importance of the tourist traffic in connection with the balance of foreign payments, led to the creation of a special section of credit for hotels and tourists, which was established at the Banca Nazionale del Lavoro, as a result of the Royal Decree Law No. 1561 of the 12th August, 1937, and a Decree of the Prime Minister of the 24th September, 1937. The new section will be conducted on the lines of the Real Estate Mortgage Institutes, and it will obtain its resources from the paid-up capital, which has been subscribed by a consortium of banks, and from the issue of bonds up to an amount not exceeding ten times the paid-up capital; moreover, it will be able to draw on short-term credits opened by subscribing and other institutions. The State will contribute to the Sinking Fund of the bonds to be issued and will also assist in the creation of a Guarantee Fund, up to 125 million lire, to be appropriated from the proceeds of the "sojourn" tax.

Finally, in the past year the financing of reclamation works by the issue of special credit certificates, as laid down in the Royal Decree Law No. 2370, of the 19th December, 1936, was initiated under Decrees of the Prime Minister dated 18th February, 1937, and 27th October, 1937. The amount of certificates to be issued was fixed at 400 million lire for the first half and 100 million lire for the second half of the year 1937. A Decree of the Prime Minister of the 7th December, 1937, has further extended the system of financing land reclamation to the construction of motor roads.

The foregoing legislative enactments, by which the credit Banking Activity. system is gradually becoming part of the Corporative Fascist State, have an important bearing on the activity of the banks in relation to the State, to the Central Bank, and to their customers.

In recent years, State action has been directed to two main objects—the realisation of an Imperial political economic system, and the achievement of autarchy. The great changes thereby

involved have led to a more intense economic activity, and increased the financial needs both of the State and of private enterprises. In these circumstances, investment of money, which in periods of depression usually takes the form of bank deposits, was directed rather to the purchase of industrial shares, bonds or Government securities. In fact, in 1937, while the rise in deposits was smaller than in the previous year, there was, as has been already mentioned, an increase in the issue of securities, and at the same time the State placed on the market a considerable quantity of Treasury bills.

The influence of the State economic policy over the credit position is very marked in the transactions connected with the issue of the 5 per cent. Real Estate Redeemable Loan, in respect of which up to the 30th April, 1937, banks had made advances to their customers totalling 1,454 million lire, while advances granted by the Banca d'Italia for that purpose amounted to 1,542 million lire. The commitments of the Banca d'Italia in connection with the Redeemable Loan, have not appreciably changed, and at the end of the year, outstanding advances amounted to 1,552 million lire, of which 255 million were to banks, 869 million to Insurance Companies, and 428 million directly to taxpayers.

In this connection the advances of the Banca d'Italia to other banks do not indicate fully the influence of subscriptions to the Redeemable Loan on their demands for advances to the Central Bank. Since they preferred to borrow at the Central Bank on the security of 5 per cent. Rentes at half per cent. below the normal rate, their power to borrow in this way was extended by Ministerial Decree of the 21st September, 1937, until the 30th September, 1938. It will be appreciated by the amount of advances outstanding on the 31st December, 1937, which aggregated 4,507 million lire, including 2,480 million lire of advances granted at the normal rate, and 2,027 million lire of advances granted at reduced rates. Moreover, the indebtedness of banks to the Banca d'Italia for advances, other than those specially obtained in respect of the Real Estate Redeemable Loan, have risen from 1,062 million lire at the end of March, to 1,990 million lire at the end of December.

Another kind of operation which shows the connection of credit with the Government's economic policy, consists of the financing of

the Wheat Pools. The difference between the sums paid to the farmers by the pools, and the amounts received by the pools for sales to the mills, reached a maximum of 2,535 million lire at the end of September, and on the 31st December it was reduced to 1,689 million lire. This difference denotes approximately the indebtedness of the pools to the banks authorised to finance them which met such requirements either from their own resources or through the re-discount of bills. On the 20th December, re-discount operations at the Banca d'Italia of Wheat Pool bills amounted to 943 million lire. The banks are, therefore, heavily involved in these pooling operations out of their own resources (1), but their commitments in this respect are gradually liquidated.

The issue of Treasury bills, the subscriptions to the Redeemable Loan, the financing of pools and the increased credit requirements for the development of industrial activity and for the realisation of autarchy, influenced the normal business of the banks, requiring a larger use of available funds and a more extensive recourse to re-discounts and advances, which was facilitated by the fact that under special legislation some of the paper held by the banks was declared eligible for re-discount, and by the fact that in the last years the banks considerably increased their holdings of Government securities.

The above figures show, however, that apart from the special transactions connected with the Real Estate Loan, the demand by the banks for advances against securities at the Central Bank was particularly heavy. This tendency to meet cash requirements by means of advances rather than by means of the re-discount of bills, must be noted, since it is by no means in keeping with the principles governing the banking reform; this reform aimed at preventing the Central Bank from carrying out discount operations directly with its customers, and at bestowing on it the functions of the banks' Bank, on the assumption that other banks would have to obtain additional funds for their requirements mainly through the re-discount of bills at the Central Bank, whereas they would only resort to advances for requirements of an exceptional nature.

(1) Such resources are furnished in part by the repayment of farmers' loans at harvest time. As a result, however, of the pool system, the position is eased owing to the immediate payment to the farmer of the price of his goods. Then, as a result of the pool finance system, the credits of the banks for loans granted to farmers during the year can be set off against the amounts due to farmers in respect of deliveries to the pools.

Such a procedure is implicit in the delimitation of the scope of the various kinds of banks, which was one of the essential aims of the reform. The Inspectorate for the Defence of Savings and the Granting of Credits Facilities is entrusted with the carrying out of the above objects, and it is well to point out here that if at this moment there is still some overlapping and deviation from what was intended, this must and will be gradually eliminated.

It is not in the nature of ordinary commercial banks to employ savings deposits, nor is it in the nature of savings banks to develop current accounts, whose fluctuations compel recourse to short-term commercial investments suitable for banks of the former group. It is not only desirable but essential that the savings banks should not depart from their high traditions and that they should devote themselves exclusively to attracting savings, especially small savings, and confine their investments to securities permitted by law, namely communal and provincial loans, mortgage loans, and, within certain limits, discount operations, preferably in connection with agriculture. The smaller return on such investments is offset by the greater measure of security (an essential feature to remember, as any unnecessary element of risk must be excluded in the case of savings bank deposits), while at the same time the savings banks do not have to worry about the return on their capital.

The ordinary commercial banks must gradually relinquish the field of medium term credit, leaving this to the special institutions which have been created for that purpose, and, in fact, helping the latter in accordance with the resolution of the Corporation for Credit and Insurance to ensure that all business of this kind passes into their hands.

The Istituto Mobiliare Italiano and its Independent Section, the Syndicate for Advances against Industrial Securities, have been particularly active in the past year. That they have achieved their objects is shown in the fact that their large volume of transactions, frequently for small amounts, were distributed among a wide range of customers engaged in all kinds of industry in every part of Italy.

Equally, the people's banks and agricultural banks must not engage in business beyond the limits laid down for them within

which they have had, and will have even more in the future, every opportunity of performing useful work for themselves and for the nation.

It is now two years since the introduction of the banking reform which we owe to the foresight of our Leader. The results already achieved are outstanding and it must be recorded that this reform, introduced at a critical moment for the country, enabled the large and complex banking organisation of Italy to fulfil, without undue effort, the tasks entrusted to it and so to make its contribution to the common victory.

To-day the problem to be faced is that of adjusting the structure of the banking system to the demands of economic self-sufficiency. The banking reform is not, nor could be regarded as complete or final. This could only be so in a static state of affairs in a country that does not look forward to further achievements ; that is certainly not the case with Italy which is being guided with prudent foresight towards a higher destiny. Whatever the future may hold the banking structure will be revised and adjusted so that all its component parts may work together in harmony for the achievement of the task before it. Banking reform, like everything else, must move with the times.

In the foregoing circumstances, the tendency for deposits to rise showed a falling off in the past year ; the statistics collected by the Inspectorate for the Defence of Savings and for the Granting of Credit Facilities, and by the Post Office, show that total deposits rose from 75,867 million lire at the end of 1936, to 79,620 million lire a year later. The increase by 3,753 million lire is made up of 1,568 million lire in bank deposits, and 2,185 million lire in Post Office savings. In turn, the increase in bank deposits is due to an increase of 515 million lire in current accounts and of 1,053 million lire in deposit accounts, whereas the net increase in postal savings is due to a rise of 2,265 million lire in Post Office saving certificates, coupled with a reduction of 80 million lire in saving deposit accounts.

The Inspectorate for the Defence of Savings and for the Granting of Credit Facilities initiated a special enquiry in August, 1936, to ascertain the types of investment of the capital assets and

Deposits

Distribution
of Credit

deposits of the banks. At that date the banks which collected short-term savings, excluding therefore the special institutions and the independent sections of such institutions, had advanced for various forms of economic activity 27,100 million lire, of which 18,600 million lire were in the form of short-term credits and 8,500 million lire in the form of medium or long-term credits.

There was a further considerable expansion in the banks' business between August, 1936, and June, 1937. Total credits, in fact, rose to 29,800 million lire, and consisted of 21,400 million lire in short-term operations as against 8,400 million lire of long-term operations.

An analysis of the debtors shows that the credits granted to public bodies fell from 5,700 million lire in August, 1936, to 5,400 million lire in June, 1937; during the same period credits granted to financial and insurance houses and to industries dealing with cereals and other foodstuffs fell from 3,600 million lire and 2,500 million lire to 3,200 million lire and 2,300 million lire, respectively, at the same time credits for building, reclamation and other works rose from 3,400 to 4,300 million lire, for private concerns from 3,300 million lire to 4,100 million lire, for agriculture from 2,000 million lire to 2,600 million lire, for iron, steel and engineering from 1,500 million lire to 1,900 million lire, for textiles and clothing from 1,200 million lire to 1,500 million lire and for other miscellaneous items from 3,900 million lire to 4,500 million lire.

The increased supplies of credit were of particular advantage to owners of real property both urban and rural, to meet the demands of the new real estate tax. Engineering industries, now particularly active, some food industries, chemicals and textiles, all working for the attainment of autarchy or for export, also benefited.

Out of the total of credits outstanding on the first of the two dates in question 14,000 million lire were supplied by eleven national or inter-regional banks, and 13,100 million lire by regional or local banks. On the 30th June, 1937, the corresponding figures were 16,000 million lire in respect of the former and 13,800 million lire in respect of the latter, which include savings banks, limited companies, and co-operative societies (1).

(1) An earlier survey included 519 such banks, whereas a later survey reduced the number to 443 by eliminating those holding less than one million lire deposits. In both surveys, moreover, the smaller co-operative concerns were not included.

All the various classes of banks have distributed their credit widely among their customers, and in every field of economic activity this is proof of the close connection between banking and the economic life of the country, irrespective of its particular nature and the size of the undertaking requiring credit.

The necessity for State control of the key industries affecting national defence interests, and for the provision of adequate finance for their increased needs, led to the adoption in the past year of important measures. In January the successful issue of the IRI-Mare bonds for 900 million lire, supplied the means for the development of the Mercantile Marine. In June a similar operation took place for the Iron and Steel Industry. Under the Royal Decree Law No. 906 of the 24th June, 1937, the Institute for Industrial Reconstruction was authorised to subscribe to the share capital of the new Iron and Steel Finance Company "Finsider" amounting to 900 million lire, by handing over to the latter its interests in the leading iron and steel Companies, viz., Ilva, Terni, Stabilimenti di Dalmine and Acciaierie Cornigliano. At the same time the Institute for Industrial Reconstruction (IRI) was authorised to hold the share capital of the "Finsider" Company, as security against the issue of special bonds IRI-Ferro up to 900 million lire. The issues of IRI-Ferro and IRI-Mare bonds like that of the IRI-Stet bonds made in 1933, have served to distribute widely on the Italian market this new type of mixed bond, which, besides its fixed rate of interest, carries with it the right of participation in the profits of a group of shares covering a particular field, and also entitles the holder to convert the bonds into shares, within certain specified limits; in the case of the IRI-Mare and IRI-Ferro bonds, this has been fixed at 50 per cent. of the outstanding bonds issued. By a Decree of the Prime Minister these bonds are guaranteed by the State.

The State, which had already, through the creation of the Finmare, secured control of the shipping industry, then proceeded to acquire a direct interest in shipbuilding. With this object the Royal Decree No. 451 of the 15th April, 1937, was issued, by which shipbuilding companies having a capital in excess of 100 million lire, not actually under the control of the Institute for Industrial Reconstruction, had to replace their existing share capital by new

shares to be held by the Institute. The Institute is required to hold until 31st December, 1942, sufficient new shares to ensure the possession of at least half of the voting rights, the same holding good in the case of shipbuilding companies already controlled by the Institute. At the date of the issue of the decree the shipbuilding concerns of Ansaldo and Odero-Terni-Orlando in Genoa came in the latter category, whereas by virtue of the new decree the Institute assumed control of the third important shipbuilding concern, *viz.*, the Cantieri Riuniti dell'Adriatico in Trieste.

The organisation of the Institute for Industrial Reconstruction was finally settled, under the Royal Decree Law No. 105, of the 24th June, 1937, which fixed the capital of the Institute at 1,000 million lire, made up of the reserve resulting from realisation and revaluation of its assets. The Institute is entrusted with the task of administering the undertakings already under its control, and with the sale or liquidation of those which the State does not see fit to retain. It may, moreover, acquire new interests up to a milliard lire in large industrial concerns connected with national defence or the exploitation of the colonial Empire or designed to promote self sufficiency. The Institute is also authorised to extend its holdings if this is required for the purpose of conserving or developing its existing interests. In order to secure the requisite funds, the Institute is empowered to issue bonds of not less than twenty years' maturity, against which the Institute may give as security the subsidiaries payable by the State. In accordance with the Royal Decree to which reference has been made, the new statutes of the Institute were issued under a Decree of the Prime Minister dated 31st December, 1937.

The rise in wholesale and retail prices and in the cost of living which started, as indicated in last year's Report, in the second half of the year 1934, continued during 1937. This was the result of the trend of world prices, and especially of the realignment of the lira, and it would have been even more marked had not timely measures been taken to avoid violent changes. The suitability of these measures is proved by the gradualness of the movement and by the fact that the rise in prices was smaller than the depreciation of the currency; this is a favourable factor for the export trade.

According to the index numbers of the Central Statistical Institute wholesale prices rose by 22 per cent. as compared with December, 1936, and retail prices by 17 per cent., while the rise in cost of living amounted to 14·2 per cent. as compared with September, 1936, the month immediately preceding the realignment of the lira, the rise in wholesale and retail prices and in the cost of living was 25·3, 19·6 and 17·6 per cent. respectively.

Allowing for an inevitable margin of error in the index number, however carefully compiled, particularly in the case of the more elaborate ones, such as the cost of living, it is nevertheless significant that the rise has been smaller in the case of commodities and services in general demand. This shows that a system of control in an economic system, regulating every phase of activity, can function efficiently, especially if it is accompanied by measures designed to even out inequalities between incomes and potential consumption.

With a view to putting the system of control on a normal basis and to transferring such control to bodies already authorised by the Royal Decree Law No. 523 of the 28th April, 1937, to regulate prices, the powers previously entrusted to the Central Committee on prices at the party headquarters, were transferred to the Central Committee of Corporations, while the functions of the provincial Committees were transferred to the local Committees of the provincial Council of Corporations. By the same decree all measures relating to the prices of specified commodities or services, can be submitted to examination by the competent Corporations or by the Corporative Technical Committees. This transfer of functions did not alter the main lines of the policy of control, which does not admit of the adoption of rigidly fixed prices, but aims at securing price variations justified by changes in costs of production and import prices.

The ordinary Budget for the financial year 1936-1937, closed with a surplus of 1,289 million lire, as against an estimated surplus of 20 million lire. This result was due principally to an increase in actual receipts which had been estimated at 20,312 million lire, but which actually realised 24,702 million lire. The increase in receipts was, however, partly offset by higher expenditure, which amounted to 23,413 million lire against an estimate of 20,292 million lire.

Budget
Results

In the extraordinary Budget, expenditure rose to 17,519 million lire, making the total expenditure for the year 40,932 million lire. As stated by the Minister for Finance, receipts were swollen by the proceeds of the revaluation of gold reserves, by the proceeds of voluntary gifts of gold to the nation, and advance payments in settlement of the real estate tax. Moreover, the yield of the various taxes was generally higher as a result of the economic revival and of the measures taken by the Revenue Authorities to secure a higher yield from taxation. The increase in expenditure as compared with the estimates in the ordinary Budget was due in varying degree to defence requirements, measures for the encouragement of tourists, bonuses for marriages and births, family grants to industrial workers, measures for the encouragement of the silk industry, increased public debt charges, public works, and heavier administrative expenses.

The surplus on the ordinary Budget has been used to meet, in part, extraordinary expenditure in the year 1936—1937, incurred for military purposes and for the exploitation of the Empire, which, apart from this, had to be met from extraordinary receipts, including the Redeemable Loan on Real Property (1).

The estimates for the financial year 1938—1939, show a surplus of 37 million lire. Receipts are estimated at 25,072 million lire, or 4,475 million lire more than the amount estimated for the financial year 1937—1938, allowing for an increased yield from taxation as a result of the economic revival, of stricter assessments and measures taken to prevent tax evasion. Moreover, in the above figure allowance has been made for the proceeds of the special tax on share capital payable in the financial year 1938—1939 (2). Expenditure is estimated at 25,035 million lire, or 1,254 million lire above the

(1) Speaking in the Senate on the 25th May, 1937, the Finance Minister stated that up to the 30th April, 1937, when only two out of six instalments had been paid, the Treasury had received in respect of the Real Property loan, Lire 5,376,424,052. This included subscriptions to the loan totalling Lire 4,259,586,290, and advance payments for Lire 1,116,837,761, equivalent to Lire 1,240,930,800 if paid in the ordinary way.

(2) An increase of 1,968 million lire is estimated in the receipts from direct taxation, of which 1,800 million lire is represented by the first instalment of the special tax on share capital. Additional receipts amounting to 1,496 million lire were estimated on account of the increase from 2½ per cent. to 3 per cent. in the turnover tax. Moreover, an additional yield of 297 million lire was estimated for excise duties, principally on account of the increased tax on petrol and other liquid fuels. An additional yield of 324 million lire is anticipated from the monopolies and State lottery; 71 million lire from various State activities; and, lastly, 319 million lire from miscellaneous receipts.

estimates for the current year. The increase in expenditure is shared by almost all departments; particularly the Ministry of Finance for higher debt charges, the Ministry of Italian Africa (formerly Colonial Office), for the Settlement of the Empire, the Ministry of Public Works, for the completion of programmes already approved, and the Ministry for National Education for increasing the number of schools of all kinds, including technical schools. Lastly, throughout the public service expenditure has risen as a result of the improvement in the financial position of the employees.

Under the Royal Decree No. 2200 of the 23rd December, 1937, Circulation of Coin and Currency Notes changes were made in the authorised metallic currency in circulation. The maximum for copper coinage was raised from 70 to 200 million lire, with a maximum of 1,500 million lire for silver coinage. The final date for the conversion of the old 20 and 10 lire silver pieces fixed by a Ministerial Decree of the 18th January, 1937, remained unchanged at the 31st December, 1938, while under Decree dated 10th January, 1938, the 5 lire silver pieces and the old copper coins cease to be legal tender on the 31st December, 1945, and are not exchangeable after 31st December, 1947.

The same decree authorised a further issue of 1,150 million lire in currency notes, thus increasing the total authorised issue for such notes to 2,500 million lire.

The minting of new Imperial coins is designed to secure wider circulation of the lira in Italian East Africa.

In this connection it should be recalled that following on the Royal Decree Law No. 1371 of the 2nd July, 1936, which established the lira as legal tender in Italian East Africa, and empowered the Governors to fix, from time to time, the rate of exchange between thalers and lire, the consequence was that the progressive increase in these rates resulted in the thaler acquiring a value in lire above its intrinsic value. This led to the minting of thalers (easily identifiable as a result of minting defects) in various foreign countries, which brought discredit on that coinage and finally a Ministerial Decree of the 5th January, 1938, stopped exchange quotations for thalers.

The position of the Bank for International Settlements did not show any substantial changes in the past year, and on the 31st December, 1937, assets and liabilities figured in the Balance Sheet at about 650 million Swiss francs—rather more than in 1936, but about the same as in the years 1933 to 1935.

Although the Bank's activities during the past year were, for obvious reasons, restricted, it continued to perform its useful function of ensuring periodical and personal contracts between the leaders of the principal money markets which is one of the essential objects for which the Bank was founded.

The 300,000 Registered Shares of the Banca d'Italia were at the 31st December, 1937, in the hands of 109 holders, composed as follows :

87 Savings Banks	...	...	185,056 shares
11 Public Law Credit Institutions and Banks of National Interest	...	...	68,444 ,,
1 Provident Institution	...	...	15,000 ,,
10 Insurance Companies	...	...	31,500 ,,
Total : 109 Shareholders	...	...	<u>300,000 shares</u>

At the end of 1937 of the 500,000 shares forming the old capital of the Bank, 495,952 had been repaid.

The cash turnover of the Bank for the year 1937 amounted to 730,837 million lire, an increase of 136,708 million lire on the previous year's total. Receipts amounted to 365,981 million lire, and outgoings to 364,856 million lire, as against 297,356 million lire, and 296,773 million lire, respectively, in 1936.

The amount of notes in circulation on the 31st December, 1937, was 17,468.1 million lire. On the same date the demand drafts of the Bank amounted to 749.5 million lire, and deposits in current accounts to 715.3 million lire, so that altogether the sight liabilities requiring reserve cover aggregated 18,932.9 million lire. On the 20th March the circulation of notes was reduced to 16,190.2 million lire and the sight liabilities to 17,819.6 million lire.

These figures show that in spite of the increase in productive activity and the wider territory in which the lira circulates, as a result of the conquest and exploitation of the Empire, the increase in the note circulation was confined within narrow limits.

This the Central Bank regards as essential for protecting the savings of the people and encouraging new savings, which by finding investment in the securities offered by the State or in private enterprise, promotes the development of production and helps to satisfy the Government's financial requirements.

The maintenance of the currency in circulation at a fairly constant level, did not prevent a tendency for prices to rise. This was due to the immediate adjustment of import values, to the altered gold content of the lira, to an increased velocity in the circulation of money—peculiar to periods of economic revival—to a larger use of substitutes for Bank notes, and, finally, to the fact that the diversion of part of the productive capacity to the manufacture of non-consumable goods or goods for export reduced the supply of consumable goods on the domestic market. Even after the recent increase in prices, the purchasing power of the lira remains above what it was ten years ago, immediately after its stabilisation, and is only lower than in the years of economic depression after 1929. The reduction in the amount of notes in circulation as compared with 1928, was also slightly less than the fall in prices; this is evidence that the present position is well balanced.

On the 31st December, 1937, reserves held by the Bank against notes in circulation and other sight liabilities, amounted to 4,028·3 million lire, including 3,995·9 million lire in gold, and 32·4 million lire in credits abroad. On the 20th March the above figures were unchanged.

The reserves thus show a slight increase of 6·7 million lire, as compared with the end of 1936.

As is well known, the receipts from foreign currencies, including freights, emigrants' remittances, and tourists, the latter showing

satisfactory progress (1), are paid into the Italian National Institute of Exchange, which receives from the Banca d'Italia the foreign currencies and gold which the latter acquires.

The outstanding credit due by the State in respect of 146,321 kilogrammes of fine gold deposited at the Bank of England during the war, which during the year has remained unchanged at 1,772·8 million lire, is not included in the gold reserve of the Bank.

The temporary advances to the Treasury made in accordance with Article 21 of the Ministerial Decree of the 31st December, 1936, amounted on the 31st December, 1937, to 1,000 million lire, whereas the extraordinary advances against Treasury bills were entirely repaid by that date.

On the 31st December the amount of domestic bills discounted was 2,544·2 million lire, and of advances against securities and goods 4,508 million lire. As has been already mentioned, the increase in the latter transactions was due to the needs of the pools, especially in the case of wheat, and to the facilities afforded for the granting of advances by the Bank in connection with the issue of the 5 per cent. Redeemable Loan. The deferred payments at the clearing houses reached 42·1 million lire and the Government or Government guaranteed securities owned by the Bank amounted to 775·1 million lire. Thus, the interest-bearing investments of the Bank totalled 7,869·4 million lire. The official discount rate has remained unchanged since the 18th May, 1936, at $4\frac{1}{2}$ per cent.

The debt to the Bank of the Institute for Industrial Reconstruction amounted on the 31st December, 1937, to 4,708·1 million lire; as from that date the new amortisation plan provided for in a special agreement concluded under the auspices of the Treasury, has been put into force, and, accordingly, a sum of 46·2 million lire has been entered on the debit side of the balance sheet under the heading "Institute for Industrial Reconstruction Sinking Fund."

(1) With a view to increasing the return derived from this important invisible item of the international balance of payments, and at the same time giving foreigners the opportunity of becoming acquainted with Italy, the Government has adopted various provisions for making travelling to Italy easier and cheaper. The results have been quite satisfactory, in spite of the fact that the largely increased number of tourists did not bring about a proportionate increase in the receipts of foreign currency. This is partly due to the nature of the facilities which have been granted but also, to a considerable extent, to the different type of tourist now travelling to Italy. In fact, the foreigners who visit Italy now belong mainly to the middle classes and travel mainly for educational purposes rather than for pleasure. This fact has to be taken into account in the application of measures for the assistance of the hotel industries, in order to ensure that facilities are granted for building new hotels which are in keeping with the new type of tourist.

The premises owned by the Bank, which under its new con- Premises
stitution represent a capital investment, are entered in the 1937
balance sheet at 121.7 million lire.

The business of the colonial branches showed a considerable Colonial
expansion in 1937 and the results may be regarded as favourable. Branches

Economic conditions in Tripolitania considerably improved ; the
Tripoli Branch greatly increased its business and showed much better
results than in the previous year. The warehouses were brought
up to date, in order to cope with the increased traffic of the port.

General conditions in Cirenaica have become more settled, and
the colony is gradually becoming self-supporting. Business at the
Bengasi Branch was steady and developed considerably in the last
months of the year.

The Branch at Rodi, although unable, even in the past year, to
realise a profit, showed further signs of recovery in the latter part
of the year, and leads to the expectation of better results in 1938.
This improvement in the position is the result of steps which the
Government is taking for developing the resources, especially
agricultural, of the Ægean Islands.

During the past year, the Government has devoted much
attention to the reorganisation of the territories of the Empire,
especially in the construction of new roads, in order to facilitate the
gradual colonisation of the vast territories.

As already mentioned, the necessary steps have been taken for
making more general the use of Italian currency in the Empire,
and, in fact, the lira is constantly becoming more acceptable to the
natives. The activities of the Branches in the Empire, however,
have been more concerned with creating new trade in the districts
which they are intended to serve. The Addis Ababa and Dire Dawa
have been especially busy and the results so far achieved may be
regarded as promising. The Branches at Harar and Gondar, the
latter of which was only opened on 1st July, 1937, for various reasons
found less scope for their work, and closed the year with small
losses, although there is every hope that the future may see an expan-
sion of business.

The results of the Asmara and Massaua Branches in Eritrea were satisfactory as a result of good crops, the development of industry and the exploitation of the Massaua and Assab salt works, and also owing to the fact that Massaua is the principal port for the Abyssinian trade. A new Branch has been opened in Assab. The Massaua warehouses have been reorganised and the financial results for the year showed an improvement. The town is now in a position to cope with all traffic requirements, closing the year with improved financial results.

On the other hand, there was a slight falling off in business in Somalia for various reasons, partly as the result of the withdrawal of troops stationed in the colony.

In spite of a certain shortage of agricultural labour, the crops were rather better than in the previous year, and the Branches of Mogadiscio and Chisimaio were fairly busy, the latter having devoted its attention primarily to financing local agricultural developments.

The Inspectorate for the Defence of Savings and the Granting of Credit Facilities continued to carry out its work in close collaboration with the Central and Branch Offices of the Banca d'Italia. The supervision of all banks, except in the case of Public Law Institutions, is exercised by the Branch Offices of the Banca d'Italia. During the past year only two applications, both refused, were received for the creation of new banks, and two applications for authority to increase the capital, one of which was approved (1). 272 inspections were

(1) In 1937, 197 applications were made by 81 banks (39 banks and 42 savings banks) for permission to open 325 new branches. Of these, 129 were authorised, as against 103 in 1936 and 25 in 1935. 14 banks have applied for authorisation to extend their activities in 31 neighbouring districts, and authority has been given in 21 cases. Out of 51 applications for authority to grant extended credits to agriculture 33 were allowed. Applications for authority to grant loan facilities in excess of the legal limits, were 103, involving a sum of Lire 452,449,657; of these 77 involving a sum of Lire 427,364,031, were allowed in addition to 41 extensions of authorisations previously granted for an amount of Lire 85,455,473. The number of cases in which authority was granted to exceed the legal limits for the grant of loan facilities was 295, involving an aggregate sum of Lire 1,036,259,000. Moreover, other applications on which the Banca d'Italia had to give technical advice within its competence included :—

- 29 applications for amalgamation by 58 banks, of which 17 were agreed to.
- The taking over of branches of banks from other banks : 20 applications for 44 branches, of which 22 were authorised.
- The transfer of head offices and branches : 193 applications of which 188 were authorised.
- The conversion of a partnership into a limited company : 1 application, which was rejected.
- The opening of counters or money-changing offices at exhibitions, fairs, etc. : 40 applications for opening 49 new counters, of which 33 were granted.
- 61 applications were received for taking over local tax collection or other collection services for various public bodies, of which 29 were granted.

Finally, 28 applications were made for the appointment in 69 districts of private correspondents for the collection of bills, or the issue of cheques, for which authorisation was given in respect of 47 districts.

made by bank officials in the year, making a total of 3,702 since the establishment of banking control. It should be noted, however, that the same banks have been inspected several times.

During the year 14 banks have been entered on the Register of the Inspectorate as eligible to receive deposits, whereas 102 have been struck off (1).

The total number of banks entered on the Register on the 31st December, 1937, was 2,746, of which 1,969 were conducting business (including 1,170 agricultural banks) operating in 3,800 centres, with 7,600 counters, while 777 were in the course of liquidation.

The Profit and Loss Account for the year 1937 shows the following results :—

	Lire
Gross Profits	375,268,059·83
Gross Expenditure	276,498,426·54
Net Profit	<u>98,769,633·29</u>
The gross profits are made up of :—	Lire.
Discount Operations	68,608,546·89
Interest on Advances	145,558,076·77
Interest on Deferred Payments at the Clearing Houses	1,030,572·52
Interest on Current Accounts	60,321,473·53
Various Commissions	16,768,206·03
Profits on Foreign Business	264,249·87
Miscellaneous Profits	31,626,451·95
Interest on Government Securities	39,750,222·32
Income from Real Property...	9,699,256·18
Interest on Colonial Branches Fund	580,000·00
Profits arising from the liquidation of former Note-issuing Banks	1,061,003·77
Total	<u><u>375,268,059·83</u></u>

(1) Including :—

70 at final liquidation.

17 for amalgamation or absorption.

9 for withdrawal of authority to collect deposits.

5 for cessation of business.

1 in bankruptcy.

Expenditure and taxes comprised the following items:—

	Lire.
Administration Expenses ...	118,571,116.45
Directors' and other Fees ...	2,673,833.50
Transport of Specie, etc. ...	1,563,791.61
Printing of Notes ...	9,633,752.00
House Property Account ...	5,303,653.50
Foreign Business Expenses ...	25,752.95
Various Taxes ...	41,534,995.20
Unpaid Bills ...	6,367,023.91
Various Amortisations ...	35,632,392.48
Interest and Annuities ...	29,473,413.94
Charities and other Contributions ...	3,100,000.00
Contributions towards Employees' Pension Fund ...	9,618,701.00
Depreciation of Bills against Losses, etc. ...	10,000,000.00
Temporary Staff Pension Fund	3,000,000.00
Total Expenditure ...	<u>276,498,426.54</u>
Net Profit ...	<u>98,769,633.29</u>
Total ...	<u><u>375,268,059.83</u></u>

In accordance with Article 54 of the Statutes, the Ministerial Regulations and the Report 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 1937:—

	Lire.
20 per cent. to the Ordinary Reserve Fund ...	19,753,926.65
20 per cent. to the Extraordinary Reserve Fund ...	19,753,926.65
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 capital ...	18,000,000.00
Balance of Profits to the State	40,980,719.99
Total Net Profit ...	<u><u>98,769,633.29</u></u>

The Balance Sheet which has been explained to you and which Conclusion is submitted for your approval, is the best evidence of the satisfactory progress achieved in the past year, which in every sphere of economic activity has made clear to all, not only Italians, the adjustment which has taken place in the productive forces of the Nation to meet the requirements of defence and of the development and strengthening of the Empire.

The impetus given to the various projects designed to secure economic self-sufficiency as a means of safeguarding national independence, is inspired directly by our system of government which with the greatest foresight is taking every step necessary for the reconstruction of the national economy on a more stable and wider basis and at the same time never overlooks the need for ensuring an ever-increasing measure of social justice.

Recent experience has shown that moral and political factors can to a great extent make good deficiencies which in other times might have been very dangerous. Consideration of the changes which have taken place in the amount and in the manner of the use of the gold reserve, and of the attitude towards this question adopted in recent years by those responsible for planning the national economy will suffice to show that a sound political system is the foundation of a sound economic life.

Italy has faced up with determination to the task of adjusting the structure of her productive system to the achievement of her true independence through the power of the corporations and syndical organisations, in a well coordinated effort to realise the ultimate object by intensifying the national effort and utilising to the full the inexhaustible reserves of the people, namely, intelligence, the will to work, and an iron discipline.

To this tremendous task which touches the life of every Italian, each one of us, united in the same faith, will continue to devote our enthusiasm and our energies, and to-day we offer the expression of our deep gratitude and devotion to the Duce who guides our destinies and holds out for us the certainty of a more glorious future.

V. AZZOLINI,

Governor.

BALANCE SHEET,

31st December, 1937.

PROFIT AND LOSS ACCOUNT.

BANCA

PAID-UP CAPITAL

BALANCE SHEET,

ASSETS.			
Gold in Hand.....	L.		3,995,943,626.13
Balances Abroad	,,		32,377,973.91
		Total Reserve ...	L. 4,028,321,600.04
Gold deposited abroad, due by the State.....	,,		1,772,798,105.00
Cash in Hand.....	,,		631,142,004.91
Inland Bills.....	,,		2,544,179,982.01
Bills for Collection.....	,,		18,002,801.01
Advances to Customers	{	Against Government Securities and Mortgage Bonds.....	L. 4,507,799,361.88
		Against Silk and Cocoons.....	,, 183,345.30
			L. 4,507,982,707.18
Investments (Government Securities owned by the Bank)	,,		775,094,346.35
Cr. Accounts in the Kingdom :			
Deferred Payments at Clearing Houses.....	L.	42,067,975.62	
Other Accounts	,,	55,972,082.69	
			L. 98,040,058.31
Advances to the Treasury—Temporary.....	,,		1,000,000,000.00
Premises	,,		121,717,144.99
Credit with Institute for Industrial Reconstruction	,,		4,708,097,530.74
Other Assets	,,		1,246,582,804.75
			L. 21,451,959,085.29
Securities and other valuables deposited.....	,,		44,327,958,670.31
			L. 65,779,917,755.60
Amounts written off in past years.....	,,		249,373,716.88
			L. 66,029,291,472.48
		TOTAL	L. 66,029,291,472.48

D' ITALIA.

Lire 300,000,000.

31st December, 1937—XVI.—E.F.

LIABILITIES.		
Notes in circulation	L.	17,468,066,450.00
Demand Drafts Outstanding	„	749,508,897.68
Current Accounts	„	715,284,199.54
		18,932,859,547.22
	Total Sight Liabilities ...	L.
Capital	„	300,000,000.00
Statutory Reserve	„	44,504,331.55
Extraordinary Reserve	„	14,632,382.60
Deposit Accounts	„	368,545,129.25
Treasury Current Account	„	638,625,019.78
“Internal Debt Sinking Fund Office” Current Account	„	3,923,658.23
“Institute for Industrial Reconstruction” Sinking Fund	„	46,171,658.50
Other Liabilities	„	1,003,927,724.87
Net Profits for the Year.....	„	98,769,633.29
		21,451,959,085.29
Securities and other valuables deposited.....	„	44,327,958,670.31
		65,779,917,755.60
Amounts written off in past years.....	„	249,373,716.88
		66,029,291,472.48
	TOTAL	L.

PROFIT AND YEAR

		Dr.			
Expenditure	Expenses in respect of:	Administration	L. 118,571,116.45	} 137,771,900.01	
		Board of Directors, etc.....	" 2,673,833.50		
		Transport of specie and other valuables	" 1,563,791.61		
		Printing of notes	" 9,633,752.00		
		House Property Account ...	" 5,303,653.50		
			Stamps and commissions on foreign business.....	" 25,752.95	
	Taxes		Circulation tax on notes ...	" 16,208,312.65	} 179,306,895.21
			Circulation tax on demand drafts	" 2,562,237.31	
			Income Tax	" 9,834,947.34	
			Additional Income-Tax	" 1,860,257.50	
			Real Estate Tax	" 7,305,974.59	
			Bank Shares transfer tax...	" 727,098.75	
			Stamp duties.....	" 389,755.98	
			Contribution for Govern- ment supervision	" 200,000.00	
		Other tributes	" 2,446,411.08		
	Unpaid bills	L. 6,367,023.91			
	Amounts written off.....	" 35,632,392.48			
	Interests and annuities.....	" 29,473,413.94			
	Charities and other contributions	" 3,100,000.00			
	Contribution to Employees' Pension Fund	" 9,618,701.00			
	Depreciation of bills against losses, etc.	" 10,000,000.00			
	Temporary Staff Pension Fund	" 3,000,000.00			
	Net profit to be divided.....	L. 276,498,426.54			
		" 98,769,633.29			
	TOTAL	L. 375,268,059.83			

DISTRIBUTION

To ordinary Reserve Fund	
„ extraordinary Reserve Fund	
Dividend to Shareholders at the rate of 6%.....	
Annual contribution to the Reserve Fund of " Credito Fondiario ".....	
To the Treasury	

Audited and found correct on the 10th March, 1938—XVI.

EMILIANI MARINO.
MARCORA ARIBERTO
NESI ADOLFO.
PAPPALARDO FELICE
STRINGHER DIEGO.
Auditors.

GUIDO PIERINI,
Chief Accountant.

LOSS ACCOUNT

37—XVI.—E. F.

		Cr.		
Profits from the Year's business	Re-discounts brought in from previous year..... L.	10,024,978.65		
	Year's discounts "	78,089,376.04		
		88,114,354.69		
	less: re-discounts carried forward ..	19,505,807.80		
	Interest on advances..... L.		68,608,546.89	
	Interest on Cr. accounts ..		145,558,076.77	
	Commissions ..		61,352,046.05	
	Interest, discount and exchange profits on foreign business, less re-discount charges..... "		16,768,206.03	
	Other profits..... "		264,249.87	
			31,626,451.95	324,177,577.56
Profits from investments	Interest on Government Securities..... L.	39,750,222.32		
	Revenue on real estate ..	9,699,256.18		
	Interest on investment of Colonial Branches Fund ..	580,000.00		
	Profits arising from the liquidation of late note- issuing banks..... "		1,061,003.77	
			51,090,482.27	
TOTAL		L.	375,268,059.83	

NET PROFIT

..... L.	19,753,926.65
..... "	19,753,926.65
..... "	18,000,000.00
..... "	281,060.00
..... "	40,980,719.99
TOTAL NET PROFIT TO BE DISTRIBUTED	L. 98,769,633.29

VINCENZO AZZOLINI.
Governor.

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