

# **BANCA D'ITALIA**

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

**HELD IN ROME ON MARCH 30, 1939 XVII.**

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**YEAR 1938.**

*Gentlemen,*

Political developments during the past year, culminating in the September crisis, created a characteristic uncertainty in world markets in 1938. This was reflected in the stagnation of international commerce, in constantly fluctuating capital movements, in the irregular trend of the markets, and in the persistent instability of several of the principal currencies.

General Remarks

Under the circumstances, manifestations of recovery which appeared in some countries, and particularly the sudden upswing of securities on the New York market last June—with the subsequent substantial advance in prices of raw materials, and improved employment figures in the United States—failed to develop either immediate or general repercussions on the markets of those nations with a more or less free economy, notwithstanding the normally existing inter-relationship of these markets. In most countries signs of economic recovery became visible only towards the end of the year, after the international complications of September had also sharply arrested the upward trend in the United States. Thus, the 1938 average of industrial activity was, in general, lower than that of the previous year. It seems, moreover, that recent signs of recovery should be interpreted with great caution, as they are largely based upon increased industrial activity connected with rearmament programs.

Despite the efforts of almost all countries to increase their exports, international trade has universally failed to reflect the more favorable trend of the business indices during the latter half of the year. This fact confirms the purely internal character of the economic improvement which is perceptible in many countries.

The total volume of international trade decreased about 9% in 1938 as compared to 1937. In terms of gold, the value dropped more than 13%, the decline being accentuated by the lower prices of the goods exchanged.

The reason for the divergence (not entirely new) between the expansion of national economic activities, and the shrinkage of international trade can be found in the tendency toward the formation of "closed" national economies. This is evidenced by continued existence of high customs barriers, by quotas and exchange restrictions, and by the difficulty of accurately forecasting, under present economic international conditions, the results of transactions entered into.

The instability of some of the principal currencies, particularly the French franc and the pound sterling, has increased these uncertainties.

Internal conditions, which in 1937 already had become a factor in the severe pressure on the course of the French franc, continued their influence with increased intensity during the first months of 1938. This increased the outward flow of capital causing, from December to April, a new and progressive depreciation of the French franc by almost 9%, notwithstanding

the support of the Exchange Equalization Fund to which the Bank of France repaid 3 billion francs in gold, previously transferred to its account during a short-lived improvement of the market. (1).

In May, the level at which the French franc was supported was lowered to 179 to the pound sterling. A complete reversal of capital movements ensued, with a large influx of gold to the Exchange Equalization Fund, but this did not end all the uncertainties of the franc. It was only toward the end of the year that this exchange became stronger, following financial measures designed to reestablish confidence, stimulate economic activity, and lay the foundation for placing the public finances on a sounder basis. (2).

Sterling displayed great strength during the early part of 1938 being quoted above \$5.00 as a result of transfers of capital from Paris to London, and the return of funds previously sent to New York. First signs of weakness appeared in March because of the fear of complications following the annexation of Austria by Germany, and the English Exchange Equalization Fund had to meet heavy demands for dollars and gold.

There followed a period of shifting of capital from one market to another, with fluctuating trends tending to offset each other. Various factors controlled these movements, such as rumors, subsequently denied, of devaluation of the dollar, and increased demands for gold for the purpose of hoarding in the London market. The demand for gold and dollars was accelerated by the June revival in American stock markets; by the repeatedly denied rumors of stabilization of sterling and dollar currencies at the rate of the former parity of 4.867 or less; and by the Russo-Japanese tension. In mid-September, when the flight of capital from Europe to America, through the London market, assumed an aspect of panic, sterling reached a low of \$4.60.

With the easing of political tension following the Munich conference, transactions returned to normal and pressure on sterling abated, the December average being \$4.67. European capital, however, continued to flow to New York. Capital commenced to return to France at the year end. Sterling continued essentially weak, and no rally accrued from the signing of the long awaited Anglo American commercial treaty. The latter stipulates merely that, in the event of substantial variation of exchange rates, the country which feels that its position has been jeopardized may propose that negotiations be immediately reopened, and, should no agreement be reached within a month, may declare the treaty void upon 30 days' notice.

In order to strengthen the technical position of the currency, to curb

(1) From December 1937 to April 1938 the rate of the franc rose, in its monthly average, from 29.45 to 32.23 to the dollar, and from 147.17 to 160.54 in respect to sterling.

(2) Within the bounds of the new policy of monetary reflation, and for the purpose of reducing the Treasury's floating debt, the valuation basis of the gold reserves of the Bank of France was reduced from 43 to 27.5 milligrammes of gold 9/10 fine to the franc, utilizing the profit from the operation—31.5 billion francs—to extinguish part of the State's indebtedness to the Bank. The new valuation basis corresponds to a rate of 170 to pound sterling when the price of gold in London is 147 s. 10 d.

the flight of capital from London, and to eliminate speculative transactions in foreign exchange and gold, the English authorities, about the end of December, reimposed restrictions against foreign financing and against transactions in securities for foreign account. Such restrictions had been suspended in February, when the position of sterling appeared to be invulnerable. Early this year, upon the recommendation of the Bank of England, they reimposed even more stringent restrictions than those previously revoked in May against transactions in futures in foreign exchange and gold. Steps were taken to reestablish the gold reserve of the Exchange Equalization Fund by transferring to it, from the Bank of England, 350 million pounds in gold at the current exchange rate. Another ruling designed to provide the English authorities with a more comprehensive control of money and credit was deliberated in February 1939, and applied in March, namely that the revaluation of the gold reserve of the Bank of England should be made weekly at current market rates. Fiduciary notes in circulation, increased as a result of this transfer of gold to the Exchange Fund, were consequently reduced from 400 to 300 million pounds.

On the whole, during 1938 the French franc was devalued by 22% and sterling by 7%, while the dollar remained stationary in terms of gold.

Varying exchange rates between London and New York increased the divergence between currencies with a fixed or slightly variable ratio to gold, and those based on sterling.

The belga has, to date, retained its gold convertibility despite strong pressure which called for constant support by the National Bank of Belgium. The rates for the Swiss franc and the guilder — the latter also subjected to strong pressure — were during the latter half of the year, through choice, based upon the dollar.

In 1938 New Zealand imposed a control over its currency as a result of its increasingly unfavorable trade balance. This decision is noteworthy inasmuch as New Zealand is an English dominion. Other countries, like Brazil and Japan, had to tighten their existing controls over exchange transactions, and Argentina had to increase its official selling rate from 16 to 17 pesos per pound sterling.

Movements of these exchanges are reciprocally related to the fluctuations in prices on the international market and in the separate countries. In the first part of the year prices of goods in international trade continued the downward trend which had accompanied the general slackening of economic activity commencing the middle of 1937. In the second half of the year there was a rising trend which flattened out toward the end of the year.

Internal prices in the autarchic countries were firm, while in those countries having a more extensive foreign trade internal prices were affected by the lower prices of imported goods. In comparison with the previous December, December 1938 prices showed a 9% reduction in Great Britain,

6% in the United States, no change in Germany and an 8% increase in France. Considering the devaluation effected in the meantime of the British and French currencies, gold prices in both countries show a decline of 15 to 16%: the usual and generally transitory effect of every reduction in the gold value of money.

As previously mentioned, one of the most noteworthy evidences of the instability prevailing in financial markets during the past year was the sharply fluctuating trend, with sudden reversals of directions of capital movements.

The outflow from the United States reached a net total of about \$374.5 millions during the first half of the year, with a return of about \$407.2 millions in the third quarter. Net gold imports for the year were \$1,974 millions — the favorable trade balance being an important factor. United States gold reserves reached a total of \$14,511 millions which is an increase of \$1,751 millions over the previous year. During the year England experienced a capital outflow, evidenced by the net export loss of 62.4 million pounds sterling in gold, and by the reduction of the Equalization Fund's gold reserve. From the end of March to the end of September the latter decreased from 298 to 152 million pounds sterling and at the year end was estimated to be about 80 million pounds sterling, based on the price of 7 pounds per ounce of fine gold.

Shifting capital movements and political developments were promptly reflected on the money markets. Thus, in France, a period of money scarcity during the early months of the year was followed in May and June by an easing of money rates, while the outward trend of capital brought about an increase in the money rates in England and Belgium resulting, early in May, in raising the discount rate of the National Bank of Belgium, from 2 to 4 per cent. This rate was reduced to 3% at the end of May and to 2½% at the end of October.

Political developments dominated the European markets between summer and autumn: in the latter part of September demand for liquid funds by both individuals and Treasuries expanded exceptionally so that the Central Banks were forced, not only to answer the demand of credit of private banks with rediscount facilities, but also to increase the available funds with direct open market operations. The immediate and evident effects of this action were reflected in the material increase in the current liabilities of the Central Banks — particularly in circulation which expanded substantially in the principal countries. The Bank of France raised its discount rate temporarily from 2½ to 3%.

At the year end, although the Paris market showed an improvement due to the return of capital, the London market became less liquid. The liquidity of the New York market, during 1938, was constantly increasing as a result of the reflationary policy adopted by the American Government in order to

encourage a revival of economic activity through the desterilization of the Treasury's inactive gold fund and the reduction of bank reserve requirements. In the latter half of the year the vast influx of funds from abroad greatly augmented this liquidity.

The condition of the money and capital markets, and the shaping of monetary policies are reflected in the trend of the note circulation and demand liabilities of the Central Banks. On the whole, the tendency toward an expansion of the volume of credit media continued during the year. In France the substantial increase in circulation during the year was due to the ever increasing recourse of the Treasury to the Bank of Issue. The effects of such recourse are only partially reflected in the statement of the Bank, because of the revaluation of the reserves. On the British market the efficient compensatory action of the Exchange Equalization Fund forestalled a credit stringency through the outflow of foreign capital. Thus the circulation and the available funds of private banks with the Central Bank have remained substantially firm. In Germany the need for financial assistance connected with the intense internal economic activity and with the expansion of national territory, with the consequent substantial increase in population, expanded the circulation by 50%. In the United States the inflationary effect of the influx of gold and of the policy of desterilization was reflected in the reserves of the member banks, which increased nearly two billion dollars, rather than in circulation. In other countries, because of the slowness with which deposits returned to the banks, the increase in circulation which followed the exodus of capital of September became partially permanent.

Likewise the trend of the stock markets was very irregular during the year. In New York, following a steady decline which reached the lows in early April, quotations rose sharply in June in anticipation of the effects of the spending program decided on by the Federal Government, and of the reduction in the supplies of raw materials. The rally, supported by the return of foreign capital, although interrupted by the September crisis, carried prices at the end of December to levels considerably higher than those of the previous year end.

The decline in security prices continued on the London markets, carrying over from early 1937. Activity on this market constantly diminished, rallying temporarily in June as a result of the rapid rise in security prices on Wall Street. The Paris Bourse was dominated by conflicting internal social, political and economic developments which were overshadowed in March, May and September by the anxieties of international character. Not until November did this market evidence a strong rally to bring the year end prices to a close decidedly better than that of 1937.

To sum up, economic events of 1938 show that, in general, connections and relations of interdependence between the economies of the various countries are still weak, with the result that improving trends in several of the countries have not been substantially reflected in the others.

Countries have been individually more affected by international political events and internal economic developments than by external economic trends.

Certain repercussions were evident especially in flux and reflux of liquid capital constantly seeking a haven—funds not beneficial to the countries accepting them, but rather a constant worry to them. To protect themselves against sudden withdrawals such countries gave much thought to special measures which might be taken to avoid costly results.

No appreciable indications were evident of a revival of long-term capital investments abroad for productive purposes; in fact, as to such investments, previously rescinded restrictions were reimposed.

Pre-existing international monetary agreements showed no further developments, inasmuch as the individual Central Banks had to concentrate their efforts upon supporting their internal economic activities and their public finances, as well as upon correcting temporary derangements.

No progress was made toward a settlement of a more equitable distribution of raw materials. Such a settlement appears constantly more urgent since prolonged delays might result in far reaching changes occurring in many national economies which would render a settlement increasingly difficult. Ultimately, perhaps, as a result of this drying up of many important export markets, the very countries having the greatest natural resources of raw materials would suffer the most from having persisted in their present aloof attitude.

The possibility of a satisfactory solution of the problem is, however, closely linked to future political developments. It is plain that, in line with the encouraging policy of Munich, the only solution for a permanent settlement among nations will be found in the establishment of a certain equilibrium based upon the recognition of the immediate and potential importance of every such nation.

**Italian Economy** So long as a more equitable distribution of resources will not permit the resumption of normal relations between the various national economies, and so long as some countries enjoy an overabundance of raw materials and others are lacking in these resources, the latter will find themselves fatally facing the prospect of certain impoverishment. The only choice left to them would be that of mass emigration and political subservience, or death by progressive economic paralysis.

There is no doubt that those people who can offset this scarcity of material wealth with a robust moral stamina will more readily follow a road which may lead them, even through transient sacrifices, to that full economic independence which is essential to the maintenance of political independence.

Our country, having already adopted this objective, made decided progress in 1938. In order to better insure the development of national power the political authorities, ever more deliberately, are directing national econ-

omic activity upon objectives which, in the productive field, may be summed up as a more intense exploitation of the country's economic resources. In the distributive field those aims are evidenced by the will to achieve a higher degree of social justice.

The change thus being effected is far-reaching, though gradual. It is taking place in all fields of production, of foreign trade, and of credit, through a unified coordination of planning under the direction of the Interministerial Committee and of the Supreme Autarchic Commission.

We shall observe later, by studying the trend of various economic factors, how this policy has revealed itself, and what the results have been, thus far. In general, we note that in the productive field, self-sufficiency plans are being carried out as scheduled, in some cases ahead of schedule, thus contributing, as has been especially evident the latter months of the year, toward maintaining industrial activity at a notably high level.

The results achieved were reviewed at the meetings of the various Guilds held during the first half of the year, and subsequently at the sessions of the Supreme Autarchic Commission in October and November. Following these meetings, the Duce, recognizing that, within autarchic scope the territories of the country proper and those of the Empire constitute an indivisible unit, declared that complete independence as to food requirements will be achieved within five years, and that the requirements of industrial products have in some cases been entirely met, while in others they are, or will be, met over 50%. In those fields where self-sufficiency is not possible, it will be necessary to adopt voluntary restrictions and to develop the use of substitutes.

The action of the Ministries supervising the field of production helps to assure the accomplishment of the objectives. This is effected by directing new activities through control over new industrial plants; by stimulating private enterprise through the creation of favorable market conditions for autarchic products; by controlling prices, duties, quantities, and even by stipulating the use of definite percentages of national goods and products; by guaranteeing that capital investments, and the yield thereon, will be repaid to investors; and, finally, by promoting the formation of semi-public productive organizations.

Though the objective is single, divers routes, carefully planned, are thus traversed to reach it.

As regards foreign trade, the rigid control of imports, together with the maintenance of a high level of exports, contributed to a gradual reduction of our unfavorable trade balance. A decline in food imports, and an increase in other typical agricultural exports has been made possible by the favorable results achieved in national agriculture.

Control over imports has been maintained by applying a system of government permits and of established quotas. The creation of special purchasing agencies for ever-growing categories of merchandise has con-



tributed to solve the difficult problems brought about by the limitation of imports. These organizations, supervised by official or semi-official agencies ration the imported merchandise, assigning the goods to different dealers or to industrial and manufacturing firms.

Exports have been bolstered, principally through improvement in quality and in organization. In this manner it has been possible to raise some basic industries to par, or even to attain a favorable exchange balance; as, for example, the cotton and wool industries dependent upon foreign countries for the supply of the major part of their raw materials. Moreover, to avoid setting up privileged closed groups, all enterprises have been carefully winnowed, and the development of new industrial and commercial ones has been encouraged.

This procedure assures an equilibrium in foreign trade, eliminating at least that part of the unfavorable balance not offset by other active items.

The third fundamental problem, equally important as the regulation of production and the control of foreign trade, is found in the financing of autarchic enterprises.

This subject was thoroughly discussed at the meetings of the Credit and Insurance Guild in September, and again in subsequent meetings of the Supreme Autarchic Commission. Three principal questions were examined at length: (1) from what source were the funds to be drawn; (2) would such source provide sufficient funds; (3) and finally, what precautionary measures should be taken to place the national credit in a position to best perform the very important task demanded of it in that field.

The following conclusions were unanimous: (1) as to providing the funds, it was deemed inadvisable to adopt measures which, in other countries, under circumstances dissimilar to ours, eventually had to be discarded, even after an initial success, because, in the last analysis, they brought about a dangerous monetary and credit inflation—in complete contrast with the aims of social justice toward which our Regime is constantly headed. It was therefore decided that, as in the past, the only safe way for the future appears to be to continue to rely upon savings, newly created or resulting from the liquidation of previous investments. This might be accomplished either by capitalizing a portion of profits, or by issuing industrial securities either directly or through specialized agencies.

For long term investments no recourse should be made to the direct credit of the Central Bank nor of Credit Agencies handling deposits withdrawable at short notice. Such credit must be used only to meet temporary requirements which arise between the accumulation of savings and industrial capital needs. The creation of credit (for long term financing operations) which would allow an excess circulation of money not based on the creation of new wealth would inevitably lead to inflation.

(2) As to whether national savings would prove sufficient to meet the demands of autarchy, the experience of recent years, during which the

State has been able to draw in large measure from savings to meet extraordinary expenses of the budget, leads to the conclusion that new savings of the next few years will be sufficient to meet national requirements. This is confirmed by the fact that in the early stages of execution of the autarchic plans there has been a complete balance between the creation of savings and the needs of industry. In fact the banks have increased the amounts usually allotted to economic enterprises for their operating expenses. Financial institutions specializing in intermediate and in long term credits have widened the scope of their operations. At the same time the financial market has absorbed a large volume of securities issued directly by industrial firms the proceeds of which furnished part of the funds needed for the development of productive equipment, and for special taxes. Furthermore, it must not be forgotten that, to date, the self-financing capacity of industry in general is proving to be considerably stronger than seemed probable, even though an exact valuation may not be possible.

(3) The cooperation fostered by the Supreme Autarchic Commission among the respective Guilds, the Federation of Industrialists and the Credit Inspectorate will assist in solving this problem. Collective supervision by these groups will safely guarantee that each separate project is in conformity with autarchic aims, that it is technically and economically essential, and that adequate financing commensurate with its requirements and capacities is assured each project without straining the general credit position. The rationing of credit and the easing out of allotments only as they are needed, which will be thus assured, are essential elements in financing the autarchic plans with funds provided by national savings. Banking institutions will, in their field, strive to improve their services, so as to attract those additional savings which, though not in large volume, have not yet found their way into banking channels. They will further study what steps may be taken to encourage a greater volume of short term savings, and to speed up additional credit allotments.

The objectives of the economic policy outlined above will explain the subsequent developments which we are about to review.

These facts, in brief, show with what enthusiasm the Italian people, moved by a high idealistic impulse, are following the road traced for them.

In 1938 foreign trade, excluding Italian colonies and possessions, shows, by provisional figures of the Central Institute of Statistics, an increase, though slight, in exports which reached nearly 8 billion lire, and a substantial decrease, of 20%, in imports which fell to 10.9 billions. The trade deficit accordingly fell to approximately 2.9 billions against 5.7 billions the previous year.

Foreign Trade  
and Exchanges

Although the improvement is due in large measure to reduced purchases abroad, it is significant that Italian exports maintained their level during a period in which the value of world foreign trade declined nearly 13% compared to the previous year.

The autarchic policy has, therefore, already brought about a more favorable trend in Italian foreign trade than that shown by many of the principal countries.

These results merit particular attention in that they have been achieved principally by exporting industrial specialties and select farm products whose fine quality and attractive presentation have enabled them to compete successfully with similar foreign goods. Our authorities are following this policy of building up our exports, through an improvement in quality, in order to increase foreign purchases in Italy, and, accordingly, to create foreign exchange balances.

We may here repeat that this is the only safe policy to achieve lasting results. Attempts to boost exports through monetary devices (as advocated by some persons here too) may offer some advantages—largely merely apparent, and at best temporary—and must be considered as transitory expedients to be resorted to only in case of absolute necessity.

In 1938 exports reached the highest level since 1931. Even in volume, disregarding the concurrent increase in value due to higher world prices and the revaluation of the lira, they are substantially above those of 1934.

To better understand the improvement in foreign trade we must bear in mind that exports during 1938 offset 73% of imports against approximately 60% during the four-year period of 1934-1937. We must go back to the years 1931-1933 to find a ratio comparable to 1938.

Authorities supervising foreign trade have increasingly directed their efforts toward expanding trade with those countries having clearing agreements with Italy, whether in the form of actual clearings or barter agreements. Such countries, in fact, supplied 66% of our total imports and absorbed 71% of our total exports. Among these countries the increase of our exports is greater, and the decrease of our imports is less than for other countries; with this group, in conformity with the basic principles of balanced trade, the ratio between purchases and sales is much closer to par.

Compared with 1934 lire unit prices of imported goods averaged 88% higher as contrasted with an increase of 46% in lire unit prices of export merchandise. It is therefore apparent that the results of the monetary realignment were reflected in respectively varying ratios. If, disregarding the different components of exports and imports, this fact may, on the one hand, be considered as a sign of weakness as regards the prices obtained for export goods, it may, on the other hand, be interpreted, and probably more truly, as a correction of an unbalanced price situation which existed in Italy's foreign commerce in 1934. It was, in fact, with this in view that the lira was revalued, so that this very situation could be corrected, in line with the aims of the autarchic policy.

Another consequence of our autarchic policy is reflected in the marked variation of the elements of our foreign trade. Diminishing purchases of

foodstuffs constitute an important factor in the reduction of imports, particularly wheat, due to our favorable crop. Purchases of raw materials and semi-manufactured products reflect a substantial decline, not only in volume, but additionally in prices. On the contrary, imports of crude mineral oils have increased materially.

Significant too, is the large reduction in the imports of textile raw materials—cotton and wool—for which we are dependent upon foreign countries. These industries have thus reached an exchange parity, while in 1934 they had a net deficit in foreign exchange totaling 660 million lire. Moderate increases appear, however, in imports of manufactured products, particularly machines, machinery, instruments, and vehicles required to expand our autarchic production program. In this field last year's trend has continued.

In accord with the autarchic program a further decrease has been evident in exports of raw materials and semi-manufactured goods most required for the domestic market, together with an increase in exports of industrial and especially of agricultural products. It is apparent, in the latter categories, that our improvement results, in the case of industrial products, from greater sales of high-grade specialized goods which, in turn, bring uniformly higher prices, whereas, in the case of agricultural products, the increase results from larger sales in foreign markets, especially of our fruits and vegetables, as a direct result of more effective merchandising methods.

The more favorable trend in trade with countries having clearing agreements has been visible in the contracting of our debit balance which fell during the year from 380 to 260 million lire.

Our 1938 trade shows a substantial decrease in the adverse balance, in comparison with 1937, particularly in trade with Germany (which absorbed one quarter of our total exports), with the United States, and with Argentina. The trade balance became less favorable with only a few countries, for example, Great Britain, Turkey, and Poland.

Trade between the mother country and the colonies and possessions has, in conclusion, been lower than last year, exports having fallen from 2.6 billions to 2.4 billions, and imports from .3 to .2 billion.

The Ministry for Foreign Trade and Exchange and other agencies charged with the supervision of foreign economic relations, have continued their activities, as planned, during the year.

As to the powers of this Ministry, Royal Decree No. 643 of March 14, 1938 XVI not only confirms its authority over the entire field of foreign exchanges but furthermore assigns to it the study and application of new measures relative to foreign trade, excluding fiscal matters. The decree also transfers from the scope of the Minister of Finance to that of the Minister

for Foreign Trade and Exchange, the enforcement of regulations against infractions in foreign exchange. (1).

The resources of the National Institute of Exchange, formerly consisting of a capital of 10 million lire, granted by the State Treasury, and of accumulated reserves, were increased on April 1, 1938 XVI, in view of its wider field of operations, and now comprise a capital of 100 million lire, granted by the State Treasury, 100 million lire ordinary reserve, other existing reserves, together with such additional reserves as may be created in the future.

#### Lira Rates

Since the date of realignment (October 5th, 1936) the New York lira rate has continued strictly firm at its gold parity. Its rate in other markets has likewise followed the fluctuations of those respective currencies in respect to dollars and to gold. Depreciations in sterling during the latter half of the year, and in the French franc, throughout the year, were, accordingly, promptly reflected in a proportionate increase in the lira rate.

#### Agriculture

Improved agricultural technique, including wider use of fertilizer, was so offset by unfavorable weather conditions that crops did not reach the hoped-for increase.

Wheat, however, benefitted by favorable weather conditions in the late season, reached 81 million quintals, the most profuse crop in the last decade, excepting only the abnormally good 1933 crop. Although national wheat requirements were practically met, it was thought advisable, as a precautionary measure, and to further the use of highly nutritive blends with other cereal flours, to retain the ruling stipulating the use of a percentage of maize flour in all bread.

Other principal grain crops declined slightly in comparison with last year. Potatoes and legumes, supplementing the cereal crops, declined from 1937, but exceeded the average of the last three years.

The grape crop was abundant, but not large enough to cause any apprehension as to the creation of a surplus of wine production, especially in view of the regulation stipulating that 10% of newly produced wines must be diverted to the production of alcohol for industrial purposes.

The olive and oil crop declined considerably but the quality was especially good.

Among industrial crops, sugar beets showed a further decrease as a result of unfavorable weather conditions, particularly in Northern Italy.

(1) Currency control was reenforced with new regulations dated May 12, 1938 XVI and December 5, 1938 XVII. The Ministry for Foreign Trade and Exchange was authorized, among other things, to impose fines totaling five times the amount involved, and, in case of violations of a serious character, to impose a prison term up to three years, over and above any other penalties imposed by the common law. The former decree also authorized a Consulting Commission, to cooperate with the Ministry for Foreign Trade and Exchange, to pass upon infractions of existing foreign trade and exchange regulations, and to suggest penalties in these cases. The General Director of the Banca d'Italia was invited to be a member of this Commission.

The cotton crop was more than doubled in 1938. Weather conditions being favorable to hemp, the crop reached the same high level as 1937. Flax, in spite of unfavorable conditions in several of the most cultivated regions, exceeded last year's crop. Cocoon production was below the two previous years, but the limited quantity was offset by the very fine grade of silk.

Vegetable and fruit yields approximated those of the previous year.

Continued drought during the winter and spring seasons seriously damaged the pastures and fodder, which made cattle raising quite difficult. However live-stock were efficiently protected through special measures designed to regulate their sales.

As a whole, agricultural production for 1938 may be considered satisfactory. The various crop yields confirm that proper soil-conditioning, the use of first grade seeds, considered timing of agricultural operations, and the use of appropriate fertilizers, all are well worth while especially under unfavorable conditions. It is exactly through these means that our agricultural industry, with a stipulated volume of production as its minimum goal, is cooperating to achieve the aims of our self-sufficiency program. The quality of our products has been essentially good, and, in this respect, improvements (as a direct result of the ability and the planning of the producers) reflect the results of the agricultural policies of the Regime. Similar confirmation resulted from the application of numerous regulations directing individual activities into proper channels. (1).

Production and distribution of agricultural products were further regulated through collective economic agreements, through new regulations, and through improvements in existing ones. The Minister of Agriculture and Forestry continued and extended to additional agricultural products the policy of "pooling". This led to the steadying of prices which is requisite for carrying out the vast program of agricultural intensification, and of land improvement, both necessary to achieve a national food self-sufficiency.

Although exact measurement is difficult, industrial activity on the whole appears to have approximated the high level achieved in 1937, in spite of a considerable decrease during the summer.

Industry

This is substantiated by employment statistics of the Confederation of Industries, whose figures reached a new high since 1929, both as to the average number of workers, and as to hours of work. However, the general index of production released by the Ministry of Guilds shows a slight decrease of 1.1% as compared to 1937.

The mining industry continued to show a larger output, especially in

(1) "National Registry of Select Varieties of Wheat" which controls production of wheat seeds, was created by law on April 28, 1938 XVI.

August 25, 1938 XVI (Decree No. 1442) regulations were enacted to increase olive production and to expand relative cultivated areas.

September 5, 1938 XVI (Decree No. 1622) regulations were enacted to combat parasites which destroy fruit trees.

coal, lead, zinc, manganese, and antimony. Increases are also found in all branches of the metal industry as well as in the engineering industries, with the exception of automobiles. Naval construction remained practically unchanged. Production in the fields of electricity, heat and light also increased, though in a lesser degree. It may be noted that the increase in the production of electric power is due exclusively to that produced with fuel, the hydro-electric production having somewhat decreased.

The chemical industry, which in 1937 had reached a very high level, showed less activity. Building, declining during the first two months in continuation of its previous trend, subsequently showed an upturn.

In other fields too, and particularly in the textile industry which suffered a decline in the summer and fall, there was a marked increase in production toward the end of the year. The revival in many exports, and, in particular, the speeding up of self-sufficiency plans, have together contributed to this increase in production.

The trend of Italian industrial activity shows an ever-increasing tendency toward economic independence through progressive adjustments, improvements, and changes in the technical setup. The satisfactory results achieved were emphasized at the October meetings of the Supreme Autarchic Commission presided over by the Duce whose direct personal action has been, as ever, decisive in all the complex problems which have arisen. In this connection it is highly significant that the opening of the mining center of Carbonia took place, as planned, exactly one year after the laying of the cornerstone. This mining center, by exploiting the rich resources of the Sardinian mines, will substantially reduce the levies which we pay foreign countries for many minerals, especially for coal. The comprehensive reorganization of the iron and steel industry is particularly important for it will lower costs and will assure a better equilibrium between the use of scrap and of our ores.

Important developments in the textile industry include the use of stipulated percentages of fibers nationally grown or developed. Similar steps were taken for the fuel and cellulose industries.

The carrying out of self-sufficiency plans, already controlling all new plants through regulating the issuance of permits, was assured by the recent creation of the Interministerial Committee for Self-Sufficiency (1) which may also prescribe special production processes.

(1) The Interministerial Committee for Self-Sufficiency, created by enactment No. 32 of January 9, 1939 XVII, is presided over by the Duce, Head of the Government, and comprises the Minister for Corporations, the Minister Secretary of the National Fascist Party, the Ministers of Finance, Agriculture and Forestry, Communications, Foreign Trade and Exchange, and also the General Chief of Staff, the President of the National Research Council, the General Commissioner for the Manufacture of War Materials, the Governor of the Banca d'Italia, and the Secretary for the Supreme Defense Commission.

The upward trend of prices, evident since the latter half of 1934, was halted in 1938. The wholesale price index, based on the 1928 average, as estimated by the Central Institute of Statistics, hovered around 95.3; in December it was on a par with December 1937. Compared with September 1936 XIV, the month prior to the revaluation of the lira, the increase was 25%.

The steadiness of wholesale lire prices achieved in Italy during 1938 produced a parallel trend in gold prices on a pre-war basis, whereas, in many other countries, these prices moved, at first definitely downward, and in recent months upward. The variation in these gold prices results from the fact that Italian prices were less sensitive to the disturbed conditions existing on world markets, and may be considered favorable to an orderly expansion of production.

Though prices in Italy have, in general, been firm, the trend in certain commodities was rather irregular during the year. Prices of finished goods, and especially of foodstuffs and textiles, after slight fluctuations, showed material increases. Prices of semi-finished goods continued substantially steady. Prices of raw materials, however, followed a trend not dissimilar to the world trend, though somewhat retarded and less accentuated, showing appreciable declines in the early months of the year, and then stabilizing at a level below that of December 1933. A new equilibrium appears to have been reached among prices in various commodities following the trend which was evident after the revaluation of the lira.

Retail prices of the more widely consumed goods fluctuated toward lower levels in the early months of the year, and toward higher levels during the latter half, reaching, in December, a level equal to that of December 1937. The national index of living costs increased slightly.

This trend in prices and living costs, closely related to developments in national and world economics, was greatly influenced by the regulations enacted by the Guilds.

The index of average hourly wages paid in the Kingdom, as estimated by the Central Institute of Statistics, continued its upward trend which began in the second half of 1935. During 1938 this index remained firm at levels higher than those of the corresponding months of 1937, which were, in turn, above those of the previous year. Wages

Noteworthy among the legislative provisions adopted by the Regime for improving the living conditions of the working classes, are those of 1938 adjusting average salaries to changed living costs, by revising collective labor contracts in the various industries; and more recently, those agreements reached by the Syndical organizations covering employees of rural, industrial, trade, commercial, credit and insurance organizations which went into effect on March 23d last, twentieth anniversary of the foundation of Fascism. As to civil service employees and employees of semi-official



agencies, the Council of Ministers deliberated adequate increases which will go into effect on April 1st.

The general wage increases, averaging from 6 to 10 per cent, were accompanied by a liberalization of the regulations protecting the workers, setting up compensation awards in death cases, and special assistance to all disabled workers.

Two other general provisions stand out because of their special significance: the obligation of employers to pay regular wages on such holidays as the Birth of Rome, the Foundation of the Empire, the March to Rome, and the Anniversary of Victory; and the agreement reached by the two Confederations of Industries to pay a Christmas bonus of a week's salary to all workers.

Deserving of special notice, because of its political and social importance, and because it is an indication of the degree of power achieved by Italy, is the creation, at the Ministry of Foreign Affairs, of a permanent commission which will assure all nationals desirous of returning to the homeland, an adequate means of livelihood.

#### Joint Stock Companies

Continuing the upward trend which started in 1936 a substantial expansion of outstanding stock of limited companies was made possible, during 1938, by the expansion of national economy. We have seen that this inherently favored new investments. Another, and more important factor, is found in the facilities which were made available coincidental with the levying of the special Capital Tax of October 19, 1937 XV No. 1729.

During the year invested capital increased by 6.9 billion lire, 6.6 billions being through increased capitalization, and 0.3 billion through newly organized companies. These capital increases of 2.1 billion lire resulting from stock dividends, and of 4.3 billion lire in new money invested, are exceptional and reflect the benefits which companies gained from the facilities made available to them by this decree. (1).

During the same period invested capital decreased by 1.5 billion lire (0.9 billion due to dissolutions of companies, and 0.6 billion as a result of decreased capitalization) leaving a net increase of 5.4 billion lire, the highest achieved since 1926. The increase was general, including nearly all types of business, but specially high in electric companies (1.5 billion) metallurgic companies (0.5 billion) and mining companies (0.4 billion).

At the year end there were 20,809 companies in existence having a total authorized capital of 53.1 billion lire, the highest on record. In this con-

(1) Companies were authorized to distribute reserves to shareholders in the form of stock dividends in amounts not exceeding twice the special tax previously levied on their capital. This would relieve them from paying the graduated tax on dividends, and the tax on the income from "bearer" securities. This power to capitalize reserves, however, was contingent upon the obligation of simultaneously issuing additional shares for cash, in the ratio of one cash share for each two dividend shares.

nection, however, we should bear in mind the fact that stock dividends distributed represent a capitalization of previously created reserves. Accordingly such increases in capital may to a certain extent be offset by a decline in reserves. At the same time, increases arising out of a revaluation of industrial plants following the realignment of the lira, should be considered merely as bookkeeping entries.

There was a considerable change in the classification of companies based upon the amount of their capital. Small companies, in particular, showed a large increase in number. The number of companies capitalized under 10 millions, however, decreased, probably as a result of progressing into the categories above 10 millions. Companies capitalized at between 100 and 250 millions showed a reduction in capital. (1).

This capital increase was reflected in considerable activity in the security markets during the early part of the year. Subsequently stock transactions diminished, and signs of reviving activity became evident only in the last months of the year. As a whole, the 1938 turnover was below that of 1937. Particular interest centered in active transactions in rights issued by the larger companies during the spring months and in August.

Financial  
Market

A decline similar to that in the stock market was evident in the volume of trading in "futures", in cash transactions in bonds, and particularly in permanent bonds.

Stock prices closely followed the trend of activity in the markets. The rise which began in November 1937 continued up to March. Then there occurred a temporary decline coincident with the more active period of new financing. Remaining near the April level until September, they rose at the year end to the December 1937 level. However, quotations for shares of those companies having increased their capitalization (either by stock dividend or by new money) appear to be considerably lower at the end of 1938 as compared to 1937. This apparent decline, however, considered in conjunction with the additional holdings as a result of the stock dividend, still leaves the stockholder in a position approximately stationary as regards the aggregate value of his holdings. As to those stockholders who did not exercise their options, the lower value is offset by the amounts collected when the rights were sold.

Bond prices, on a yearly average, remained practically unchanged from 1937.

In contrast to the exceptional increase in volume of stocks, public institutional and industrial bond issues remained within moderate limits. In addition to normal issues of mortgage bonds and bonds of semi-official in-

(1) Royal Decree Law April 24, 1938 XVI No. 698 extended until June 30, 1939 XVII the requirements, imposed by a previous decree, making it compulsory to obtain government authorization to organize a company, to increase capital, or to issue bonds in excess of one million lire.

stitutions, particular importance is attached to the sale of 62.5 million lire of callable bonds issued by the National Fascist Party — one-half of the total authorized issue for the construction of its headquarters in Rome: Casa Littoria. Of similar importance was a second issue, callable at a premium, of 450 million lire of bonds of the Credit Consortium for Public Works, special series "City of Rome". Both issues were highly successful.

#### Savings and Credit

National savings continued to grow satisfactorily in 1938 so that, despite cash withdrawals to pay for new stock issues, the increase of deposits was somewhat greater than the gain in the previous year.

The increase, however, was not uniform. It was continuous in Postal Savings, whereas in the credit institutions decreases occurred in April resulting from withdrawals to pay the special capital tax levied on stock companies together with dividend payments, and in September resulting from the international situation. At the year end, however, both categories showed a net increase over December 31, 1937 XVI.

Figures published by the Inspectorate for the Defense of Savings and for the Granting of Credit Facilities, and by the Postmaster General show that, at the close of 1938 deposits totalled 86,197 millions against 80,643 millions at the close of 1937, an increase of 5,554 millions. Credit Institutions contributed 3,055 millions of this increase which results from a 2,353 million increase in deposits and a 702 million increase in correspondents' deposits. The balance of 2,499 millions came from Postal Savings, resulting from a 2,770 million increase in Post Office Savings certificates offset by a decrease of 271 millions in Postal Savings Deposit Accounts.

The results appear particularly favorable notwithstanding the direct demands on the market resulting from both normal and special requirements of the national economy and of the State.

The funds available to the credit institutions through the increase in deposits were used, in part, for new investments in securities, and in part for greater extension of credit.

Securities owned by credit institutions, held in portfolio or with others, valued at par, increased from 22.6 billions at the close of 1937, to 23.1 billions at the close of 1938, an increase of about .5 billion.

Commitments in credit operations by institutions accepting short term savings, totaling 29.8 billions on June 30, 1937 increased to 32.3 billions on June 30, 1938, an increase of 8.5%. Eleven national or interregional agencies contributed 17.7 billions toward this figure, while the remaining 14.6 billions were accounted for by local and regional agencies.

The 32.3 billion credit outstanding on June 30, 1938 was comprised of the following: 5.1 billions granted to public institutions; 3.3 billions for financial, insurance, banking institutions and stock exchange firms; 4.2 billions for industry and realty, public works, and land reclamation works;

4.3 billions for private concerns; 2.8 billions for industries dealing with cereals and other foodstuffs; 2.7 billions for farming in general; 2.7 billions for iron and steel, metallurgical and mechanical industries; 2.1 billions for textile and clothing industries; and 5.1 billions for other miscellaneous items.

These credits would reach a total of 42.9 billions if, in addition to the figures of institutions accepting short term savings, we were to include the figures of institutions extending agricultural and mortgage credits, and of the Istituto Mobiliare Italiano, and of the Syndicate for Advances against Industrial Securities.

In comparing these with past figures it is evident that the volume of credit extended was greatly influenced by: (1) demands to finance increased production, particularly in those fields stimulated by the autarchic policy; (2) seasonal demands to finance harvesting; (3) demands to meet the special capital corporation tax; and (4) demands to finance the Real Estate Redeemable Loan of 1937.

The expansion of production, stimulated by self-sufficiency plans, accounts both for the total credit expansion by agencies collecting short term savings which, from August 1936 to June 1938, reached a total of 5.2 billions, i.e. an increase of almost 20%, and for the notable increase of the credit granted to mining, metallurgical, mechanical, chemical, and textile industries.

The expansion of credit to finance harvesting of crops is naturally of a seasonal character, and reaches its peak in the fall. Toward the end of June, however, just before harvesting, credits to industry and to concerns handling agricultural products are at their lowest ebb.

Actually, the volume of credit for financing "wheat pools" reached its maximum towards the middle of September. At this time the difference between the payments to farmers by the pools, and the receipts by the pools covering sales to mills, reached a maximum of 3,267 millions which on December 31st had been reduced to 2,271 million lire. Rediscount operations of the Banca d'Italia of wheat pool bills amounted, on December 20th, to 1,274 millions.

The total contributed by credit institutions toward financing the payment of the special capital tax on limited companies cannot be determined with precision. The Banca d'Italia contributed toward this end with direct discount operations sanctioned by the Decree imposing the tax and, in a smaller degree, by rediscounts.

During 1938 a portion of the advances previously granted to subscribers to the 5% Real Estate Redeemable Loan, was repaid to the credit institutions. These loans were reduced, in fact, from 1,438 millions at the close of 1937, to 816 millions at the close of 1938. The total credit of banking institutions for such loans, which was 1,183 millions on December 31, 1937 XVI, was reduced by 484 millions, totaling 699 millions at the close of 1938. These figures exclude 255 millions taken over by the Banca d'Italia at the end of

December 1937 and 117 millions at the close of 1938. The amount due to the Banca d'Italia as a result of advances for the Real Estate Loan decreased by 284 millions during the year to 1,013 millions. These figures show the satisfactory amortization of the loans extended by credit institutions to real estate owners in connection with the issue of the Real Estate Loan.

Intermediate  
and Long Term  
Credit

The Authorities approved the principle that short, intermediate, and long term credits should be handled in accordance with the type of deposits accepted.

In his report to the Credit and Insurance Guild the Chairman of the Inspectorate brought out that the application of this principle has been very satisfactory thus far, that no changes were needed even in connection with financing autarchic plans, and that, therefore, the extending of intermediate and long term credit should continue to be handled by such specialized institutions as the Institute for Industrial Reconstruction, and the Istituto Mobiliare Italiano with its Independent Section, the Syndicate for Advances against Industrial Securities.

The financing scope of the Institute for Industrial Reconstruction, clearly defined by law, is confined to concerns already controlled by it, or, in expressly determined cases, whose control it may acquire. The scope of the Istituto Mobiliare Italiano, however, includes concerns of all types and sizes.

The Credit and Insurance Guild, in concluding its survey, ruled inadvisable the creation of new special institutions, and expressed its desire that intermediate and long term financing be made as a rule through the Istituto Mobiliare Italiano.

On its part the latter is working toward this end. A Royal Decree of September 5, 1938 XVI (No. 1480) authorized it to float a special bond issue at 5% for a par value of 50 millions, to finance operations connected with autarchic plans and involving a special risk. These bonds are guaranteed by the State, and the proceeds will be administered separately and for the account of the State.

Special steps were taken to widen the scope of this Institute as much as possible, and to facilitate its assistance to industrial enterprises. The effectiveness of these steps is shown by the fact that its 1935-36 operations totaled 37 millions, while for 1936-37 and 1937-38 the figures reached 169 millions and 240 millions respectively, and the period now ending shows a total of 432 millions. Total loans to date exceed a billion.

At the suggestion of the Credit and Insurance Guild the Istituto Mobiliare Italiano requested public institutions to collaborate with it by bringing to its attention operations requiring intermediate-term credit facilities which the Institute could offer. Substantial results from this collaboration were not evident, inasmuch as many firms, although not heavily capitalized,

seemed, in the early stages of carrying out the autarchic plans, able to meet the expenses of expanding their plants, out of their own reserves.

In any event, the banks must bear in mind that all the financial needs of their clients for terms longer than those of normal bank loans must be referred to the Istituto Mobiliare Italiano and to its Independent Section, the Syndicate for Advances against Industrial Securities.

The latter, whose operations expanded substantially during 1938, aims particularly to assist firms contracting for works and supplies for the State, to assist in completing reclamation works, and to assist in opening up undeveloped lands of the Empire. On December 31 current operations totaled 1,729 millions of which 994 millions are new operations, consisting of 694 millions of current operations and national defense works, and 300 millions for the temporary financing of reclamation works.

Royal Decree Law No. 1847 of November 17, 1938 XVII authorized the Syndicate to advance to the War Veterans National Association, over a three year period, a temporary loan up to 500 millions for land development works in the Puglie and Volturno regions, which loan will later be taken over by other institutions.

The Syndicate continues to raise its necessary funds through the issue of interest bearing bonds, the rediscount of its own holdings with the Banca d'Italia and the Bank for International Settlements, and through the gradual refunding of its advances for financing reclamation works.

The Istituto Mobiliare Italiano, on the other hand, obtains its available funds exclusively from capital paid in, and from the flotation of long term bonds, the outstanding issue now exceeding 881 millions.

Distribution of the Istituto Mobiliare Italiano Bonds has, to date, been handled through the Credit Institute of Italian Savings Banks. Hereafter, in such cases, in line with the official program, other credit institutions will be asked to cooperate in financing the autarchic plans, without, however, incurring the usual industrial credit risks.

In this manner the entire Italian credit structure will cooperate in striving for economic independence, in full accord with current banking laws. This presents another shining example of the complete cooperation being given by the reorganized Banking and Credit System to satisfy the Nation's needs.

The previously described rules and regulations controlling our monetary policy were adopted as a result of intense efforts by the Council of Ministers, and its executive body the Inspectorate for the Defense of Savings and the Granting of Credit Facilities, and their constant striving to coordinate the credit facilities of the Nation and the collection of available funds. This is more than ever necessary today, when all the Nation's efforts are concentrated upon achieving its autarchic program.

As we have already seen, credit institutions collecting short-term savings have been instructed to direct a part of their liquid funds, through the specialized institutions, to finance the self-sufficiency plans. In addition to these policies, agreements were initiated with the Ministry of Guilds in an effort to apply, as soon as possible, the ruling of the Council of Ministers that public and private insurance companies be called upon to assist in providing funds for carrying out the autarchic program.

In the banking field proper, the Inspectorate is to be commended for its action, by now practically finished, in revising the distribution of outlying branches. Guiding principles were the elimination of unproductive branches located in small centers; the abolishing of competition in the less important districts, particularly between Savings Banks, Public Law Credit Institutions, and Banks of National Interest; and the setting up of territorial zones for the different institutions.

After a careful survey and with the cooperation of the interested parties it was possible to balance the various requirements and to close 310 offices. Of these, 61 were not replaced, and 249 were merged with other Banks already operating in the same district. At the same time 43 new offices were opened to the public, 34 of which are city agencies of established concerns. Independent of this program, 81 offices were voluntarily closed and authorization was given for opening 77 new branches, 36 of which are in districts not having other banking facilities, or served only by a secondary country bank.

Thus, in carrying out its program, the Inspectorate, since its creation, has closed 882 offices and has authorized the opening of 368 new ones.

Moreover 135 Credit Institutions were cancelled from the Register of the Inspectorate and 13 new ones were entered.

Following out its policy of rehabilitation, the Inspectorate, during 1938, forced liquidation proceedings for 101 institutions.

Substantial progress was made in assigning zones to specialized institutions, on the basis of the importance and established business relations of these concerns.

This action, together with other minor adjustments, and constant supervision, helped to eliminate unjustifiable competition between credit institutions, which is one of the chief aims of the Inspectorate.

Particular attention was given to Savings Banks, which constitute such an important factor in the economic life of the Nation.

The grouping of Savings Banks in Syndicates ordered last year was carried out through setting up the National Fascist Federation of Savings Banks, and their Employees' Federation sanctioned in the Royal Decrees of March 1, 1938 XVI No. 556 and March 17, 1938 XVI No. 557.

Among the first official acts of the Federation was the creating of a 100 million lire fund to assist, at a very low interest rate together with material tax exemptions, those Savings Banks which, as a result of special contingencies, required aid.

In line with the principles adopted for protecting savings, Royal Decree of February 24, 1938 XVI No. 204, effected changes in the administration of Savings Banks to further protect their customers. The Decree establishes the number of Directors, authorizes the Duce to appoint the Chairman and Vice-Chairman, prohibits the interlocking of political offices with positions of any kind in a Savings Bank, and finally vests in the Inspectorate the final approval of the appointment of managers to be selected from among the officers of the Savings Banks themselves, from other credit institutions or from public offices.

Institutions dealing in Chattel Loans were similarly reorganized. The Law of May 10, 1938 XVI No. 745, among other things, formulated the rules controlling their organization, the formation of their Boards of Directors, the merging of institutions not sufficiently profitable, and the scope of their operations. This unifies the control with the Inspectorate and specifies the precautions to insure their sound management.

1938 was the first year of application of the Single Text Law relating to Rural and Handicraft Banks, and the Inspectorate nominated State Auditors for almost all these Banks according to the law. Their selection (about 2,400) was carried out with the assistance of the Banca d'Italia, the National Fascist Federation of Rural and Handicraft Banks and other similar organizations. Public-spirited citizens willing to cooperate without compensation were sought for these posts so as not to strain the limited resources of the modest budgets of these institutions. The By-Laws of these banks are being revised to conform with the Single Text Law.

As regards farm credit, the Inspectorate, besides cooperating with the Ministry for Agriculture and Forestry toward solving important problems of financing agriculture and agricultural industries, administered the laws controlling the special institutions of agricultural credit.

The mortgage credit institutions are supervised by the Inspectorate which establishes the total maximum amount of bonds which can be issued during the year, rationing this total on the basis of the needs of the institutions operating under its jurisdiction. (1).

(1) Special legislation covering loans for building and modernizing theaters was enacted by Royal Decree Law June 16, 1938 XVI No. 1150, which represents a new application of the principle of specialization of credit, justified both by the peculiar nature of the guarantee and the financial and technical assistance rendered by the State.

The Independent Mortgage Section of the "Banca Nazionale del Lavoro" was authorized to grant, up to December 31, 1942, loans not exceeding the total of 75 million lire to Municipalities undertaking such operations.



In the securities market, the Inspectorate regulated bond and stock issues, activity in which expanded largely during 1938. The Council of Ministers, in fact, authorized bond issues totaling 1,004 millions, and increased capitalizations totaling 2,700 millions.

State  
Budget

Actual receipts and expenses under the ordinary Budget closed the fiscal year 1937-38 with a deficit of 2,147 millions against a budgeted deficit of 3,173 millions. This result was due to increased receipts which totaled 27,468 millions against the budgeted figure of 20,597 millions. Although expenses also exceeded the budgeted figure, the increase did not wholly offset the gain in receipts. These expenses totaled 29,615 millions against the budgeted figure of 23,770 millions.

Expenses under the extraordinary Budget for military purposes and the development of the Empire reached 9,027 millions against 17,519 millions during the previous fiscal year. Thus total expenses, both ordinary and special, reached 38,642 millions, with a deficit totaling 11,174 millions, much less than that of 16,230 millions for the 1936-37 period, which moreover included increased receipts of a special character.

Increased receipts largely resulted from the corporate capital tax, imposed by Royal Decree of October 19, 1937 XV, No. 1729, optionally paid in full by many companies, and from the favorable collection of all taxes, particularly direct taxes, and imposts on transfers of wealth.

The increase in normal expenses is due in part to increased salaries for personnel, established by Royal Decree of June 27, 1937 XV No. 1033 and to a larger extent to the many measures adopted to strengthen the economic structure of the Nation.

Budgeted figures for the 1938-39 fiscal period are 25,072 millions in receipts and 25,035 millions in expenses, showing a surplus of 37 millions. However a decided increase in actual expenditures may be expected, particularly in connection with defense requirements and the development of the lands of the Empire.

The budget for 1939-40 shows receipts of 24,561 millions against expenses of 29,316 millions with a deficit of 4,755 millions. This situation is brought about by including in the budget certain expenditures which in previous years had been considered exceptional in character. However, certain measures are being studied which will serve to restore the balance between receipts and expenses of a permanent nature. The application of these measures will be gradually extended proportionately with the expansion of the national economy.

The 1939-40 budget shows an increase of 4,281 millions in expenses over the 1938-39 budget. This increase includes 2,476 millions for military purposes. Other important increases include: expenditures by the Ministry of Finance for interest on the public debt and the cost of works for the 1942

Exposition; expenditures by the Ministries of Public Works and Communications for public works programs and the construction of vessels for the merchant marine; those of the Ministry of Agriculture and Forestry particularly in connection with the development of land reclaiming, hydrogenation of fuels, and carrying out of autarchic programs; and finally the expenditures of the Ministry for Italian East Africa for developing the Empire.

The half billion reduction in budgeted receipts results principally from reduced income from special taxes, custom duties and sales taxes on imported mineral oils, which is only partially offset by increases in other taxes, particularly the sales tax on mineral oils produced at home.

Among financial legislation of particular importance is the Royal Decree of November 9, 1938 XVII, No. 1720 imposing a special tax on capital invested in commercial and industrial enterprises operated by private individuals. This tax, as a matter of fiscal justice, extends to private and unincorporated enterprises the effects of the two taxes previously imposed upon real estate and upon joint stock companies, completing the cycle of taxation through which private wealth—having already benefitted through the lira realignment—has been called upon to contribute to the exceptional needs of the budget.

The capital subject to tax is determined on the basis of income as recorded, but only on that part of this income arising from capital investment, excluding income earned through labor. The tax is levied at the rate of 7.50% on the figure arrived at by capitalizing at the rate of 8% the income arising out of capital investments.

The new tax will affect about 120,000 firms and will bring receipts estimated around 1.5 billion lire.

The readjustment of coin circulation which began in 1936 continued during the last year with the enactment of the Royal Decree Law of February 7, 1938 XVI, No. 907, which authorized the coinage, and the use of steel alloy (acmonital) coins in denominations of Lire 2, 1, 0.50 and 0.20 in place of the similar nickel coins issued under the Royal Decree Law of July 9, 1936 XIV, No. 1674.

Coins  
in Circulation

Subordinated to the needs of the mother country, the progressive development of the economic resources of the Empire, which is an important potential factor in the autarchic plans, continued during 1938.

Lybia

Provisions of particular importance and significance were applied regarding the colonization of Lybia, recognizing the political and economic advancement already achieved there. The Savings Bank of Lybia had previously been authorized to float special bonds up to 400 millions, in annual issues of 40 millions, to raise funds for developing and completing the agricultural colonization program already begun. Royal Decree Law of May 17,

1938 XVI No. 701 and more recently Royal Decree Law of February 13, 1939 XVII No. 284 supplemented this authorization, establishing direct intervention of the State to facilitate the colonization program of Italians in Lybia by creating homesteads, and to promote colonization by natives. In line with these principles, the Colonial Government of Lybia was charged with a special program for developing and carrying out this plan, including: organizing rural metropolitan and Moslem centers with their respective public works, particularly water supply; and allotting to the Institute for the Colonization of Lybia and the Fascist National Institute for Social Insurance, the task of dividing and apportioning the land. The necessary funds were raised by adding to the budgetary expenditures of the Ministry for Italian Africa, the total sum of 850 millions divided into four yearly instalments covering the fiscal periods running from 1937-38 to 1940-41.

Only five months after enactment of the first Decree, rural villages and small farms were ready to absorb the 1,800 families totaling 20,000 individuals who, during October, were transferred from all the regions of Italy to Lybia, and who have now begun their work as farmers to become small property owners at a later date. A second emigration of another block of 20,000 farmers has been announced for the current year.

On the political side, there is the equally important consolidation of the four provinces of Lybia with the territory of the Kingdom, ordered by Royal Decree Law of January 9, 1939 XVII No. 70, recognizing the progress achieved through the untiring efforts to improve those lands and carry the Roman civilization to them. With this consolidation the Moslems in Lybia acquire special Italian citizenship in certain cases, which in no way impairs their personal status nor heritage.

Several minor changes which occurred during 1938 have somewhat modified the balance sheet figures of the Bank for International Settlements, which, on December 31st last, showed resources of 596 million Swiss francs against 650 millions on the same date of the previous year. The decline is principally due to the shrinkage of demand and short time deposits with a consequent decline in investments, and to a smaller extent, in rediscountable bills.

The Bank for International Settlements, acting as a link between the leaders of the principal money markets, continued to function as an effective intermediary. The value of such a go-between is self-evident. During 1938 it directed surveys of the principal economic developments throughout the world, with most satisfactory results, largely because of its advantageous position which gives it access to comprehensive technical data from the most reliable sources.

It is noteworthy that during the unsettled political developments, early last fall, the Bank demonstrated its ability to solve the difficult problems arising within the scope of its technical field of international banking, giving,

under these trying conditions, additional proof of its integrity in formulating its policies and actions.

The 300,000 registered shares of the Banca d'Italia were, on December 31, 1938 XVII in the hands of 107 institutions, subdivided as follows:

Shares and  
Shareholders

|   | Shares         |
|---|----------------|
| 85 Savings Banks .....  | 184,736        |
| 11 Public Law Credit Institutions<br>and Banks of National Interest | 68,764         |
| 1 Provident Institution .....                                       | 15,000         |
| 10 Insurance Companies .....  | 31,500         |
| Total 107 shareholders .....  | <u>300,000</u> |

At the end of 1938, of the 500,000 shares forming the old capital of the Bank, 497,703  $\frac{1}{3}$  had been repaid.

During 1938 the Bank's operations included the following cash turnover:

Cash turnover

|                     |                              |
|---------------------|------------------------------|
| Receipts .....      | L. 387,042,479,301.47        |
| Disbursements ..... | 385,526,166,103.50           |
| Total .....         | <u>L. 772,568,645,404.97</u> |

On December 31, 1938 XVII Bank Notes in circulation totaled 18,955.5 millions, demand drafts and checks 905.2 millions, demand deposits 815.9 millions; accordingly current liabilities total 20,676.6 millions.

Circulation

The final figures for March show circulation of 17,967.2 millions, demand drafts and checks 714.6 millions and demand deposits 947.3 millions.

The volume of note circulation in 1938 showed a progressive reduction during the first half of the year, with a concurrent gradual contraction of outstanding loans for pool financing, and a reduction in the advances to the State. From the lowest level in June, circulation rose until mid September, the normal cyclical peak season. The total increase, however, was less than the total of the advances made by the Bank for financing new crop pools.

In the latter part of September circulation reached its peak of 19,625 millions, an increase of 12.6% over the 17,420 million figure at the end of August.

A part of this substantial increase is attributable to repercussions resulting from the current international events. However, as financing of pool operations was constantly expanding in September, we may conclude that the increase resulting from the exceptional political factors perhaps did not exceed 6%, even though we do not know precisely to what extent the financing of these pool loans caused the credit institutions to draw upon the Central Bank, either through loans or rediscounts.

We are justly proud of this additional proof of the confidence of our people in the Fascist Government. At a time when in most countries, affected by this serious international crisis, deposits were hastily withdrawn, the Italian people displayed admirable calm. Although there were moderate withdrawals in some centers for the purpose of financing industrial activities, the Italian people as a whole (and particularly those on the Tirrenian Coast who were more exposed in case of conflict) showed no signs of anxiety, and merit the highest praise.

The Banca d'Italia, as a precautionary measure, had supplied its branches with a large stock of bank notes to meet any immediate needs of local credit institutions. Some of the latter availed themselves of this opportunity simply as a precaution. At most of the branches, however, the stock of notes remained unused.

Circulation in other leading centers of Europe, however, increased to a very much larger degree during September: by 22.3 percent in France, 16.8 percent in Germany, 40.8 percent in Hungary, 34.7 percent in Poland, 24.3 percent in Switzerland, 18.7 percent in Belgium, 18.5 percent in Yugoslavia, and 15.4 percent in Roumania. England alone showed a smaller increase of 5.3 percent, but in this connection it should be remembered that even during the world war there was no moratorium there on deposits.

During the last quarter of 1938 the abnormal increase in our circulation contracted somewhat. At the end of the year it had fallen, as we stated, to 18,955 millions, an increase of approximately 1,487 millions over December 31, 1937 XVI. Such an increase, although it may seem large, is proportionately less than that which occurred during the same period in other leading countries, and this shows how the trend toward expansion in circulation was checked in Italy more efficiently than in other centers.

Moreover, the price and cost of living indices show that the lira now has a purchasing power in the Italian market almost equal to that of ten years ago. (1).

Contributing factors in maintaining the purchasing power of our currency at these levels, in spite of increased circulation included: the increase of territory where the lira circulates, together with the growth in the volume of goods and services produced and exchanged on the home market serving a population which has risen from 40.4 millions in 1928 to 44 millions in 1938, without taking into account the increased national and native population of Italian African possessions.

Thus the conditions of equilibrium, which constitute one of the main objects of the monetary policy of the Regime have been preserved. They constitute one of the strongest guarantees for the Italian people, noted for their thrift, and a most important factor in encouraging this virtue.

(1) Placing the index figure at 100 for 1928, we find wholesale prices in 1938 at 95.3 and cost of living at 99.1.

Reserves against circulation and other demand liabilities of the Bank were, on December 31, 1938, 3,826.0 millions of which 3,674.0 were represented by gold and 152.0 millions by credits abroad.

Reserves

In the final statement, in March, credits abroad were unchanged while gold increased slightly to 3,679.3 millions.

On December 31st last, temporary Treasury advances made in accordance with Art. 21 of the Ministerial Decree of December 31, 1936 XV, amounted to 1,000 million lire and special advances against Treasury bills amounted to 2,000 million lire.

Treasury  
Liabilities  
to the Bank

At the close of last year domestic bills discounted totaled 3,703.6 millions; collateral loans 3,686.6 millions; Clearing House loans 77.8 millions; Government securities and securities guaranteed by the Government 769.3 millions. Interest-bearing investments accordingly totaled 8,237.3 million lire.

Loans and  
Investments

Comparison with 1937 figures shows increases of 1,159.4 millions in domestic bills discounted, and of 35.7 millions in Clearing House loans, and decreases of 821.4 million collateral loans, and of 5.8 millions in securities. Total interest-bearing investments, therefore, increased by 367.9 millions.

Factors contributing to the increase in bills discounted, as previously shown, include: increased rediscounts for grain pools; new discount and re-discount operations connected with the special capital levy on stock companies constituting a new field; and the increase of normal rediscounts from 904 millions on December 20, 1937 XVI to 1,385 millions a year later. Normal direct ordinary discounts, however, further decreased from 317 to 272 millions during the same period.

The decline in advances comprises: realty tax loans to the extent already indicated; other advances, at the normal rate, which on December 31, 1937 XVI totaled 928 millions decreased to 911 millions a year later; and finally advances at reduced rates which, during the same period, contracted from 2,028 to 1,646 millions. The latter are mainly loans on 5% Rentes for which the Ministerial Decree of September 9, 1938 XVI extended the reduced interest rate until September 30, 1939 XVII.

The breakdown of these changes in interest-bearing investments of the Bank demonstrates the encouraging trend along the lines of the principles of bank reform mentioned in last year's report.

The official discount rate, unchanged since May 18, 1936 XIV, remained at 4 1/2% for the entire year 1938.

The item "Institute for Industrial Reconstruction sinking fund" carried among the liabilities of the Bank's balance sheet against the consolidated credit of 4,708.1 million lire extended to the Institute for Industrial Reconstruction increased, on December 31st last, to 94.0 millions as a result of the amortization plan concluded under the auspices of the Treasury.

Institute for  
Industrial  
Reconstruction

**Bank  
Premises**

Bank premises, which represent a capital investment, are carried at 106.9 million lire in the December 31, 1938 XVII statement.

Special mention should be made of the promptness with which, in spite of the many difficulties, quarters were furnished to the new branches in East Africa, especially in Gondar, Gimma, Dire Dawa and Harar.

**Correspondent  
Banks**

Correspondent banks totaling 583 on December 31, 1938 XVII extended banking services to 2,961 centers.

**Colonial  
Branches**

The objective of the Bank in the Colonies and Territories of the Empire during the past year was, as heretofore, to contribute, to the utmost, toward further development as begun and strongly fostered by the Fascist Government.

This was demonstrated by opening an Agency in Merca and by the substantial increase over the previous year in the operations by the majority of its Branches which were able to adequately provide for these increasing banking needs. On the whole, considering the greater volume of work, the results may be deemed satisfactory.

In Lybia, the provisions for intensifying the agricultural development of the Colony (enacted last October as already mentioned), the largest and most progressive experiment of colonial migration ever recorded in history and the successful results of the farming campaign, together have stimulated all fields of production, and have revived commercial activities. The Tripoli and Bengasi branches similarly increased all their activities with consequent material improvement in earnings. Warehousing enterprises in Tripoli required further financing for equipment so that they could handle the growing traffic of the port which at times reached a greatly swollen volume.

Results achieved justified last year's favorable forecast of increased activities of the Rhodes Branch. General economic improvement brought about by the local Government was evident in this branch which, through increased operations, was able to show a profit on its balance sheet.

Vast civil, political and economic progress was achieved, in the territories of the Empire. Public works were greatly stimulated by the approval of building plans in principal centers. In the industrial field, many new enterprises were established, particularly connected with the building industry. Prospecting is active in mining fields, and surveys are being made to adapt the various regions of the Empire to farming.

A good crop year in Eritrea, and the renewed functioning of those private businesses which had been suspended during military operations, together increased activity and further promoted the development of industry.

With the modest improvement in the economic situation in Somaliland, the Mogadiscio Branch enjoyed normal operations, while the Chisimaio Branch continued its limited activity.

During 1938 the Bank, through its central and outlying branches developed a wide and complex program to insure, in close collaboration with the Inspectorate for the Defense of Savings and the Granting of Credit Facilities, compliance with the rules controlling credit, by all institutions subject to its control.

Control over  
Credit  
Institutions

The Bank continued to survey and to carefully study the various aspects of the numerous and delicate matters entrusted to it by the Inspectorate giving its own technical advice in each instance. In addition it closely examined the balance sheets of the reporting banks submitting its findings, when necessary, to the Inspectorate.

During the year 174 inspections were made, including institutions of particular importance, subdivided as follows:

97 Public Law Credit Institutions, Banks of National Interest, ordinary Credit Banks, Cooperative Institutions, Savings Banks

27 Banking Firms

50 Rural and Handicraft Banks

174.

Examinations made, since the establishment of banking control reached a total of 3,876 at the end of 1938.

The total number of banks entered on the Register of the Inspectorate, and subject to supervision, was 2,624, of which 1,851 operated in 3,818 centers with 7,386 counters, and 773 were in the course of liquidation.

Moreover it must be borne in mind that the Inspectorate, through the Bank, supervised not only institutions collecting deposits, but also 336 institutions which are not eligible to receive deposits, as well as 266 struck off from the Register.

The Inspectorate for Foreign Exchange Operations continued its activity in close collaboration with the Ministry for Foreign Trade and Exchange, and with the National Institute of Exchange.

The Inspectorate  
for Foreign  
Exchange  
Operations

We are pleased to declare that, with rare exceptions, the examinations to date concerning foreign exchange operations of credit institutions reveal that they have wholeheartedly contributed to the defense of our currency.

On December 31st last the ordinary reserve fund amounted to Lit. 79,122,475.34 and the special reserve fund amounted to Lit. 36,379,400.52.

Reserve Funds



**Profit and Loss Account**      The Profit and Loss account for the year 1938 shows the following results:

|                     |                   |
|---------------------|-------------------|
| Gross Profits ..... | L. 448,043,665.42 |
| Expenditures .....  | 316,634,128.83    |
|                     | <hr/>             |
| Net Profit .....    | L. 131,409,536.59 |
|                     | <hr/>             |

The gross profits are made up of:

|   |                   |
|---|-------------------|
| Discount Operations .....   | L. 137,858,397.10 |
| Interest on Advances .....  | 168,602,839.07    |
| Interest on Clearing House Loans.....                                     | 2,105,558.50      |
| Interest on Current Accounts.....   | 54,471,333.25     |
| Commissions .....   | 18,108,936.49     |
| Profits on Foreign Business.....  | 149,877.98        |
| Miscellaneous Profits .....   | 21,316,480.75     |
| Interest on Government Securities.....                                    | 39,385,932.23     |
| Income from Real Estate.....  | 2,595,002.36      |
| Interest on Colonial Branches Fund...                                     | 700,000.00        |
| Profit arising from the liquidation of<br>former Note-Issuing Banks ..... | 2,749,307.69      |
|   | <hr/>             |
| Total .....   | L. 448,043,665.42 |
|   | <hr/>             |

Expenditure and taxes comprised the following items:

|   |                   |
|---|-------------------|
| Administration Expenses .....                           | L. 126,994,811.28 |
| Directors' and other Fees.....                          | 2,662,967.91      |
| Transport of Specie, etc. ....                          | 2,046,081.22      |
| Printing of Notes .....                                 | 12,501,800.29     |
| House Property Account .....                            | 10,248,335.37     |
| Foreign Business Expenses ....                          | 1,821.00          |
| Various Taxes .....                                     | 59,080,827.33     |
| Unpaid Bills .....                                      | 1,965,507.55      |
| Amortizations .....                                     | 47,760,727.48     |
| Interest and Annuities .....                            | 26,597,990.40     |
| Charities and other Contribu-<br>tions .....            | 3,500,000.00      |
| Contributions toward Em-<br>ployees' Pension Fund ..... | 10,273,259.00     |
| Depreciation of Bills against<br>losses, etc. ....      | 10,000,000.00     |
| Temporary Staff Pension Fund                            | 3,000,000.00      |
|   | <hr/>             |
| Total Expenditures .....                                | L. 316,634,128.83 |
| Net Profit .....  | 131,409,536.59    |
|   | <hr/>             |
| Total .....   | L. 448,043,665.42 |
|   | <hr/>             |

In accordance with Art. 54 of the By-Laws, the Ministerial Regulations and the Report of the Auditors, the Board of Directors of the Bank has decided to submit to the General Meeting the following distribution of net profits for the year 1938:

Distribution of Profits

|   |                   |
|---|-------------------|
| 20% to the Ordinary Reserve Fund .....  | L. 26,281,907.32  |
| 20% to the Extraordinary Reserve Fund .....   | 26,281,907.32     |
| To the Credito Fondiario (Real Estate Mortgage Institute) formerly belonging to the late National Bank, being interest at the rate of 4% 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% on the capital .....  | 18,000,000.00     |
| Balance of Profits to the State   | 60,564,661.95     |
| Total Net Profits .....   | L. 131,409,536.59 |

The favorable results reflected in the December 31, 1938 statement, submitted for your approval, which have been closely examined in the accompanying report, show that the Banca d'Italia has played a particularly active part in assisting the economic development of the Nation. This has been accomplished through progressively developing those activities which, with a single purpose, lead to the attainment of economic independence, necessary to the life of our Nation, in which we are fully confident of success.

Conclusion

The credit structure in all fields has promptly met the demand of production. The smooth working of the Guild System has proved, in these times of stress and strain, the soundness of the new Fascist economy.

Under this system savings play a very important role since under autarchic plans they are directly drawn upon for the constructive support of the national economy.

Thus still greater care must be exercised in protecting and fostering thrift. During the year savings banks and other institutions accepting savings, in their scrupulous functioning, at home and throughout the Empire, clearly demonstrated the patriotism underlying their actions.

The same can be said for all our large banking organizations, and here we like to mention the oldest one of all, the Banco di Napoli, which is about to celebrate the fourth centennial of its foundation, with uninterrupted service to the country through its diversified activities.

Now more than ever the banking system is an instrument of national power. The discipline which regulates all banking activities, strengthens

their foundations and assures the most profitable use of available resources. The system is thoroughly efficient and fully cognizant of the importance of the tasks assigned it.

In the Duce's speech last Sunday was a command which we all understand, and which each of us will promptly carry out in his own field: as soldiers we know how to be faithful to the command, sure of final victory.

V. AZZOLINI,  
Governor.

Rome, March 30, 1939 XVII.

**BALANCE SHEET**

*December 31st, 1938.*

---

**PROFIT AND LOSS ACCOUNT.**

## BANCA

PAID-UP CAPITAL

**BALANCE SHEET,**

| <b>ASSETS:</b>   |   |           |                          |
|--|---|-----------|--------------------------|
| Gold in Hand.....  |   | L.        | 3,674,017,898.29         |
| Balances Abroad .....                                      |   | "         | 152,000,000.00           |
|  | <b>Total Reserve.....</b>                                   | <b>L.</b> | <b>3,826,017,898.29</b>  |
| Gold deposited abroad, due by the State.....               |   | "         | 1,772,798,105.00         |
| Cash in Hand.....  |   | "         | 467,449,530.72           |
| Inland Bills .....   |   | "         | 3,703,637,242.52         |
| Bills for Collection.....                                  |   | "         | 27,937,494.35            |
| Advances to Customers                                      | { Against Government Securities and<br>Mortgage Bonds ..... | L.        | 3,686,559,206.95         |
|  | { Against Silk and Cocoons.....                             | "         | 8,929.70                 |
|  |   |           | 3,686,568,136.65         |
| Investments (Government Securities owned by the Bank)..... |   | "         | 769,301,028.57           |
| <b>Cr. Accounts in the Kingdom:</b>                        |   |           |                          |
| Deferred Payments at Clearing Houses.....                  |   | L.        | 77,827,719.71            |
| Other Accounts .....                                       |   | "         | 54,407,211.21            |
|  |   |           | 132,234,930.92           |
| Advances to the Treasury—Extraordinary.....                |   | "         | 2,000,000,000.00         |
| Advances to the Treasury—Temporary.....                    |   | "         | 1,000,000,000.00         |
| Premises .....   |   | "         | 106,945,706.20           |
| Credit with Institute for Industrial Reconstruction.....   |   | "         | 4,708,097,530.74         |
| Other Assets .....   |   | "         | 1,397,235,580.92         |
|  |   | L.        | 23,598,223,184.88        |
| Securities and other valuables deposited.....              |   | "         | 41,840,782,438.11        |
|  |   | L.        | 65,439,005,622.99        |
| Amounts written off in past years.....                     |   | "         | 229,622,766.28           |
|  |   | L.        | 65,668,628,389.27        |
| <b>TOTAL .....</b>   |   | <b>L.</b> | <b>65,668,628,389.27</b> |

45th YEAR.

D'ITALIA.

CAPITAL 300,000,000.

December 31st, 1938—XVII

## LIABILITIES:

|   |    |                   |
|---|----|-------------------|
| Notes in circulation.....                                   | L. | 18,955,451,150.00 |
| Demand Drafts Outstanding.....                              | "  | 905,214,426.79    |
| Current Accounts .....                                      | "  | 815,930,984.85    |
|   |    | 20,676,596,561.64 |
|   | L. | 20,676,596,561.64 |
| Capital .....   | "  | 300,000,000.00    |
| Statutory Reserve .....                                     | "  | 79,122,475.34     |
| Extraordinary Reserve .....                                 | "  | 36,379,400.52     |
| Time Deposits.....  | "  | 339,749,010.48    |
| Treasury Current Account .....                              | "  | 849,830,807.68    |
| "Internal Debt Sinking Fund Office" Current Account.....    | "  | 4,037,215.97      |
| "Institute for Industrial Reconstruction" Sinking Fund..... | "  | 93,959,325.05     |
| Other Liabilities .....                                     | "  | 1,087,138,851.61  |
| Net Profits for the Year.....                               | "  | 131,409,536.59    |
|   |    | 23,598,223,184.88 |
|   | L. | 23,598,223,184.88 |
| Securities and other valuables deposited.....               | "  | 41,840,782,438.11 |
|   |    | 65,439,005,622.99 |
|   | L. | 65,439,005,622.99 |
| Amounts written off in past years.....                      | "  | 229,622,766.28    |
|   |    | 65,668,628,389.27 |
|   | L. | 65,668,628,389.27 |
|   |    | 65,668,628,389.27 |
|   | L. | 65,668,628,389.27 |

# PROFIT AND YEAR

|   |   | Dr.   |                   |                |
|---|---|---|-------------------|----------------|
| Expenditure                                     | Expenses<br>in respect of:                      | Administration .....                            | L. 126,994,811.28 | 154,455,817.07 |
|   |   | Board of Directors, etc.                        | " 2,662,967.91    |                |
|   |   | Transport of specie and<br>other valuables .... | " 2,046,081.22    |                |
|   |   | Printing of notes .....                         | " 12,501,800.29   |                |
|   |   | House Property Account                          | " 10,248,335.37   |                |
|   |   | Stamps and commissions<br>on foreign business.  | " 1,821.00        |                |
|   |   | Circulation tax on notes                        | " 28,896,532.43   |                |
|   |   | Circulation tax on de-<br>mand drafts .....     | " 2,032,992.91    |                |
|   |   | Income Tax .....                                | " 21,242,135.20   |                |
|   |   | Additional Income-Tax.                          | " 2,509,311.70    |                |
|   | Real Estate Tax .....                           | " 1,781,545.63                                  | 59,080,827.33     |                |
|   | Bank Shares transfer tax                        | " 750,000.00                                    |                   |                |
|   | Stamp duties .....                              | " 420,942.15                                    |                   |                |
|   | Contribution for Govern-<br>ment supervision .. | " 200,000.00                                    |                   |                |
| Other tributes .....                            | " 1,247,367.31                                  |   | 213,536,644.40    |                |
| Unpaid bills .....                              | L. 1,965,507.55                                 |   |                   |                |
| Amounts written off .....                       | " 47,760,727.48                                 |   |                   |                |
| Interest and annuities .....                    | " 26,597,990.40                                 |   |                   |                |
| Charities and other contributions.....          | " 3,500,000.00                                  |   |                   |                |
| Contribution to Employees' Pension Fund.....    | " 10,273,259.00                                 |   |                   |                |
| Depreciation of bills against losses, etc. .... | " 10,000,000.00                                 |   |                   |                |
| Temporary Staff Pension Fund.....               | " 3,000,000.00                                  |   |                   |                |
|   | L. 316,634,128.83                               |   |                   |                |
| Net profit to be divided.....                   | " 131,409,536.59                                |   |                   |                |
|   | L. 448,043,665.42                               | TOTAL.....L.                                    |                   |                |

## 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 March 10th, 1939—XVII.

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

GUIDO PIERINI,  
Chief Accountant.

# LOSS ACCOUNT

938—XVII.

|  |   | Cr.              |                |
|--|---|------------------|----------------|
| Profits from<br>the Year's<br>business | Re-discounts brought in from pre-<br>vious year .....   | L 19,505,807.80  |                |
|  | Year's discounts .....  | " 147,513,418.80 |                |
|  |   | " 167,019,226.60 |                |
|  | less: re-discounts carried forward  | " 29,160,829.50  |                |
|  |   | L 137,858,397.10 |                |
|  | Interest on advances .....  | " 168,602,839.07 |                |
|  | Interest on Cr. accounts.....   | " 56,576,891.75  |                |
|  | Commissions .....   | " 18,108,936.49  |                |
|  | Interest, discount and exchange profits on foreign<br>business, less re-discount charges..... | " 149,877.98     |                |
|  | Other profits .....   | " 21,316,480.75  |                |
|  |   | 402,613,423.14   |                |
| Profits<br>from<br>Investments         | Interest on Government Securities.....  | L 39,385,932.23  |                |
|  | Revenue on real estate.....   | " 2,595,002.36   |                |
|  | Interest on investment of Colonial Branches Fund  | " 700,000.00     |                |
|  | Profits arising from the liquidation of late note-<br>issuing banks .....                     | " 2,749,307.69   |                |
|  |   |                  | 45,430,242.28  |
| TOTAL.....L.                           |   |                  | 448,043,665.42 |

## OF NET PROFIT

|   |                  |
|---|------------------|
| .....                                   | L 26,281,907.32  |
| .....                                   | " 26,281,907.32  |
| .....                                   | " 18,000,000.00  |
| .....                                   | " 281,060.00     |
| .....                                   | " 60,564,661.95  |
| TOTAL NET PROFIT TO BE DISTRIBUTED..... | L 131,409,536.59 |

VINCENZO AZZOLINI.  
Governor.



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