

BANCA D'ITALIA

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

HELD IN ROME ON MARCH 30, 1940 XVIII

YEAR 1939.

Gentlemen,

Following economic stagnation caused by the serious crisis of September 1938, a moderate recovery in world economy became evident early in 1939, only to be completely dispelled, quite soon, as a result of progressively deteriorating international political conditions.

General Remark

Even in the early months of the year the second Czechoslovakian crisis, together with anticipated graver developments, had spurred nearly all countries to concentrate their efforts upon accelerating huge armament programs. Thus, the recent improvements almost universally noticeable in the indices of industrial activity, together with the continuing shrinkage in unemployment, viewed in the light of these conditions, cannot be considered as indicative of an improvement in the economic trend.

World trade developments confirm this fact. Despite internal acceleration of commercial activities in the separate countries, the trend of world trade during the months of 1939 for which statistics are available has been consistently below the level of the corresponding periods of 1938.

The widespread anxieties generally prevailing are accurately reflected by abnormally large transfers of capital. With the addition of \$3.6 billions in 1939, the influx of gold to the United States, already significant in prior years, reached a new high record, surpassing by more than \$1.6 billions the previous record of 1938.

It is noteworthy that although capital movements during the first months of the year resulted principally from transfers by European monetary authorities in order to stabilize exchanges, in later months, and until the outbreak of the war, these transfers resulted predominantly from the exodus of private capital seeking a more secure haven. Subsequently, in recent months, following measures taken by the principal European countries to control foreign exchange, transfers of private capital have virtually ceased, and the American gold imports which reached their maximum in December, resulted mainly from official transactions.

Among European countries the French market was the only one to register a substantial influx of capital. This influx, however, resulted from the repatriation of national capital which had previously left France because of a lack of confidence in the monetary and general policies of the Popular Front Government. Apparently even after the outbreak of war the return of capital to France has continued to a certain extent, probably resulting from the repatriation of substantial amounts of French capital which had previously taken refuge in London, either in the form of investments in sterling, or of deposits of gold, or of various foreign securities.

During 1939 gold exports from England reached a precipitous pace: net exports to the United States, according to American statistics, rose, during the year, to more than \$1,826 millions. Up to August, the latest date available in English statistics, total net exports had reached \$1,377 millions.

The less important markets having a free currency also suffered substantial losses. In Switzerland total gold exports reached the sum of 628 millions in Swiss Francs; in Belgium, at the end of 1939 the total gold reserve, together with their reserves in primary currencies diminished by 583 millions in Belgian Francs compared to the end of 1938; moreover the gold reserve held by the Treasury totaled but 506 millions as against 1,286 mil-

lions the previous year; in Holland, finally, the decline of the visible gold reserve during the year reached 546 million guilders. (1)

It should also be noted that, for the first time, earmarking of gold for account of foreign countries took place in countries such as Canada, India and the Union of South Africa, which were chosen solely for reasons of security.

As previously stated, transfer of capital to the United States during the first months of the year resulted in part from the actions of European monetary authorities to stabilize foreign exchanges. It was possible to keep exchange fluctuations within narrow limits, even at the cost of enormous sacrifices, and, thus particularly the pound-dollar ratio was maintained, up to August, at about 4.68. At the end of that month, however, with the approach of the time when the solution of international difficulties was to be entrusted to military force, official action to protect the pound sterling was suspended, causing the rate to decline rapidly by about 15 per cent with respect to the dollar.

This depreciation, together with the subsequent adoption of a control of foreign exchange, brought about the breaking up of the so-called sterling bloc. The Baltic and Scandinavian countries, Yugoslavia, Japan, Argentina, to mention the principal ones, having allowed their currency to depreciate to a certain extent, now maintain them pegged to the dollar. The Canadian dollar did not reflect to the full extent the decline of sterling, its depreciation being only about 10 per cent.

Great Britain has found a certain compensatory offset to the shrinkage of the sterling bloc in the closer relationship between the pound and the French Franc, the latter reflecting all the developments of the former; and also in the agreements designed to prevent transfers of gold between France and England, inherent to fluctuations of the balance of payments, not only between the two countries, but also between their respective empires. This unprecedented agreement, whose consequences are today unpredictable, stipulates, moreover, that the ratio between the two currencies shall remain unchanged until six months after the end of the war; that the foreign exchange resources of the two countries shall be utilized in common; and that, in their foreign financial transactions, France and England shall maintain a united front.

It should be noted, however, that, through adopting the measures forced upon it by the beginning of the war, the London market lost the funds deposited there by those countries which, having pegged their currencies on sterling, considered their deposits in London as monetary reserves, and used the English banking system for their respective requirements. Exchange restrictions have considerably weakened the universal standing of the pound sterling which had been retained even after the abandonment of the gold standard. Immediate discrepancies appeared between the official rate, fixed by the Bank of England, and the rates on free markets, resulting from a universally lower appraisal of sterling in contrast to the rate fixed by the English monetary authorities. Even in those countries such as Sweden which carried on large commercial and financial transactions with Great Britain, accounts in "special pounds" have been set up, whose utilization is very limited and strictly controlled. War exigencies, moreover, have imposed restrictions on

(1) Figured at the new parity.

foreign trade in raw materials produced in the British Empire, impairing a most effective source of support to sterling. Similarly the practical abolition of the free gold market, which was recognized as the keystone of the English monetary policy and of the balancing of accounts of all the "sterling bloc" countries, will contribute, to a considerable extent, to accentuate the internal character of the British currency.

The trend in world prices has been quiet with a slight tendency to decline in the first half of the year. The world index of prices expressed in gold was 43, being lower than the two preceding years. In the United States the general index of wholesale prices dropped from 77 in January to 75 in August, while in Great Britain it rose from 97 to 98 during the same period. During the first two months of hostilities a vertical upswing in prices was produced by the chaotic conditions resulting from the war, by buying up of supplies, by shiftings in trade, by the sudden adoption of the cash-payment system, and by severe restrictions imposed on exports by producing countries. Subsequently the upward trend abated in prices of mineral products, although it was maintained in prices of agricultural products. At the year end the American general index had risen to 79, the English to 121, the Dutch to 85 (compared with 71 in August), and the Swiss to 125 (as against 107 in August).

In general it may be said that purely monetary factors influenced prices to a lesser degree than did psychological factors, transportation difficulties, and export restrictions resulting from concerted efforts toward maintaining national security. On the other hand a continuing rise in prices resulting from increased costs of production is predictable in the countries at war, which constitute an important factor in world production. At this time, however, after receding from the sharp September rise, world prices in terms of gold appear to be passing through a period of hesitancy.

In contrast to the developments in 1914, security markets and banking systems have been able to withstand the shock of the beginning of the conflict without having recourse to any partial or general moratorium. In those countries where a general mobilization of the army was ordered, certain restrictive measures were adopted to extend the maturity of commercial bills, and to safeguard the interests of those called to bear arms, inasmuch as no previous protective measures had been taken. In general, however, the alarmingly unsettled conditions existing for some time past had forewarned the monetary authorities and banks who had prepared themselves for the liquidity crisis. Stock markets had cleared out or reduced to a minimum all speculative positions. Only in the market for government securities were precautionary measures required, such as the fixing of minimum rates in England and in Sweden. These steps were taken as it was generally foreseen that heavy demands for credit would be inevitable, inasmuch as either war or defensive precautionary efforts must make heavy demands on the public finances of belligerent, non-belligerent and neutral countries.

The extent of these efforts becomes evident in the budgeted figures of several countries. France's budget calls for 250 billion francs for the first year of the war, and the Chancellor of the Exchequer has estimated that it will cost England 6.5 million pounds sterling per day, intimating that even this amount might be increased by subsequent developments. Among the neutral countries Switzerland expects her mobilization costs to rise to 2,500 million francs by the end of the present fiscal year. Belgium will have to meet exceptional expenses which will total at least 8.5 billions.

Accordingly the problem of financing such huge expenditures has been, from the very beginning, seriously pressing. Unlike 1914 it is impossible, this time, to rely upon reserves accumulated during a long period of normal conditions. Years of repeated crises, together with the aftermath of the previous world war, have heavily cut into national wealth. The world has not forgotten either the hardships growing out of inflation, or the disillusionment resulting from war reparations. At the same time currencies, impoverished by repeated manipulations, offer few possibilities for profitable exploitation.

Bolstered by her increased national income and by her advanced military preparations Germany is, for the time being, meeting her war expenses solely through fiscal means. Increased taxes, direct and indirect, should raise her ordinary revenue to more than 24 billion marks, compared with 17.7 billions during the previous fiscal year. Her capital market, which in recent years had been monopolized by the State, is now opened to private economy and some industries and railroads have already successfully availed themselves of its use. Pending the desired results of the fiscal measures adopted, the transition from the state of peace to that of war was, in fact, coupled with an increase in the floating debt, and simultaneously with a greater demand for specie due to the general mobilization, resulting, by the end of August, in an increase of about 25% in banknotes in circulation as compared to the end of June. With the added requirements resulting from the introduction of the Reichsmark into Upper Silesia and Danzig, paper circulation was further increased by the end of 1939 reaching a total of 11,798 million Rm.

In France, on the other hand, it was deemed possible to meet only about one third of the additional extraordinary expenses through increased taxes, the balance to be provided by drawing upon accumulated savings, primarily through the issuance of short term bonds. Agreements worked out in September 1938 between the Bank of France and the Government placed at the disposal of the latter 25 billion francs of new temporary advances which have by this time been largely used up.

Note circulation rose from 122.6 billions at the end of June to 146.1 billions on September 7th and to 151.3 billions at the end of the year.

In England, also, the war demands upon public finances are being met through sharply increased taxes together with large scale recourse to public savings. According to statements made to the House of Commons by the Chancellor of the Exchequer the statement for the fiscal year ending March 31 will show expenses totaling 1,760 millions with ordinary revenues rising to 1,040 millions. For the fiscal year 1940-41 expenses are forecast at 2,400 millions with ordinary revenues of 1,100 millions. On this basis drawings upon savings during these two fiscal years will reach a total exceeding two billion pounds sterling. (1)

Following the transfer to the Exchange Equalization Fund of all the gold previously held by the Bank of England the fiduciary note circulation increased rapidly from 499 million pounds in June to 554.6 millions at the year end. In view of the peculiar characteristics of the British system of payments and credit structure, this increase is significant and is already producing strong inflationary effects.

(1) The first war loan totaling 300 million pounds sterling was issued in England during March 1940 at 3%, maturing in 20 years, and callable after October 15, 1955.

In connection with existing urgent requirements a tendency to modify the functions of the Central Banks has become more accentuated in spite of persistent old fashioned conservative reticence. We discussed this trend in the 1937 report in which we pointed out a change of attitude toward set policies regarding gold reserves. Gold reserves, in fact, no longer serve to control national economic activity, but are becoming essentially an instrument of foreign payments. As a result of this, gold will come to be considered more and more as a medium of international exchange and as a war chest.

In many countries the modifications adopted in the operations of the Central Banks have a tendency to make note circulation more flexible, to more effectively support the needs of the State, and to free gold reserves from coverage of bank notes, releasing them for the needs of international trade.

The revaluation of gold reserves—formerly figured at a ratio long since abandoned or superseded—aims at achieving the first and third of these objectives. The Bank of England, and the Central Banks of Yugoslavia, Hungary, Sweden, and Holland have thus freed certain reserves which had, up to the present time, been deliberately left idle. The State has taken advantage of this action by utilizing the bookkeeping profit either in whole or in part. Even in Switzerland—where such profits from the 1936 devaluation had been added to the reserve funds of the Bank—a tendency toward diverting the funds to partially meet expenses of mobilization is now making headway.

At the start of the war the Bank of England, as already mentioned, transferred its total gold reserve to the Exchange Equalization Fund. By this action the limit of fiduciary circulation was raised to 580 million pounds sterling. The Bank of France also, after having been released from the requirement of a minimum coverage of 35 per cent of sight liabilities, recently transferred 30 billion francs in gold to the French Exchange Fund, and at the same time, revalued its gold reserves on the basis of current values. In some countries, as for example in Norway, the limit of fiduciary circulation, i.e. circulation not covered by gold or by balances in prime foreign currencies, was merely increased.

At the same time measures have been adopted in many countries to revise the relations between the Central Bank and the State in order that the State might receive more efficient support from the Bank of Issue. The new law regulating the Deutsche Reichsbank abolished statutory limits on advances which the Reichsbank may extend to the Treasury, and also abolished the limitations restricting public securities acceptable for discount by the Reichsbank. Moreover, Treasury Notes having a maturity not greater than one year have also been included among those securities which the Reichsbank may buy on the open market. In Belgium the limits to which the Central Bank could participate in open market purchases was established in 1937 at 500 millions for short term bonds, and at one billion for perpetual bonds. These limits have now been removed, and a total inclusive limit of 5 billions has replaced them.

In France, after six months of war, the advances mentioned above had been heavily drawn upon despite the receipt of large amounts from increased taxes and from special War Bonds. Recent agreements, moreover, contemplate an additional advance of 20 billion francs, after a bookkeeping cancellation of more than 20 billions of former advances made possible by the above mentioned revaluation of the gold reserves of the Bank of France.

It should also be noted that the widespread adoption of exchange control by belligerent and neutral countries tends to facilitate financing public expenditures by retaining capital, as well as new savings, at home, so that these funds must seek national investments. The administration of exchange control has, in general, been entrusted to monetary authorities.

Another basic problem which the war has imposed upon most countries—even those not directly involved in the conflict—is the allotment of the nation's potential production between war needs and private consumption. At a time when production of war materials must be pressed to the limit, millions of men are withdrawn from productive activities to protect or defend national boundaries. As a result of this situation, private consumption must necessarily be subordinated to military requirements, and must be restricted to essential needs. Private demands may be automatically cut down by allowing inflationary factors—inevitable during war time—to contribute to a rise in prices and in the cost of living. In this manner the burden would fall upon the poorer classes, workers whose incomes rise slowly in sharp contrast to living costs, and persons living on a fixed income. In other words, a proportionally greater burden would fall upon those groups already subject to a lower standard of living, than upon the wealthy groups.

Rationing of commodities, instead, by curtailing unnecessary consumption and reducing waste, guarantees minimum necessities to everybody and retains the purchasing power of the currency. In view of the country's vital needs a higher level of social justice with a more widespread sharing of sacrifices is achieved by this system. Neutral as well as belligerent countries, mindful of the experiences of the last war, have adopted rationing. In the very first months of the war even such prosperous countries as France and England, controlling vast colonial empires, also resorted to rationing.

Moreover rationing releases a measure of purchasing power. The degree to which such funds will find their way into government securities, into unrationed luxuries, or into other tangible investments will depend upon the patriotism of the people and upon the confidence inspired by the governments.

Finally, an additional factor underlying rationing is the need for foreign exchange. The majority of European countries have experienced a progressive curtailment of their balances in international payments, reflecting a gradual shrinkage of important sources of income such as the tourist trade and ship transportation, together with dwindling proceeds from exports.

On the other hand, the demand for foreign exchange increased due to mounting costs of imports, to the need for accumulating reserves of merchandise, and to the necessity of making cash payments. Exchange control has successfully eliminated currency speculation and the flight of private capital. It has, however, been imperative to reduce imports for public consumption by setting up quotas, so that reserves in gold and in foreign exchange might be kept available for those imports required for national defense.

The increasingly deteriorating balances of payments of the European countries have worked to the benefit of the United States, speeding up their influx of gold, as previously mentioned. In 1933 the United States held four billion dollars in gold (1) representing 30% of the world's monetary stock; at the end of 1939 the American gold reserve had jumped to 17.6 billion dol-

(1) Figured on the former parity.

lars (1); and in 1940 it reached 18 billion dollars. This reserve constituted, in round figures, 70% of the world's monetary gold.

Moreover, the war has blasted any slight hope previously held of an interruption—to say nothing of a reversal—of the gold movements which may now be considered as flowing in only one direction. Though established exchange controls have dried up the major sources leading to the outflow of private capital, wartime purchases have superseded them. It is probably not presumptuous, therefore, to assume that, if the conflict should last a long time, when peace is finally reestablished, there will be a practical monopoly, on the part of a single country, of all the world's gold supply.

In other words the unsolved problem of the redistribution of the world's gold is becoming increasingly serious. Various remedies have been suggested from time to time in the United States, such as: the coinage of gold; the reduction of the American gold purchase price; and the granting of gold loans to less prosperous countries. All of these remedies appear to be impracticable and inefficient. Moreover, in view of present circumstances, any exodus of national capital from America seems inconceivable.

The only logical solution, for a country that is a financial creditor, would be that of a continuous and substantial unfavorable international commercial balance, an opinion which is concurred in by experts of the Federal Reserve Board. However, even if the American agricultural and industrial groups were to relinquish the high protective tariffs which they have always unanimously demanded in normal times, it must be borne in mind that the European countries will have to concentrate their efforts upon meeting the needs of their domestic market, rather than to think of exports, not only during the war, but also, in all probability, for quite a period thereafter.

This complex problem is constantly causing worries to farsighted Americans who, in view of progressive losses of gold by European countries, foresee a considerable swing toward autarchy, even in those countries which were formerly ideologically most opposed to it. They also fear that, in the final analysis, the United States, with her huge and unproductive gold reserves may have to face commercial isolation. Accordingly repeated suggestions have been made for the repeal of the Johnson Act. Recently a proposal even reached the Senate calling for the establishment of a world bank for the purpose of re-distributing gold through loans to other countries.

We intend neither to discuss here whether this solution would be the best one, nor to search for other possible solutions. We take the liberty of commenting, however, that, if this solution were attempted, the granting of loans might perhaps meet an unanticipated obstacle arising not from the Johnson Act or other Acts, but from the fact that many countries might well prefer not to avail themselves of such credits.

The experiment of international loans after the World War was not very encouraging, and not only in respect to creditor countries.

Thus it would not be surprising if those countries which, like our own, believe in their duty to respect whenever possible their contractual obligations, should prefer a continuing strengthening of their economic structure by trying to avoid foreign aid, and by exerting every effort to enhance their own self-sufficiency.

(1) Figured on the new parity.

Today, however, conflicting national interests seek to solve their problems by force, by blockades, and by the most extreme forms of economic warfare. Every country and every market — even those not directly involved in the war — is now affected by the conflict. Experience dramatically demonstrates, and the critical conditions of international trade confirm, that economic independence is an essential requirement for true political independence.

Present chaotic conditions of international trade, by limiting opportunities for acquiring foreign goods, and by causing a rise in prices when needs are most pressing, definitely point out the absolute necessity of self-sufficiency with such clarity that it cannot be denied, even by those pure utilitarians who cling to their narrow economic point of view, considering only profits.

Last November, addressing the Supreme Autarchic Commission, the Duce stressed these facts. His words, spoken on the fourth anniversary of the experiment of sanctions, were those of one who had witnessed the definite materialization of his lucid predictions.

The benefits thus far achieved show that the years have not elapsed without results. In the field of food supplies, the assurance and vigor with which the endeavor for wheat sufficiency was carried through produced for our country three consecutive harvests of about eighty million quintals. The stability of the level so attained clearly shows the mastery of technique over seasonal trends which were not always favorable. At the same time appropriations made for vast irrigation projects, for land reclamation and colonization, and for improving the quality and quantity of live stock, together with the carrying out of these projects, are together paving the way for a still more complete self-sufficiency in foodstuffs.

In the industrial field the production of coal, of electric power, of artificial textile fibers, and of a multitude of chemical products, while still progressively expanding, has already reached a point which frees our country, to a remarkable degree, from foreign dependency upon those products indispensable to our existence and power.

Our productive effort, in fact, serves in part to satisfy civilian needs and in part to strengthen the armament of the country. The combination of these two types of requirements develops special problems of budgeting State expenses, of allotments of foreign exchange, of savings and credits, and of raw materials and foodstuffs. These are epochal problems which require immediate and complete subordination of all private interests to the interest of national goals. The discussion of methods, and the search for appropriate solutions must be based upon a consideration of the national aims.

In the field of production steps have already been taken to achieve our national aims, including lowered costs and increased production. These principles will become progressively more important in solving our problems which arise in granting subsidies and protection, in passing upon applications for authorization for new industrial plants, and in supervising syndicates and cartels among producers. A basic reorganization of this supervision is now being worked out.

In the field of distribution the controlling measures adopted aim to insure that competing fundamental requirements are met on the basis of their relative importance and urgency. Results under such controls are quite dif-

ferent from what would take place upon a free market. The only alternative to the control of distribution and of prices of the most important commodities, would be a far reaching and unwieldy regulation of incomes. Experience has shown, moreover, that these controls, instead of being restricted mainly to retail trade, should be extended to the intermediate steps of distribution, even to establishing the original cost of production. Experience alone should guide us in determining which methods of control offer the most economic and suitable solutions to the problems of distribution of each product.

In our country, as in all others, we are, it is true, faced with conditions difficult to control, tending to raise actual and monetary costs of goods. On the international market goods command higher cash prices, even in those cases where the supply has not been artificially restricted. Moreover freight rates are higher than formerly, longer routes are necessary, crossings require more time, and the perils of navigation have become more serious. To these external factors we must add those internal conditions which tend to slow up productive and financial efforts in the field of non-military requirements, inasmuch as productive capacity, savings, and credit are, to a considerable extent, diverted to other goals.

Under these conditions rationing of essential commodities appears to offer the simplest solution to the problem of guaranteeing sufficient quantities for their vital needs to less prosperous citizens, at fair prices. Accordingly as we have seen, both belligerent and non-belligerent countries have widely applied systems of rationing.

The trend to higher prices may be traced not only to increased demand and diminished supply, but also to preferential prices authorized by the State to certain groups of producers. Though a comparison with costs may justify specific increases, these tend to spread since the cost of each commodity is largely determined by prices paid to other producers, as well as by wages which must also be constantly kept in line with the general price level. If these increases become general, advantages previously enjoyed by certain groups are wiped out, and the purchasing power of money diminishes.

It follows that the acceptance of sacrifices by certain groups of producers may lead to final results not substantially different for themselves from those that would be reached if all were to seek special advantages. But, from the viewpoint of national economy, results so achieved are more to be desired as they are also in line with the more important national goal of maintaining monetary stability which is the prime essential for the protection of all who live by their work or their savings.

These considerations lead up to an examination of the financial aspect of problems already mentioned. There is, no doubt, a degree of truth in the claim that public expenditures stimulate new employment and create incomes which, in turn, contribute to national revenues. Just such a condition has existed in Italy from 1935 on, and may continue up to the point where all existing means of production are fully utilized. The effect of public expenditures upon prices is indicative of the proximity of such a point, which however is constantly shifting, not so much as a direct result of the expenditures, but as a result of increased working population, and of technological progress related to the adopted policy of revaluing our national assets, both men and natural resources.

In any event it is an effect which comes about gradually so that unexpected needs for expenses must be met through exceptional expedients,

even by recourse to the Bank of Issue if necessary. The readiness with which prices respond to the volume of currency released upon the market presents difficulties to the recontraction of the larger volume of money in circulation as a result of such conditions. This situation arose in our country last year although its development was limited by the substantial growth of Italian savings, and by the ready faith with which they were invested in government securities. The exceptional factors previously mentioned, i.e. the increase in actual and monetary costs, have, on the other hand, been a factor in the expansion of currency in circulation as required for trade.

Credit, too, has been generously extended to business at rates practically unchanged. The growth of total outstanding credits demonstrates that the development of sound enterprises finds active cooperation in our banking system through prompt and adequate financial assistance.

We shall, in this report, present a more detailed analysis of the conditions and trends which we have thus far touched upon. Taken as a whole they present a picture of a great country which is meeting and solving problems resulting from its rapid growth, and which is exerting its power to protect its own interests and to assure justice among the people of the world.

In 1939 the trend of our foreign trade showed substantial additional progress toward bringing about a balance between exports and imports, which is one of the basic pillars of fascist economic policy. Tentative figures show that our exports (excluding those to the Empire, to the Libyan provinces and to our Aegean possessions) have risen uninterruptedly since the time of sanctions, to an even higher level, reaching nearly 8.5 billion lire, and that our imports, again substantially reduced, fell to approximately 10 billion lire. These counter movements have resulted in a substantial reduction of the commercial deficit, which was almost halved compared to the preceding year. This approach to a balance achieved in our foreign trade is vividly illustrated by the ratio between the volume of exports and that of imports. This high level of 84.4 per cent has not been reached during the present century of Italian economic history, save only in 1931 as a result of the exceptional reaction during the first months of the world depression.

Even though the improvement is largely due to a contraction of foreign purchases we need only touch upon the far-reaching significance, in a year of highly critical international relations, of the growth of our sales, modest as it was. The betterment of our exports, which occurred during two consecutive years of progressively deteriorating world conditions, clearly reflects the persistent effort of the producers and exporters in our country, stimulated and directed by the supervisory authorities. (1)

The value of exports, expressed in lire of current parity, attained the highest total since 1931. These exports exceed by a large margin their 1934 total, even from the standpoint of physical volume, disregarding the concurrent increase in prices. The smaller total of imports is due, not only to a shrinkage in volume of purchases, but also to a lower price level during the year. A certain downward trend was also apparent in the price level of our exports.

(1) By Royal Decree No. 1908 of December 22, 1939 XVIII a new department was added to the Ministry of Foreign Trade and Exchange for the purpose of supervising exports. The Ministry of Foreign Trade and Exchange, accordingly, includes the following five departments: (1) Agency for supervision of customs duties, general business and personnel; (2) Agency for supervision of foreign trade treaties and commercial agreements; (3) Agency for supervision of foreign exchange; (4) Agency for supervision of imports; and (5) Agency for supervision of exports.

We should mention here that the improvement in our trade balances is primarily due to the favorable trend in the first months of 1939, before it became necessary to speed up to the import of essential commodities required for the defense of our country as a result of the progressively more serious international situation. As to the final bearing of the smaller deficit of the balance of trade upon our international balance of payments, we must not lose sight of the fact that certain invisible credit items, particularly tourist expenditures, were sharply curtailed as a result of the outbreak of war.

Two factors appear outstanding in a qualitative analysis of our trade balances; in our imports — an interruption in the progressive reduction of the value of food-stuff imports due entirely to the need for supplementing our own production of certain cereal crops; and in our exports — a continued increase of manufactured and semi-manufactured products, which, during the past year, reached a total of 3/5 of our entire exports.

A further study of our chief imports shows a generally lower price level for raw materials and semi-manufactured goods. In many cases the decline in lire value of imports resulted from a corresponding decline in the physical volume. However, even in many categories where imports have actually increased in volume, lowered prices have reflected a total lire value showing a decrease, or at least an increase proportionately lower than the physical increase. Reflecting the progressive autarchic progress of our productive economy toward continuously reducing our foreign dependency, a sharp decline was apparent in imports of manufactured goods, particularly in those mechanical products which comprised the most important group of our purchases abroad. Finally there was a general reduction in imports of nearly every product in the field of foodstuffs.

Exports of agricultural products declined slightly resulting from lower prices rather than lower volume. Exports of textile products remained substantially unchanged, a decline in cotton and wool products being offset by an increase in synthetic fibers. The generally increased exports in the minor industrial groups of machinery, chemical products and artistic novelties are to be particularly stressed as their more widespread use signifies a higher appraisal by foreign markets of Italian craftsmanship.

In analyzing our foreign trade it is superfluous to stress that the exceptional political developments last year, culminating in the September conflict, resulted, perforce, in an immediate unfavorable reaction. Our exporters and commercial authorities deserve full credit for having promptly met the new situation with renewed energy, developing a promising recovery of our trade with the Danubian and Balkan countries, as well as with the Mediterranean countries, the neutral countries of Central and Northern Europe, and with the Americas. Important trade agreements were completed with the Danubian and Balkan countries.

During the year many comprehensive and extensive measures were adopted to enforce regulations governing monetary matters.

To encourage the transfer to Italy of savings by emigrants and by those permanently returning to the home country, the National Institute of Exchange was authorized by Decree No. 764 of May 15, 1939 XVII to allow a premium, for account of the Italian Treasury, to those foreign exchange balances transferred to Italy or to her colonies. The beneficial rate is authorized on unlimited amounts in the case of citizens re-establishing permanent residence in Italy, and on restricted amounts, determined by the

National Institute of Exchange, in the case of transfers through orders of payment or bank drafts representing remittances to Italy from Italian citizens or those of Italian origin residing in foreign countries (1)—if deemed advisable by the Ministers of Finance and Exchange—in favor of Italian citizens living in Italy or her colonies, as well as Welfare, Education, and similar organizations in Italy or her possessions. Subject to the approval of the Minister of Finance, the beneficial rate is fixed by the Institute on the basis of the official exchange rate quoted on the Rome market. Italian balances resulting from this special rate cannot be used for merchandise or services, for the repayment of debts, for deposit accounts in the name of foreigners, nor, finally, for credits in favor of foreigners.

The Ministerial Decree of March 3, 1939 XVII provides that mortgage credit institutions shall advise the National Institute of Exchange, and upon its request, shall transfer to the Institute those credits originating from mortgage loans contracted in or converted into lire, in those cases where the mortgagee has either established residence abroad, or has been succeeded by a person living abroad. These advices are to be cleared through the Banca d'Italia which must also be kept informed of subsequent changes or developments affecting such credits.

Citizens, corporations, partnerships, and all other organizations who failed to comply with the laws requiring declaration and surrender of foreign credits, foreign securities, and Italian securities issued abroad, may, by Royal Decree Law No. 1915 of December 14, 1939 XVIII, escape penalties of fines or other punishment, provided that they meet these requirements within 60 days after the effective date of the decree, i.e., by February 28, 1940 XVIII.

The Law of November 27, 1939 XVIII, No. 1890 provides that the functions vested in the National Institute of Exchange in connection with the compulsory surrender of foreign securities and Italian bonds issued abroad shall, effective December 27th, be carried out for its own account and benefit instead of for the account and benefit of the Treasury. (2)

A decree of the Minister of Foreign Trade and Exchange dated October 30, 1939 XVIII revised the regulations controlling the import and export of Italian bank notes and other lire securities. The maximum amount of Italian currency which may be taken out by those leaving Italy, its possessions and territories in Italian Africa, or taken in by those returning from abroad — previously fixed at 300 lire in government or bank notes together with 50 lire in coins — was reduced to 200 lire in government notes and to 50 lire in coins. (3)

(1) See Decree No. 1882 of November 23, 1939. XVIII.

(2) This law is intended to expedite the closing out of assignments still pending.

(3) Both Italian and foreign travelers are subject to the same restrictions at the time of their entry into, and departure from Italy, her possessions and territories of Italian Africa; the same ruling applies to persons traveling between Italy and her possessions and territories of Italian Africa. A subsequent ruling provides that there is no limit on the Italian money that persons can carry when they travel between Italy and Libya on board Italian liners and planes, when the trip is made without any stops at foreign ports.

No restrictions are applicable to funds transferred by mail in either direction between Italy and its possessions and territories of Italian Africa and Albania by means of: money orders, bank checks, cashier's checks and checks drawn on Postal current accounts, bills of exchange, drafts, and other instruments of payment in Italian lire or Albanian francs. Nor are restrictions applicable to funds transferred in any manner if in the form of money orders, cashier's checks, or bank checks, drawn in Italian lire or Albanian francs, and bearing the stamp "not transferable".

Decree No. 1097 of July 28, 1939 XVII formulates new penal measures with reference to trading in foreign exchange and gold, setting up heavier punishment (1) for fraudulent infractions of the pertinent regulations. (2)

A Ministerial Decree of December 28, 1939 XVIII provides that, effective January 1, 1940 XVIII all imports formerly directly authorized by the Customs officials on the basis of 1934 imports, will thereafter be subject to license regulations (import permits).

Finally, appropriate measures, which we shall discuss later, were taken to adjust problems arising as a result of the union of Italy with Albania under the Crown of the House of Savoy.

During the first eight months of 1939 the lira rate in New York held fast at its gold parity of \$5.2631 per 100 lire. Subsequently conditions resulting from the outbreak of the European war made a moderate adjustment advisable, our currency now being pegged at 19.80 to the dollar, or \$5.05 per 100 lire.

Lira Rates

This rate has held firm, to date, and accordingly depreciations in other currencies, as for example the English and French, in terms of gold, were immediately reflected by proportionate depreciations with respect to the lira.

Our last crop year, like the preceding one, did not enjoy the benefits of favorable weather conditions. The fact that our crops have, on the whole, been satisfactory and adequate to meet our national requirements is therefore a credit to our farmers, and to our constantly improving agricultural technique.

Agriculture

The wheat crop which was expected to be favorable as a result of increased acreage and early favorable weather conditions, was recently somewhat blighted by their adverse change. The yield, however, may be considered good, being the third consecutive harvest to reach a total approximating 80 million quintals.

Other cereal crops were generally lower than those of recent years.

The potato crop declined while the bean crop and that of the fava bean seed increased.

This year's sugar beet production showed an increase over the poor crops of 1937 and 1938. The growth is a result of increased acreage, however, rather than of greater yield per acre.

The grape crop was abundant although in certain districts its quality was not up to standard. To keep wine production consistent with consump-

(1) Royal Decree Law No. 1928 of December 5, 1938 XVII among other things had imposed penalties of fines up to five times the sum involved. See abridged translation of the 1938 report, page 14, for further details.

(2) Whoever fraudulently trades in, removes, or secretes any evidences of payments abroad — thus endangering the National economy — or does anything else tending to depress the value of the National currency abroad, commits a crime against the State, and will therefore be tried before the Special Tribunal for the Defense of the State.

Exceptions include cases where the amount involved is not more than ten thousand lire, and in which there are extenuating circumstances which may be taken into consideration. The latter cases are subject to penalties imposed by the Minister of Foreign Trade and Exchange, according to existing regulations.

tion, measures were adopted stipulating that 20 per cent of newly produced wines must be diverted to the distillation of alcohol.

In contrast to the low yield of the preceding year, the olive crop was especially prolific, reaching the high level of 1937. Accordingly olive oil production promises to be abundant.

The fruit crop was generally bountiful. The almond crop, however, fell conspicuously short of its past six year average, yielding only about one third of last year's exceptionally high production. Copious vegetable yields were gratifying, their abundant production, in fact, allowing an increased surplus for export.

The breeding of live-stock continued to progress favorably with a general increase in the number of cattle. The fodder crops were sufficient to meet our needs; the home market was regulated by a proper distribution of purchases abroad, thus keeping prices at a level which would still allow a profit.

Production of Italian agriculture during the past year was, as a whole, satisfactory, rising to a total value of at least 40 billion lire. The success is due to the agricultural policy which the Regime has fostered for many years, through numerous measures, institutions, and financial assistance. Thanks to the guidance and diligent cooperation of our regional inspection bureaus, our agriculture is achieving continuous progress. The Bureaus foster deeper tillage of the soil, proper timing of planting, abundant fertilization, the use of selected varieties and seeds, and soil reclamation through crop rotation. These all contribute to offset the effects of unfavorable weather conditions, and to stabilize production, thereby benefitting both the farmers and the national economy.

The basic regulation of production and distribution of agricultural products — initiated by the law of 1938 providing for consolidation of all provincial agricultural agencies — went into effect progressively during the past year. Associations of agricultural producers commenced activities with a dual purpose; first, to produce crops in conformity with the autarchic goals established by governmental agencies; and second, to develop the policy of "pooling", since they bear the responsibility for disposing of the crops subject to that type of control. These regulations were also extended to other products, eliminating speculation in those crops most essential, not only for their monetary value, but also because they comprise the leading agricultural products. The fixing of profitable price levels for crops, together with the guarantee that such prices will be maintained for future harvests, provide the greatest incentive for expanding and intensifying agricultural production, an achievement which is essential to insure satisfying the country's food requirements. At the same time price fixing of agricultural products helps to increase the purchasing power of the farm population.

The need for expanding agricultural production to a volume assuring self sufficiency has led to the inauguration of new efforts in land reclamation and soil improvement. These projects require a large capital investment. A current aim of the Regime's land reclamation project is the subdivision of expansive estates into small ones owned by the farmers. The measures adopted have as their goal not only the construction of public works completely or partly financed by the State, but also the setting up of an operating organization authorized to expropriate unwilling estate-owners, assigning the farms to farmer-settlers who will acquire ownership of the properties

through certain labor agreements. Among the projects being developed along these lines, the principal ones are the Tavoliere di Puglia (1), Volturmo (2), and most important of all, the vast Sicilian estates. The first two have been entrusted to the National War Veterans' Organization which, in addition to receiving specific subsidies, is taking advantage of further State aid authorized by the land reclamation act. (3)

As for the vast Sicilian Estates, the Government appropriated one billion lire and set up an administrative agency. (4) This agency, responsible for the supervision of the contractual obligations of the landowners to reclaim the land, has the right to replace the latter should they fail to live up to the terms of their agreements. It is expected that the costs of land reclamation will be divided about equally between the landowners and the State. Before leaving the subject of land reclamation we must mention the financing of irrigation works, and of the construction of rural aqueducts, for which one billion lire has been appropriated.

A remarkable and almost uninterrupted growth characterized Italian industrial activity during 1939. The results achieved surpassed not only the high level of the two preceding years, but also the high point of the worldwide prosperity of ten years ago. The general index of production, as calculated by the Ministry of Guilds, accordingly shows an increase of 14 per cent over last year's average.

Industry

Concurrent with this improvement there was also an increase in employment. This year's average of number of employees, as well as of total work hours, tops last year's figure. In fact a new high for the past decade was reached.

The composite industrial average reflected a universally similar high activity in the divers branches of industry, although, of course, in varying degrees.

Production in the textile industry averaged slightly above the 1938 output. The present trend is strong, however, as a slackening during the first months of the year was followed by a sharp pickup.

The steel industry, on the whole, continued at the high level of production achieved in 1938. An increase during the first half of the year was offset by subsequent slightly lower activity.

The engineering industries showed substantial and sustained progress.

Continued improvement is reported in the mining industry with its products so essential to self-sufficiency: coal, iron ore, zinc, lead and anti-

(1) This project was launched on January 30, 1939 XVII. The first farms totaling 10,500 hectares were assigned September 24, 1939 XVII.

(2) This project was launched April 2, 1939 XVII. The first farms were assigned November 25, 1939 XVIII.

(3) 120 millions divided into eight annual allotments commencing in 1938-39. In addition decree No. 2017 of November 30, 1939 XVIII provides subsidies for rural centers in the regions of Tavoliere di Puglia and Volturmo.

(4) The Duce, on July 20, 1939 XVII, gave instructions regarding the plan to be followed in the settlement of the Sicilian estates. Decree No. 1 of January 2, 1940 XVIII, on this subject, authorized a State contribution of one billion lire (400 millions for public works, and 600 millions for grants in aid to the contracting landowners) divided into ten annual allotments, and also set up the administrative agency mentioned above authorized to negotiate mortgage loans up to 400 million lire from the Bank of Sicily or other banks.

mony. The chemical industry also showed an outstanding increase which more than offset the decline during part of the preceding year.

The general rise in industrial production was, of course, reflected in the output of electricity, heat, and light. Hydro-electric power production, which suffered a temporary setback in 1938, has now resumed its upward trend which has been evident for many years.

The building industry is making definite progress, particularly in private construction work, although its growth in connection with public works has developed at a slower pace.

The output of the paper industry was also greater.

As the Supreme Autarchic Commission stressed at its last meeting, the general growth of Italian industry is mainly due to the accelerated achievement of autarchic plans.

Together with more intensive development of mining operations, especially in the coal districts, autarchic plans were further extended in the metallurgic industries. (1) Production of aluminum and zinc, among other metals, has so successfully caught up with our national consumption, that further increases in their production will be available to replace other metals which are now being imported.

In electric power, too, the construction of new hydro-electric plants was considerably speeded up. The completion of these, together with others to be ready by 1942 will assure an annual output of 21 billion kilowatts. (2)

In the production of cellulose, a well balanced exploitation of our plant fibers is now being developed through the construction of many processing plants, all soon to be completed. This step toward self sufficiency will assure a sufficiently large 1940 production to cover the total cellulose requirements of the paper industry.

It should be noted that, together with increased production of textiles woven with plant fibers, there has been a simultaneous growth in the output of synthetic fibers which are being more widely used in conjunction with cotton, wool and jute.

The search for natural gas was extended and developed to help meet our fuel demands. Plants for refining mineral oil and for producing synthetic motor fuels are being enlarged.

The Interministerial Committee for Self Sufficiency has directed its efforts toward analyzing and solving the many problems which arise in carrying out our autarchic plans. Its deliberations have already included questions concerning coal and oil, iron ore, light metals, synthetic rubber, textile fibers, optical glass, and sulphur. Many of its decisions have already been carried out.

(1) The capital increase of "Finsider" — an organization for financing metallurgic projects—from 900 to 1,800 million lire is traceable to the gigantic projects now being constructed by the following organizations under its control: Ilva, Terni, Dalmine and S.E.A.C.

(2) 1942 will see 80 new hydro-electric plants finished and five old plants modernized assuring an additional power output of 950,000 kilowatts. Of this total, 640,000 will be generated in Northern Italy, and 310,000 in Central and Southern Italy and the Islands.

During 1939 authorizations for new industrial plants were carefully restricted. (1)

National index figures compiled by the Central Institute of Statistics show wholesale prices during the first seven months of 1939 to have been relatively stable at the 1938 year end level. A progressive rise during the last five months, however, brought the December level to a figure nearly 8 per cent above that average. On the basis of 1928 figures the 1939 average index number was 99.4, an increase of 4.3 per cent over 1938, and of 29 per cent over September 1936 immediately preceding the realignment of the lira.

Price Levels an
Cost of Living

It is obvious that international political developments played an important part in bringing about this increase. We need only mention the added difficulties in getting provisions, the greater demands of national defense industries, the speeding up of advance orders for supplies, and the mounting costs of marine transportation. It is noteworthy, however, to the great credit of our controlling authorities, that the rise in prices in Italy was notably less than that in most other industrial European countries, even including neutrals and non-belligerents. Data submitted by the Ministry of Guilds to the Central Guild Committee shows a rise of 14 per cent in wholesale prices from August 1939 to February 1940.

In the general merchandise field, prices of raw materials and semi-finished products rose higher than average. Among commodities, lumber, fuel and mineral oil prices showed the greatest increases.

Retail prices of staples, following relative stability up to July, rose sharply thereafter, since the rise in wholesale prices was supplemented by additional factors such as increased prices authorized by the Guilds covering many agricultural and industrial products, and, more recently, increased railroad rates. (2) The Ministry of Guilds reports that the cost of living rose between 17 and 18 per cent from March 1939 to March 1940.

Under the control of the Ministry of Guilds, and other Guild organizations, price fixing, having become much more complex than in prior years, was further extended and more stringently enforced. To enhance the benefits of price fixing by extending it to those prices regulated by various public administrative groups within their respective fields, a committee was set up within the Ministry of Guilds to coordinate the control of internal prices. (3)

Guided by the conclusions reached during the first months of 1940 by the Guilds and by the Coordinating Committee, the Central Corporative Committee on March 9th formulated the Italian price policy by forbidding any change prior to July 31st in prices of several basic commodities, particularly staples, and by approving increases in other prices. At the same time they also authorized wage increases running between 10 and 15 per cent. The con-

(1) The Guilds acted upon 1,581 applications, approving 993, rejecting 357, and withholding decision upon the balance pending further investigation.

(2) Effective January 1, 1940 XVIII freight rates on the State Railways were increased about 14 per cent. Passenger rates were increased about 20 per cent on January 1, 1939 XVII. On March 9 the Central Corporative Committee authorized the independent transportation systems to raise their rates 15 per cent.

(3) The Minister of Guilds presides over the Committee for Coordinating Prices. It is composed of the Ministers of Agriculture and Forestry, Public Works, Communications, Foreign Trade and Exchange, the Commissioner General for War Manufactures, the Presidents of the Confederations of employers, and of industrial, farm, and commercial employees. The Committee commenced functioning on January 13, 1940 XVIII.

current wage increase and stabilization of basic prices provide the most satisfactory balance which can be reached under present conditions.

Wages and
Consumption

During 1939 the index of average hourly wages in Italy, as estimated by the Central Institute of Statistics, continued the upward trend which became evident during the second half of 1935. The index for the first ten months of the year averaged about 10 per cent above the corresponding period of 1938. This is an increase of about 30 per cent compared to 1936 and exceeds the rise in the index of wholesale prices during the same period, although it is slightly lower than the rise in the index of the cost of living. But, if this reflects a certain reduction in hourly real wages to the individual worker, it must not be lost sight of that, in recent years, the greater expansion, intensity, and stability of employment as a result of speeding up of production, together with the progressive extension of legislation on behalf of social insurance (1) and general welfare, have contributed to sustain the comprehensive real wages of the Italian laboring class.

In connection with the increased cost of living a general revision of salaries, effective March 23, 1939 XVII provided increases ranging from 6 to 10 per cent. Together with stabilizing basic prices, the Central Guild Committee granted an additional 10 to 15 per cent wage and salary increase, effective March 25, 1940 XVIII.

The situation is also satisfactory as regards the real income in terms of the industrial and agricultural commodities available for consumption.

As to industrial commodities, as an offset to the restrictions on certain imports as a result of our self-sufficiency needs, we must point out the substantial increases, already mentioned, in autarchic production, particularly in home-grown textile fibers, coal, chemical products, cellulose, and electric power.

As to agricultural products, the favorable trend of the crop-year produced crops of the principal foodstuffs (wheat, corn, rice, and meats) which either exceeded or at least equaled those of the previous year. As for fats, occasional excess of demand over supply can be adequately compensated, thanks to the abundant production of olive oil.

The regulations adopted at the beginning of last September so that the internal market would not be upset by international events, must be considered as precautionary measures rather than as measures for restricting consumption. They represent a partial application of the program set up quite some time ago for the disciplined control of markets. (2). Concurrently

(1) Of all the regulations adopted in this field during 1939 the most important was Royal Decree Law No. 636 of April 14, 1939 XVII later amended to become Law No. 1272 of July 6, 1939 XVII. This law constitutes a basic reorganization of the system of compulsory insurance by substituting the principle of family protection for that of individual protection, and by considerably amplifying the system of mutual insurance. Collective labor agreements were concluded by the Confederations of Workers and Employers—in the fields of industry, commerce, credit and insurance, and agriculture—providing for the extension and increase of the system of family subsidies.

(2) In conformity with the underlying law No. 969 of June 8, 1925 III regarding the organization of the country for war, Royal Decree No. 674 of March 13, 1933 XI provided for setting up a skeleton organization ready to control all foodstuffs, and to take whatever steps might be necessary to ensure food supplies, in time of war. In addition Royal Decree Law No. 2419 of December 19, 1935 XIV prescribed regulations to control food consumption, and authorized the relative Ministers to suspend in whole or in part, by their own decrees, existing pertinent laws, and to issue regulations for the temporary

other regulations were issued to guarantee a fair distribution of foodstuffs. (3). Until now, however, rationing has been applied to only two commodities, coffee and sugar, the consumption of which is quite flexible, concerning mainly the more prosperous classes.

Increased productive activity, as we have mentioned, continued during 1939 to encourage capital investments in Joint Stock Companies. During the year 2,966 additional companies were organized, representing the investment of 500 million lire. Moreover capital increases totaled 4.3 billions bringing the total of new money invested to 4.8 billions.

Joint Stock
Companies.

Capital increases representing newly issued stock totaled 3.8 billions; stock dividends declared totaled 200 millions; and capital increases through mergers totaled 300 millions. These totals represent a substantial shrinkage as compared with the exceptionally high increases during 1938 as a result of the Capital Stock tax. The 1939 increases, however, were higher in comparison with preceding years.

Capital decreases totaled 1.7 billions, 0.7 billions as a result of dissolutions, and 1.0 billion as a result of decreases in capitalization. Accordingly the net capital increase totaled 3.1 billions.

In the aggregate Italian stock companies operating at the end of 1939 numbered 22,505 with a total capitalization of 56.3 billion lire.

Considering the companies by their capitalization it appears that the increase is common in all groups except those capitalized between 250 and 500 millions. Numerically a large increase was registered by the small companies (capitalized up to a million lire). The large companies, on the other hand, in general show a reduction, ascribable to numerous dissolutions. In

control of all foodstuffs. Such discretionary power was never exercised, however, except, of course, in the case of meat consumption.

On the day war was declared, September 3, 1939 XVII, Royal Decree Law No. 1337 established penalties for hoarding, cornering, or concealing goods or merchandise, as well as for their removal from normal trade channels.

Royal Decree Law No. 2222 of December 18, 1939 XVIII set up one new department, under the Ministry of Agriculture and Forestry, to supervise the production of food supplies for both civilian and army requirements during the period of the war, and another new department, under the Ministry of Guilds, to supervise the distribution and marketing of foodstuffs. An agency to coordinate the needs of these two services was also established. Royal Decree No. 674 of March 13, 1933 XI was suspended during the life of the new Decree.

(3) Royal Decree Law No. 1571 of September 14, 1939 XVII set up regulations to control trade in foodstuffs, mainly limiting the sale and distribution of meat products.

Regulations instituted by the Minister of Finance, effective September 1st, prohibited the sale of coffee to private consumers. Later in September an accurate family census was taken in preparation for eventual rationing. During January 1940 ration cards were distributed. In February the sale of coffee was reauthorized on a rationed basis—50 grams a month per person. At the same time, however, sugar was also subjected to rationing—500 grams a month per person. Finally, on January 22nd, the Council of Ministers approved a regulation delegating to the Minister of Guilds the power to introduce rationing measures.

Other regulations were adopted to reduce gasoline consumption, first by restricting the use of motor vehicles, and secondly by limiting consumption.

Similar regulations were applied to limit the consumption of imported fuels, as well as of iron and copper.

Appropriate organizations were set up as distribution centers for rationed commodities, acting as intermediaries between the wholesalers and the retailers.

total capitalization, however, the resultant increase is accounted for by the large number of mergers, and by the numerous increases in capitalization. (1)

Financial Markets

The financial market showed little activity during the first eight months of the year. In the latter months, however, a sharp recovery, especially in stocks, was the rule. The speeding up of industry, the promising forecast of the growth of our shipping and our trade with other countries contributed greatly to produce this recovery.

Turnover on the Italian exchanges exceeded that of last year. The increased activity was restricted to stocks, especially to financial, textile, mineral, steel, machinery, and electric stocks. Fixed income securities were increasingly less active, continuing the trend of recent years which became more pronounced during 1938 and 1939.

Average stock prices during the first four months of 1939 hovered about the 1938 average. Commencing in May an upward swing developed, becoming sharper during the last quarter of the year, and reaching a level at the year end about 40 per cent above that of December 1938. Such wide fluctuations during a single year may be found only in 1924 when quotations rose 52 per cent, reaching the highest level during the past 30 years. Just the reverse occurred in 1931 when quotations declined 35 per cent. The following stocks showed the greatest percentages of increase, listed in sequence commencing with the highest: shipping, textile, minerals, machinery, electricity, sugar, and financial stocks. In inverse ratio to prices, stock yields declined to about 4 per cent, with yields of pivotal stocks, benefitting by larger increases in value, declining to about 2 per cent.

During the first half of the year government bonds declined. This was subsequently followed by a rise which was greater in the case of callable bonds.

The advisability of limiting speculative movements rising as well as falling, led to the adoption of suitable measures. As a first step, effective September first, the requirement of an initial cash deposit of 25 per cent was extended to sales of government bonds for future delivery. Subsequently, Decree No. 1913 of December 4, 1939 XVIII empowered the Finance Minister to stipulate that operations for future delivery may be effected only upon deposit of the securities, or upon a cash payment whose ratio may be variously fixed from time to time, and also within time limits which may be variously fixed according to market conditions. Clearings of securities of the same type held in short and long positions are excepted. Under the new law contracts performed without the prescribed deposit by either the purchaser or the seller will be invalid. In transactions where only one of the parties makes a deposit, he may demand either the cancellation or the fulfillment of the contract. The Minister has not, as yet, exercised his authority to revise the amount of the initial cash deposit which remains unchanged at 25 per cent.

(1) Decree No. 938 of June 22, 1939 XVII extended to June 30, 1940 XVIII the provisions of Royal Decree Law No. 1613 of September 5, 1935 XIII requiring governmental authorization for establishing new companies, for increasing capital, and for issuing bonds totaling more than a million lire.

Regulations authorizing mergers and capital increases through issuance of preferred stock expired December 31, 1939 XVIII. The Council of Ministers, by their action of January 22, 1940 XVIII extended these provisions to the effective date of the new commercial codes designed to coordinate such matters.

During 1939 flotation of fixed income securities was less active than that of stocks.

Mortgage bond issues totaled 425 millions. The market for these securities will benefit by the provision, now being enacted, which will exempt interest on mortgage bonds from the 10 per cent tax levied on the income of bearer securities. This is being approved as a result of many requests by the Mortgage Credit Institutions, and in consideration of the additional burden resulting from the levying of the ordinary tax on invested capital.

The authorization to float new bonds was limited to institutions collecting intermediate and long term savings, that were empowered to issue bonds in excess of a half billion lire. (1) In addition, the second half of the Casa Littoria Loan of 62.5 millions was marketed in April.

As already mentioned there was greater activity in the placement of new stock issues. The largest of these was that of the Societa' Finanziaria Siderurgica (Metallurgic Finance Company), increasing its capital from 900 millions to 1,800 millions. Subscription rights for the new shares accrued to stockholders, and to bondholders of IRI-Ferro who took up 820 millions leaving only 14 per cent of the increase to be underwritten by the Institute for Industrial Reconstruction. The Societa' Meridionale di Elettricita' financing was particularly outstanding. In addition to the 200 million installment subscribed for during 1938, but for which payments were not called until 1939, this company further increased its capital from 1,000 millions to 1,125 millions. Other substantial increases totaling 1,105 millions were registered in the capitalization of the following companies: Strade Ferrate Meridionali, Snia Viscosa, Alfa Romeo, Azienda Nazionale Idrogenazione Combustibili, Azienda Generale Italiana Petroli and Azienda Carboni Italiani.

In addition to the new financing of these outstanding companies, many smaller and less important companies also raised additional capital, and in fact, still seem to be doing so, in spite of the retarding influence of the large issue of nine year Treasury Bonds.

Last month the Government, after having redeemed, through regular Treasury channels, early in January, the first and second National Loans totaling 250 millions, issued a new series of nine year Treasury 5% Premium Bonds at 97½, with present and future tax-exemption for all interest and premiums. New bonds were issued not only for cash, but also for any of the following items: (1) Nine Year Treasury Bonds of May 15, 1940; (2) Third National Loan Bonds of January 1, 1941; and (3) Current coupons of the following bonds: (a) Nine Year Treasury Bonds of 1941, 1943 and 1944; (b) 3½% and 5% State Rentes and (c) 3½% and 5% Redeemable Loans. Of the 8.2 billion lire tendered, 6.2 billions consisted of Treasury Bonds and those of the Third National Loan, and 2 billions of premiums and maturing coupons.

A syndicate, headed by the Banca d'Italia, and including nearly all credit institutions and the leading insurance companies, handled the placement of these securities. The favorable conditions under which the bonds were issued, together with the foresight of the public, assured the outstanding success of the offering. Added assistance given subscribers also aided to assure the favorable result. Among the particularly important forms of cooperation offered subscribers were the action of the Banca d'Italia in ex-

(1) that is: Istituto Mobiliare, 200 millions; Credit Institute for Public Utilities, 120 millions; Institute for Naval Credit, 100 millions; Credit Consortium for Public Works, 100 millions.

tending advances up to 82½% of the face value of the bonds, and that of several insurance companies which set up a new type of life insurance tied in with bond subscriptions.

Deposits in credit institutions and in Postal Savings continued to mount, although with no uniform trend throughout the year. Degrees of growth varied among the various types of deposits, with ratios differing from those of recent years.

During the first half of the year deposits stood relatively still, while during the latter half they showed a gradual increase, interrupted by net withdrawals in August and September. The rise was evident in all types of institutions, although small in the case of savings banks and institutions dealing in chattel loans. Among the latter net cash withdrawals of 8 millions were offset by an increase of 133 millions in correspondents' accounts.

Figures published by the Inspectorate for the Defense of Savings and for the Granting of Credit Facilities covering institutions having deposits in excess of 5 millions, and by the Postmaster General, show that, at the close of 1939 (1) deposits totaled 97,165 millions against 88,908 millions in December 1938, an increase of 8,257 millions. Credit Institutions contributed 6,846 millions to this increase, 2,452 in deposits, and 4,394 in correspondents' accounts. The balance of 1,411 came from Postal Savings, resulting from a 1,952 million increase in Post Office Savings Certificates offset by a decrease of 541 in Postal Savings Deposit Accounts.

During the last three years the annual growth of deposits has averaged 6.5 billions, about evenly divided between the credit institutions and the Postal Savings. Actually the credit institutions' increase averaged 2.2 billions in deposits and 1.2 billions in correspondents' accounts, with an average increase of 3.1 billions for Postal Savings. On this basis the 1939 growth of bank and postal deposits was moderate compared with the three year period, whereas the increase in correspondents' deposits was more than triple the three year average.

Several factors contribute to the exceptional increase in correspondents' deposits, the most important of which include: newly issued securities placed on the market; higher prices and the concurrent need for a larger volume of currency in circulation; and, especially important, the significant speeding up of national economic activity.

The growth of deposits in credit institutions was reflected in increased security holdings and in larger credit commitments.

The par value of their securities, held in portfolio or with others, increased from 23.1 billions at the end of 1938 to 24.3 at the end of 1939, the increase of 1.2 billions representing almost exclusively greater investments in government bonds.

Commitments in credit operations by institutions accepting short term savings, totaling 32.3 billions on June 30, 1938 increased to 34.5 billions on June 30, 1939, an increase of 7 per cent.

Total credits outstanding on June 30, 1939 included: 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

(1) Deposits on December 31, 1939 totaled 93,262 millions against 85,923 millions the previous year. These figures exclude reciprocal accounts and correspondents' deposits.

Savings and
Credit

Investments
of Credit
Institutions

works and land reclamation works; 3.9 billions for private concerns; 3.3 billions for conservation activities, trade, and processing of cereals and other foodstuffs; 3.0 billions for agriculture; 3.4 billions for iron and steel, metallurgical and mechanical industries; 2.4 billions for textile and clothing industries; and 5.9 billions for other miscellaneous items. From August 1936, when the statement was first published, to June 1939 credit commitments of this group of institutions increased 7.4 billions, a growth of 27 per cent.

These credits, as of June 1939, would reach a total of 46.1 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, an increase of 7.5 per cent during the year. Categorically these credits include: 8.7 billions for industry, real estate, public works, and land reclamation; 7.1 billions for agriculture; 3.6 billions for conservation, trade and processing of foodstuffs; 4.5 billions for iron, metallurgic and mechanical industries; and 2.7 billions for textile and clothing industries.

Comparing these figures with those of prior years we find a gradual amortization of the debt assumed by owners of real estate when bonds were issued for the Real Estate Redeemable Loan. Advances by credit institutions to subscribers, which totaled 816 millions at the end of 1938, were reduced to 386 millions by the end of 1939, a reduction of 430 millions. Of these totals, direct advances by the Banca d'Italia amounted to 117 millions at the end of 1938 and 35 millions in 1939, leaving the balances extended by the banks totaling 699 millions at the end of 1938 and 351 millions the following year. Advances for the Real Estate Loan granted by the Banca d'Italia directly to subscribers and to insurance companies totaled 1,013 and 765 millions respectively on the same dates.

Particularly notable is the increase in financial assistance extended to agriculture, due mainly to the more widely applied system of collective marketing. The Banca d'Italia assists the seasonal needs by rediscounting this type of loan.

During the last wheat harvest the excess of the advances to farmers by the pooling associations over the amounts received by them through their sales to the flour mills, reached a peak in mid September of 3,503 millions, which had contracted to 2,703 millions by the end of the year. The cooperation of the Banca d'Italia to cover this excess is evidenced by its rediscounts of these bills which on October 20 totaled 2,352 millions and on December 20, 1,698 millions.

The volume of similar bills rediscounted by the Bank, and growing out of other "pooling" operations is becoming more important from year to year. Peak rediscounts last season totaled 93 millions for wool, and 85 millions for cocoons on September 20; and 84 millions for rice on January 20, 1940 XVIII. In addition, rediscounts for corn, hemp, and oil fluctuated between moderate limits.

Through the close cooperation of the Bank with the credit institutions, with a view to meeting the needs of financing the agricultural cycles, agricultural products are being marketed in a manner which guarantees producers prices which will not be affected by the usual price depressants resulting from simultaneous offers of entire crops. The expansion of loans and of money in circulation as a result of "pooling" financing is essentially sea-

sonal and characteristic of a pre-eminently rural economy such as that of our country.

The trend toward increased loans is not limited to agricultural activities, however. A similar increase is evident in most branches of industrial activity. This may be due to a speeding up of activities, particularly evident in those fields which have benefitted through autarchic intensification as well as through the expansion of State projects. On the other hand, it may be due to higher prices, international and internal, which require a larger volume of working capital. The more frequent recourse to ordinary credit institutions by metallurgic, mechanical and naval construction industries has not however exceeded the normal temporary requirements in excess of working capital. Such short term loans, although numerous, are small compared to the total turnover of the companies in this group. These companies are actively engaged on government orders.

In line with the principles of banking reform, the special task of financing industries supplying the Army and Navy has been assigned definitely and exclusively to the Syndicate for Advances against Industrial Securities, an independent Section of the Istituto Mobiliare Italiano.

Activities of institutions extending intermediate and long term credits proceeded normally.

During the year particular attention was paid to the extension of intermediate and long term credits to the smaller industrial companies, as suggested by the Credit and Insurance Guild at its July session, so that their financial needs in connection with modernizing their plants to meet autarchic aims might be suitably and satisfactorily met.

Pending legislation to control such credits, including special privileges and guarantees, the Inspectorate for the Defense of Savings and for the Granting of Credit Facilities authorized credit institutions to grant loans to small industrial companies not in excess of 2 per cent of their outstanding time deposits, that is to say, with ample leeway so that demand deposits would not be backed by intermediate term credits. The Credit Inspectorate issued regulations stipulating that no individual loan may exceed 80,000 lire, nor have a maturity exceeding five years. In addition, all loans must be amortized through convenient installment payments.

The Committee of Ministers re-assigned the responsibility for loans of larger amounts and for longer terms to the Istituto Mobiliare Italiano and to its Independent Section, the Syndicate for Advances against Industrial Securities.

After setting up a separate administration for financing operations involving special risks (1) in connection with autarchic plans, the Istituto Mobiliare Italiano and the Syndicate for Advances adopted measures to extend this assistance to other concerns contributing to strengthening national economic independence. Certain well established institutions, even though not meeting the requirements for these subsidies, should nevertheless be considered as partially qualifying (even though they may fall somewhat short of the complete prerequisites for the regular subsidies). Thus another administration was set up with an adequate reserve to meet eventual losses which might occur through these operations of the Istituto Mobiliare Italiano

(1) In accordance with the provisions of Royal Decree Law No. 1480 of September 5, 1938 XVI.

and the Syndicate for Advances. The reserve fund to be controlled by the Banca d'Italia and invested in government securities comprises 5 millions contributed by the Istituto Mobiliare Italiano and 6.5 millions by the Syndicate for Advances, together with participation by the Banca d'Italia to bring the initial total up to 22 millions.

In connection with special appropriations to speed up the Nation's war industries, the financing of firms contracting for these works and supplies was assigned to the Syndicate for Advances. The Banca d'Italia was authorized to cooperate through rediscounting amounts in excess of the normal limits allowed the Syndicate. At the request of private industrial companies the Syndicate was also authorized to do business not only directly with these companies, but also with an intermediate independent company organized specifically for that purpose—The Industrial Financing Agency. This agency is authorized to acquire the manufacturers' credits due from the State, and to rediscount them with the Syndicate for Advances. This device frees the industrial companies from becoming debtors to the Syndicate thereby making it unnecessary for them to renew their bills every four months.

As an adjunct to the industrial and agricultural autarchic system aiming toward economic independence and greater military power, the Istituto Mobiliare Italiano and the Syndicate for Advances thus achieved striking results last year, making possible the completion of numerous industrial expansion and modernization projects large and small. During the first eleven months of the year the Istituto Mobiliare Italiano granted loans totaling about 420 millions, their total commitments increasing from 1,048 millions on March 31, 1939 to 1,385 millions at the end of February 1940. The Syndicate for Advances approved loans totaling 2,169 millions, including 1,749 millions to companies cooperating in strengthening war preparations, and 420 millions to land reclamation projects in the Tavoliere delle Puglie and in the Volturno region, as well as in underwriting credit certificates covering other reclamation projects. Their total commitments increased from 1,729 millions at the end of 1938 to 2,802 millions in 1939.

To finance these transactions the Istituto Mobiliare Italiano continued to issue its own bonds which were readily absorbed on the market. The Syndicate, on the other hand, made use of the re-discount facilities of the Banca d'Italia. The Bank, thus, through a system set up 25 years ago, supplies intermediate credit needs which cannot be satisfied through available savings. Through its rediscount facilities available to the banks it also provides for similar short term credit requirements.

Through successfully meeting the exceptional and urgent needs of industry during recent years, the Istituto Mobiliare Italiano and the Syndicate for Advances have proved equal to the task of adequately solving the problems of intermediate financing. In addition they stand ready to meet equally well the credit requirements which will arise in carrying out new industrial programs. It should be noted that, through recent intense efforts, Italian industrial concerns have achieved a high technical development, especially in certain fields, which has enabled them to raise both quantity and quality of their output to the high level required by the autarchic program, and by present needs, and to accomplish this solely with existing equipment without further plant expansion or alteration.

By a recent decision of the Committee of Ministers, the Governor of the Banca d'Italia, already appointed as President of the Istituto Mobiliare Italiano, was also entrusted with the presidency of the following agencies:

Credit Consortium for Public Works, Credit Institute of Public Utilities, and the Institute of Naval Credit. As a result of this decision, the functioning of the Istituto Mobiliare Italiano will, in the future, be most efficiently coordinated with the activities of existing institutions now authorized to extend long term private credits. The new setup will unify regulations controlling loans and rediscounts, and will assure appropriate allocation of transactions among the institutions commensurate with their best interests.

Activities under the direction of the Council of Ministers, and its executive body, the Inspectorate for the Defense of Savings and the Granting of Credit Facilities showed rapid and intensive progress during the fourth year of banking reorganization. (1)

The Inspectorate, following the principle of segregating credit institutions on the basis of their type of operations and functions, continued to encourage the adoption of uniform by-laws within each group, approving a suggested code for local banks (*banche popolari*) submitted by their Federation, and setting up another code for institutions dealing in chattel loans of the second group. The Inspectorate also has nearly completed its task of examining and approving the new codes for Savings Banks, and has coordinated the codes for Banks of National Interest with the existing Single Text Law. In addition it sponsored amendments in the codes of the Mortgage Credit Institute of the Provinces of Venezia, of the Farm Credit Agency of the Provinces of Emilia and Romagna, and of the Cinema Credit Agency of the Banca Nazionale del Lavoro.

Collaborating with the Syndicates, the Inspectorate, following instructions from the Regime, encouraged economic benefits for labor. To safeguard the interests of the credit institutions, the Inspectorate, cooperating with the separate Guilds, sponsored certain slight changes in the rates applied to some of the operations carrying a higher degree of risk.

In view of higher administrative costs the problem of earning sufficient income to cover expenses is particularly pressing in the case of the Savings Banks with their low-yield investments. This constitutes a primary reason leading to the law of December 14, 1939 XVIII No. 1922, requiring compulsory merger of Savings Banks and first group institutions dealing in chattel loans, if their total amounts of capital funds and deposits do not exceed 30 million lire, if they have operated for at least 10 years, and if their head office is located in a Commune not a capital of a Province, and having a population of less than 30 thousand. The law becomes effective July 31, 1940 XVIII, with reference to the status of the banks on December 31, 1938 XVII. Other subsequent changes will go into effect at intervals of five years.

Careful and adequate consideration was given, in consultation with the Federation of Savings Banks, in formulating the law which constitutes an important supplement to the 1929 Single Text Law. Although aware that certain provisions may be burdensome, the Inspectorate is confident that the sacrifice will be accepted with a realization of the need for the ruling, particularly inasmuch as the merged institutions will merely be continuing their previous functions with added impetus. At the same time the hearty cooperation between the Inspectorate and the Federations of Employers and of Employees will safeguard the positions of the employees in every way possible.

(1) During 1939 the Inspectorate was instrumental in formulating 4 laws, 12 Royal Decrees, 327 Decrees by the Duce, and 833 regulations by the Chairman of the Inspectorate.

In connection with the mergers of Savings Banks, special mention should be made of the establishment of the Savings Bank of the Province of Teramo, which consolidated the various Savings Banks of the Abruzzi region. Also notable is the organization of the interregional Federation among the Savings Banks of Lazio, Marche, and Umbria, which, moreover, have subscribed to the capital of the Federal Farm Credit Institute of Central Italy, reorganized as authorized by the Law of June 16, 1939 XVII No. 968.

The close tie-in between the Savings Banks and agricultural activities influenced the Inspectorate to adopt regulations authorizing them to grant agricultural credit, for financing "pools" and, so far as possible, to act as depositories for the Regional Farm Syndicate, and for the Regional Growers Syndicate.

Of 57 applications received during the year for authorization to extend agricultural credit, the Inspectorate approved only 9 for direct handling, and 18 for handling through intermediate agencies. Strict limitation was necessary as a result of the greatly increased number of applications from various types of credit institutions, which created competition for financing "pools" of various farm products, particularly wheat. To counteract the tendency, resulting from this competition, to evade existing restrictions on "pool" financing, the Committee of Ministers ruled that, in passing upon applications for approval to extend farm credits, the Inspectorate must base its decision upon a thorough study of the agricultural requirements of the region where the request originated. These principles explain the strict culling of applications, and on the same basis authorizations already granted will be re-examined. Already 26 of the latter have been revoked during 1939.

Collaborating with the Ministry of Agriculture and Forestry, and using information supplied by Directors of the branches of the Banca d'Italia, the Inspectorate has arranged to allocate financing of pool operations in wheat, corn, rice and oil. The problem has become more delicate and complex than in the past, since, in conformity with the policy of the Credit and Insurance Guild the principle of competition among all types of credit institutions was approved for financing pool operations in corn, rice and olive oil. To assure the fairest possible treatment to all institutions bidding for the business, definite standards have been set up for authorization to participate in the financing. These standards, giving weight to size, territorial distribution, and activity in the field of agriculture, may be further raised.

Experience shows it to be advisable in the case of real estate loans to confine the activity of loaning institutions within definite territorial limits. Accordingly the law of November 16, 1939 XVIII No. 1797 defined the zones assigned to the separate real estate credit institutions. The law also established the principle that real estate branches of credit institutions must, in general, confine their activities to the zone limits of their parent institution, the presumption being that the coexistence of the two activities may be reciprocally advantageous.

Institutions dealing in Chattel Loans commenced operating under a revised set-up as a result of Royal Decree No. 1279 of May 25, 1939 XVII which codified regulations for putting into effect the law of May 10, 1938 XVI No. 745, pertaining to the operation of these institutions. The Inspectorate initiated examinations of 87 institutions, and appointed provisional administrators for 193 institutions with a view to bringing about, after careful study, a large scale program of mergers and reorganizations to fully comply with the terms of the new law. In the meantime, in the public interest, the Com-

mittee of Ministers directed the Inspectorate to take steps to gradually sift out these Institutions dealing in Chattel Loans, wherever possible restricting the renewal of licenses to those operating in regions where similar services are not available through savings banks or other credit institutions.

The policy of concentration of banking facilities by weeding out inactive and unnecessary institutions was carried out through examinations, provisional administrations, liquidations and mergers.

During the year 14 mergers of banking institutions were approved. Mergers of similar and closely related types of institutions were encouraged, subject only to territorial limits established by local banking conditions. In addition 52 special administrations and 85 liquidation proceedings were instituted. The number of these two latter groups is especially small in contrast to the 1938 figures, illustrating that banking rehabilitation is progressing as anticipated.

The Inspectorate is making every effort to expedite the winding up of the current liquidation proceedings, which have been reduced from 773 at the end of 1938 to 755 at the end of 1939. The latter number includes, of course, those initiated during 1939. The problem of rural savings banks now in liquidation merits special comment.

It is well known that, encouraged by the favorable results which they achieved in their early years, many Rural Savings Banks sprang up in Italy, for various reasons, during the late eighteen hundreds and the first decades of the nineteen hundreds. However, because of inadequate working capital, or because of lax administration, many of them encountered difficulties and had to liquidate, resulting in a continually decreasing number in existence. In 1929 when the Ministry of Agriculture and Forestry took over the supervision of the Rural Savings Banks there were 2,613 of them in operation. By the end of 1939 these were reduced to 1,815, including 241 not entered in the Register of the Inspectorate, and including 75 institutions organized subsequent to the former date.

More than 681 of these 1,815 institutions are being liquidated. Serious obstacles in the path of a rapid wind-up of these liquidations include the large number itself, the high percentage in relation to operating institutions, and economic conditions existing in some of the rural districts.

The Ministry of Agriculture and Forestry, in the first place, and subsequently the Inspectorate have done everything possible to expedite these proceedings, by replacing the liquidators appointed by the stockholders, when advisable, or by converting the voluntary proceedings into quicker compulsory liquidations. However, experience shows that mere assistance and cooperation of the Inspectorate, even with its years of experience with the minute and complex details, are not sufficient to bring these proceedings to a swift conclusion, especially in the worst cases. Therefore, realizing that the principal and often sole cause of delay in these proceedings is found in the joint and unlimited liability of the members, especially when recourse is taken against them with consequent delay and added expense, new methods must be sought to achieve better results.

Substantial progress in the case of the Rural Savings Banks was achieved during the four years under the Inspectorate, however, current liquidations having increased from 637 on December 31, 1935 to only 681 on December 31, 1939, in spite of 141 additional proceedings instituted during that period. About 100 liquidations were completed.

The number of banking institutions registered reflects the influence of this contraction. Of 2,834 registered on December 31, 1936, 2,072 were operating. Of 2,624 registered on December 31, 1938, 1,851 were operating. The respective totals on December 31, 1939 of 2,482 and 1,727 show reductions of 124 from 1938 and 345 from 1936 among operating institutions. The 1939 reduction of 142 registered institutions results from 10 additional registrations and 152 cancellations.

At the close of 1939 operating offices of credit institutions totaled 7,061 (1), a decrease of about 500 from the effective date of the present banking laws. In spite of the program initiated in 1938 for general revision of banking offices, certain banking centers have perhaps too many facilities, whereas others admittedly have too few.

Although conditions do not justify opening additional offices at this time, adequate banking facilities will be provided for localities having needs for them as conditions improve. During the first eight months of 1939, 71 new banking offices were authorized and 87 closed. Of the former, 48 were in districts where such facilities were lacking.

Among the accomplishments of the Inspectorate the following merit special mention: (1) Assistance rendered through its policy of sponsoring and working out the complicated details whereby certain institutions might be salvaged through the intervention of other banks; (2) Assistance through territorial franchises for and restrictions upon zones of operation of institutions; (3) Assistance through restrictions placed upon competition among banking institutions, provided by modernizing the banking rules and regulations to meet present conditions. These regulations must be revised from time to time to meet the changing needs of both institutions and customers.

To utilize available savings to the best advantage, the Inspectorate assigned quotas for the 1939 Real Estate Certificates to the various institutions, allowing leeway, however, in the case of financing for low cost housing. Collaborating with the respective Ministers the Inspectorate passed upon numerous applications for increases in capital and issues of bonds, giving preference to projects contributing to autarchic interests. In this connection 48 applications were approved increasing capitalizations by 2,135,080,000 lire, as well as 8 applications for the issuance of bonds totaling 820 million lire. The latter figure includes certain bonds issued under the authorization, approved by the Committee of Ministers, for gradually issuing up to 150 millions in bonds mainly for financing the construction of olive oil storehouses, distilleries, syndicate wine storage vaults, wheat silos, and warehouses for fruit and vegetable crops.

Royal Decree No. 857 of April 24, 1939 XVII provides for the participation of the Guilds in controlling the most important phases of granting credits. It requires consultation with the Technical Guild Credit Committee regarding basic principles in the following situations: (1) Approval for organizing credit institutions; (2) Establishing rules and regulations for banking operations and services; (3) Approval and amendment of savings bank by-laws; (4) planning locations of banking offices; (5) Delegation of special services and functions to individual credit institutions or types of institutions. The law of July 22, 1939 XVII No. 1323 transferred the functions of the Technical Committee to the Credit and Insurance Guild. Subsequently a decree of the Duce on September 22nd set up within the Guild a consultive committee divided into three sections.

(1) Excluding the Banca d'Italia.

Ordinary operations during the 1938-1939 fiscal year showed an actual deficit of 5,778 millions, contrasted with a budgeted surplus of 37 millions. Actual income totaled 27, 576 millions against a budgeted 25,073. Expenses totaled 33,353 millions against a budgeted 25,035. Emergency expenses for military purposes and development of the Empire reached 6,500 millions compared with 9,027 millions during the previous fiscal year. This reduction results mainly from the gradual improvement of territorial conditions throughout the Empire. Ordinary and emergency expenditures thus totaled 39,853 millions with an actual deficit of 12,278 millions, exceeding that of 11,174 during the 1937-38 fiscal year. Fiscal measures were adopted to meet this deficit in part through the issuance of 2,812 millions of Treasury Bonds during the first nine months of the fiscal year. The Balance Sheet of June 30, 1939 showed a higher debit carryover of 986.3 millions and a lower credit carryover of 55.4 millions, with a deficit of 8,126 millions against a deficit of 7,084.3 millions at the end of the 1937-38 fiscal year. The increased deficit resulted from higher military expenses and is therefore temporary.

The budgeted deficit of 4,755 millions for the current fiscal year has been greatly altered through changes in the items of expenditures and added appropriations. Certain land reclamation and public works appropriations will be carried over to future years, claiming future savings in payment for supplies already delivered. These expenditures, however, by providing and enlarging production facilities, will actually help to produce these future savings. Outstanding appropriations include: first, the army; second, land reclamation and irrigation projects for which a billion lire was appropriated, allocated to eight fiscal periods; third, improvement and repair of State highways, for which 132 million lire was authorized to the Autonomous State Highway Administration; and finally, land reclamation and road construction in Albania for which 2 billions were appropriated.

The budget for 1940-41 shows expenses of 34,896 millions and receipts of 29,003 millions with a deficit of 5,893 millions.

The increase of 5,580 millions in expenses is due mainly to the following: increased military appropriations, 2,407 millions; higher interest on public debt, 1,157 millions; Albanian expenses, 495 millions, provided for in the current fiscal year by additional measures adopted after the budget had been approved; increased employees' salaries, as a result of the law of April 20, 1939 XVII, about 550 millions, including the autonomous agencies; integral land reclamation projects 335.8 millions; and 200 millions contributed to the G. I. L. (Italian Youth Organization) authorized by the law of November 16, 1939 XVIII No. 1804.

The increase of 4,442 millions in receipts over the current budget results from the fact that additional revenue from new taxes (Estate Tax of 1,220 millions and general tax on receipts of 5,200 millions) together with increased returns from normal taxes, direct and indirect (1,582 millions), more than offset total reductions in the returns of the special corporate capital tax (480 millions), import duties on coffee (225 millions), miscellaneous customs duties (125 millions), as well as the removal of the sales tax (2,550 millions) and other minor tax returns.

The urgent need to bring the ordinary budget into balance led to a reorganization during the year of the entire tax system, strengthening existing sources of revenue and instituting new sources.

The replacement of actual income return, by an average return over a period of years, as the basis for determining the tax rate, led to two impor-

tant fiscal changes: (1) a revised system of land appraisals; and (2) the establishment of a new city property register.

Royal Decree Law No. 589 of April 4, 1939 XVII provided for a general revision of appraisals of land values and for a readjustment of agrarian revenues. The law substitutes the farm as a whole as the unit in appraisals, and aims at a readjustment of taxable values through reassessments based on current crop prices and on average crop yields over a period of years sufficiently long to include good and bad harvests. Agrarian income, omitting that of lessees, will be determined on the basis of entries in the land register of the proprietor or owner of the land, and will be subject to a single tax rate, with incomes of farm laborers excluded.

Following a general survey of city buildings, including a revaluation of yields and the setting up of a new building "register" as provided by Royal Decree Law No. 652 of April 13, 1939 XVII income returns of buildings will be calculated by methods similar to those applied to land taxation. Calculations are based upon units capable of yielding a certain income. These Real Estate Units are classified so that the net taxable revenue, after expenses and losses, may be determined by uniform standards. The net taxable revenue constitutes the basis for regular taxes and for transfer taxes, except in those cases where readjustments are made as a result of direct evaluation.

The new system of real estate registration automatically determines values and is capable of wider application through appropriate adjustments. Thus it minimizes disputes between taxpayers and assessors with their inevitable injustices resulting from stronger or weaker bargaining advantages.

The Estate Tax established by Royal Decree Law No. 1529 of October 12, 1939 XVII aims not so much at the actual income returned by the estate, but at the normal continuing return which an average owner might expect year in year out. The law, thoroughly sound, seeks to divide tax burdens between income derived from labor and from capital investment, to minimize injustices of income taxes, and to provide a relatively level yield throughout the various phases of the business cycle. The law aims at preventing unsound transfers of invested capital. The two most important exceptions to these provisions are: (1) Savings in the course of accumulation, largely represented by savings accounts or deposits in credit institutions are exempt; (2) In order to foster the development of our foreign activities, securities of their foreign affiliates owned by Italian financial companies are exempt.

As for indirect consumers taxes, Royal Decree Law No. 2 of January 9, 1940 XVIII replaced the former sales tax with a tax on receipts. The new tax imposes a uniform rate of 2 per cent on all gross receipts — cash or other media of exchange — resulting from sales or services. Principal exemptions refer to: (a) Receipts from capital transfers, or from exports, or from services rendered abroad; (b) Net yields from capital investments; (c) Dividends, bank interest, salaries, wages, and bonuses. The new tax applies to credit institutions in the case of interest not included in Category A of the Income Tax, as well as in the case of commissions and income resulting from services performed for their customers. Collection of the tax is assured by the use of stamps, as in the case of the former sales tax. To avoid the confusion which would result from the application of this procedure to retail trade, however, agreements were reached between the Finance Administration and the respective Guilds for inclusive tax payments based upon approximate average totals estimated to be probable. In the case of certain commodities whose prices and turnovers are predictable (wheat, rice, sugar, coffee, beer, alcohol,

coal, etc.) the determination of the tax with respect to the entire series of turnovers from producer or importer to consumer is calculated on the basis of commodity unit prices. The collection is enforced at the time of the first sale, or at the time of import in the case of foreign goods. Although the taxpayer has the right to shift this tax to the consumer, the negotiation of these agreements, and the control of prices exercised by the Ministry of Guilds establish limits to its influence upon the ultimate consumer.

Italian Africa

Great strides were taken during 1939 in consolidating and developing economic conditions in the Empire. The work of colonization progressed, and the basis was laid for the Guild system of economic activities in the Empire.

Royal Decree No. 1668 of April 28, 1939 XVII effected a basic adjustment of the Guild system in Italian Africa, setting up ten Guild Consultive Committees, defining their respective functions in the economic program, and determining their membership. The economic groups operating in Italian Africa are represented on these Committees, which in their operations cooperate with the Government's program to foster the systematic development of the economic activities of the Empire. (1).

At the same time a Council of the Guild Consultive Committees was set up under the Ministry of Italian Africa to supervise measures of general interest. (2)

The Decree also codified regulations for administering economic activities in Italian Africa similar to those controlling industrial plants in the Kingdom. (3)

In the housing field measures were enacted to provide low cost housing facilities for the working and white collar classes. The Act empowers mortgage credit institutions to extend real estate credit to companies or indivi-

(1) The ten Consultive Committees organized under the Ministry of Italian Africa are: (1) Agricultural production; (2) Live stock and fisheries; (3) Textile production; (4) Chemistry and generation of electricity; (5) Mineral, metallurgical and machinery production; (6) Construction; (7) Communications; (8) Hotels and Theatres; (9) Insurance and Credit; (10) Professions and Arts.

The Committees advise on projects submitted to the Ministry of Italian Africa regarding: development of the territory; applications for administrative authority over economic activities; on problems of labor protection, social assistance, and social insurance; and on supervision of labor relations. The Ministry may also delegate the following duties to the Consultive Committees: (1) Formulation of regulations controlling conditions of labor; (2) Supervision of economic relations; (3) Supervision of production; (4) Establishment of wage rates for professional groups; (5) Devising plans for developing Italian Africa. The Minister of Italian Africa presides over the Consultive Committees which are composed of representatives of the Party, the Guilds, Employers and Employees Associations, and their Italian East African delegates. State officials and advisory specialists also participate in the meetings of the Consultive Committee.

(2) The Council advises on juridical problems connected with social and economic questions. It coordinates the activities of the Consultive Committees, of the Guild Committee of Libya, and of the Guilds Economic Councils, in supervising Italian African production. It functions in those situations beyond the immediate control of the Consultive Committees. And it contributes advice on all questions referred to it by the Minister of Italian Africa. Permanent commissions were set up within the Council to carry out the first of the duties listed above.

(3) Establishment of new industries and expansion of industrial plants, and in the case of East Africa establishment of wholesale trading companies and transportation companies, require approval of the Minister of Italian Africa, upon the recommendation of the respective Guilds. In East Africa, Governors, upon the recommendation of the respective Guilds, also must authorize operations of minor industries, crafts, peddling, retail trade, lodging houses, inns, restaurants, coffee houses, and automobile services.

duals through loans and mortgages. It also defines the necessary security and authorizes the issuance of bonds to finance these loans. The government is expected to partially subsidize interest payments on these loans, which in certain cases and under special circumstances may be guaranteed by the Government itself. (1)

Special measures were enacted regarding Libya.

Royal Decree Law No. 1668 of April 28, 1939 XVII, already cited, set up, within the Government of Libya, a Guild Committee of Libya, with controlling and advisory duties in addition to its powers of economic control. (2) It also provided for Councils and Guild Committees to be set up in each

(1) Law of July 6, 1939 XVII No. 1078 on Real Estate Credit in Italian East Africa. Mortgage Credit Divisions of the Public Law Credit Institutions operating through their own branches and offices in Italian East Africa, as well as Mortgage and Real Estate Credit Institutions subsequently authorized to operate there, are authorized to grant loans and mortgages to institutions, companies, and individuals who may build low cost houses and civilian homes in Italian East Africa, even though their by-laws may prohibit this type of loan. The Minister of Italian Africa, with the approval of the Inspectorate for the Defense of Savings and for the Granting of Credit Facilities, and in consultation with the Colonial Corporative Council for Credit and Insurance, will draw up regulations to coordinate the operations of institutions so authorized. The supervision of these problems is entrusted to the Ministry of Italian Africa, and to the Inspectorate.

The provisions controlling real estate credit in the Kingdom, and those laws dealing with low cost housing have been extended to these operations in so far as they are not contradictory. Such loans must constitute a first mortgage, normally not more than 50 per cent of the property value, nor more than 50 per cent of total construction costs including the cost of the land. In cases where government subsidies are granted (which will be discussed later) the loan ratio may be increased as high as 90 per cent, the limit varying with the amount of the subsidy. Such loans and mortgages may be made for the complete construction costs, including the cost of the land, but only in those cases where the borrower can give the lending institution sufficient additional guarantees secured by real estate.

In making loans of this type the lending institutions are authorized to issue special bonds secured by the following: (a) first mortgage on the land and building for which the loan was made; (b) special guarantees offered by the Government of Italian East Africa — to be discussed later; (c) contingent contributions from the Government — to be described later; (d) other additional contingent guarantees.

Loans will be extended in growing amounts as the construction work progresses. The Government of Italian East Africa may contribute towards interest payments up to 2 or 3 per cent on those loans made under the terms of the Low Cost Housing Law, and subject not only to pertinent regulations in force in the Kingdom, but also to such additional conditions as may be imposed by the Government. This assistance may not be granted in any cases which have already received other State subsidies. The Government may also grant similar assistance — participation in interest payments — in the case of loans made by credit institutions for land purchases or during construction.

The aggregate of such Government guarantees, however, may not exceed five millions annually for the three fiscal years commencing 1939-40, or a total maximum of 15 millions. Nor may the guarantees exceed 15 per cent of the total volume of loans.

Limits of loans made under this law will be determined, approximately, by a decree being formulated upon the recommendation of the Minister of Italian Africa collaborating with the Minister Finance, and at the suggestion of the Inspectorate for the Defense of Savings and for the Granting of Credit Facilities.

Royal Decree No. 2556 of October 7, 1937 XV on the subject of housing in Italian East Africa set up the Autonomous Fascist Institute of Low Cost Housing for Italian East Africa.

(2) The Guild Committee formulates regulations controlling working conditions, collective economic relations, and production. It fixes professional salaries. It sponsors enterprises which will increase production. It provides for fixing wholesale prices and for coordinating the activities of the Guild Councils in their control of retail prices. It advises on: applications for authorization of transactions subject to economic control; control and development of projects; mutual relations; insurance, and social assistance; and on all other questions of production. In addition it deals with problems of professional associations, syndicate membership, syndicate contributions, placement and migration of labor.

province of Libya. The Councils, representing the interests of their respective districts, coordinate integral economic activities to the best interests of all. The Guild Committees operate under the Government of Libya and are charged with the supervision of economic activities, mindful of social and economic trends within their respective districts.

Although Royal Decree Law No. 284 of February 13, 1939 XVII formulated a plan for colonizing Libya, Law No. 1071 of June 29, 1939 XVII called for certain technical modifications. (1)

The second phase of the intensive colonization plan developed in October and saw 1600 rural families of 12,000 persons transferred to Libya. Accordingly in 1939 an additional site of 60 thousand hectares for land cultivation was added to the 70 thousand allotted in 1938. The government also fostered public welfare work. The agencies administering the land allotments — chiefly the Association for the Colonization of Libya, and the Fascist National Institute for Social Insurance — enable colonists to acquire title to the land gradually, over a period of years. As a result of the test cases, instructions were given in January 1940 to proceed with the colonization plan during the coming year.

Royal Decree No. 1579 of June 29, 1939 XVII, in view of the actual and anticipated growth of the population of Libya provided for setting up a Bureau of Vital Statistics for the Libyan natives.

The economic progress of the Empire was documented in the comprehensive report of the Minister of Italian Africa. Mineral and agricultural production is growing. The chief aim is to assure local self-sufficiency. Colonization has outgrown the experimental stage and shows substantial development. Public works are showing great progress. Private capital invested in companies operating in the Empire is approaching 5 billion lire.

Outstanding among leading developments last year was the historical event which indissolubly linked the future of the fine and courageous people of Albania to that of Fascist Italy. The many well known historical ties of the Albanian people with Imperial Rome, Amalfi, Naples and the Venetian Republic need not be enumerated. We cannot, however, overlook the fact that the material and human progress of modern Albania, and her very existence as an autonomous country have been made possible only through the great and varied advantages which Fascist Italy has offered her Adriatic neighbor through the introduction of her ancient Italian culture, through the achievements of her people and through technical and economic contributions. In this cooperation Italy has followed the best traditions of her Latin civilization with a generosity unequalled in the history of international relations.

The Italian military operations of April 7, 1939 XVII completed the occupation of the country within a few hours. With the speed worthy of the Fascist Era there was an immediate reorganization of the constitutional system of the Albanian Kingdom and of its legal, political, and military structure. (2)

(1) The law of May 15, 1939 XVII No. 776 authorized the Savings Bank of Libya to grant agrarian credits not to exceed 10 million lire in all. The funds represent a part of the proceeds of bonds which the bank was authorized to issue.

(2) Royal Decree No. 624 of April 18, 1939 XVII added an Undersecretary for Albanian Affairs to the Ministry of Foreign Affairs.

Law No. 1173 of July 13, 1939 XVII established a General Lieutenancy at Tirana. The Lieutenant General, according to Law No. 580 of April 16, 1939 XVII, is the official representative in Albania of the King of Italy and Albania, and Emperor of Ethiopia.

The agreement of April 20th settled the economic relations between Italy and Albania, establishing a customs union between the two countries, fixing a parity basis between the Albanian franc and the Italian lira, and setting up an Exchange Control in Albania. (1)

A vast program of public works, land reclamation, and road building was

(1) The law of June 6, 1939 XVII No. 1046 approved the economic tariff and currency agreement between Italy and Albania. As a result Italy and Albania constitute a customs-union wherein the duties and other customs laws apply as to a single territory. Reciprocal trade is free of restrictions, and the two countries retain complete independence as to their respective internal levies and taxes. Current Italian laws and regulations apply to the customs-union in the control of exports and imports. Trade, tariff, and exchange agreements now in force between Italy and other countries will eventually be amended to include Albania.

The Albanian franc is pegged to the Italian lira on the basis of 6.25 Italian lire to the Albanian franc. The coverage for Albanian National Bank circulation will consist of Italian lire in bank notes and other credits on the Banca d'Italia. The Albanian franc, therefore, will enjoy a gold coverage equivalent to that of the Italian lira. A Foreign Exchange Control was also set up in Albania. The monopoly is administered by the Albanian National Bank subject to the current provisions existing in Italy. Albanian franc banknotes issued by the Albanian National Bank are convertible at sight through checks or drafts, into Italian lire usable in Italy. In addition banknotes are convertible into other currencies subject to the provisions of the Exchange Control.

The Albanian Government, in agreement with the Italian Government, will give every assistance to the establishment of new enterprises contributing to the economic development of Albania. Italy will pay Albania 15 million Albanian francs annually in compensation for reductions in the Albanian Government's receipts brought about in consequence of the terms of the agreement. This payment will extinguish all obligations which Italy had contracted with Albania prior to the date of the agreement, and will help Albania to balance its budget.

The technical tariff agreement formulated on May 28 and approved by the law of July 6, 1939 XVII No. 1214 included regulations covering the application of the agreement mentioned above.

The Ministerial Decree of September 5, 1939 XVII on this subject authorized unrestricted imports into Italy of Albanian products.

Special regulations covering production, storage and distribution of specific products in Italy are equally applicable to similar Albanian products as soon as they enter Italy.

Interministerial Decree of September 25, 1939 XVII instituted additional regulatory controls over trade and exchange transactions between Italy and Albania: Italian imports from and exports to Albania are not subject to exchange restrictions. Trade between Albania and Italian possessions and Italian Africa is subject to the regulations controlling trade between Italy, its possessions, and Italian Africa.

Export and import of Albanian banknotes and currency to and from Italy, Italian possessions and Italian Africa is forbidden. Anyone going to Albania from those places, however, even through other countries en route, may carry Albanian banknotes not to exceed 50 francs, and Albanian currency not to exceed 10 francs. Similar regulations apply if the trip is in the other direction.

Provisions regulating the export and the import of State notes, banknotes, and metallic currency between foreign countries and Italy, its possessions and Italian African territories are not affected by the foregoing decree, and are, therefore, applicable also to transactions to or from Albania.

The following may be freely imported or exported between Albania and Italy, its possessions, and its African territories: (a) By mail only: postal money orders, checks, drafts on banks or others when drawn in Italian lire or Albanian francs and bearing the stamp "this money order (or check) may circulate only in Italy, Italian possessions, Italian African territories and Albania", or a similar statement. Additional unrestricted media include bills of exchange, promissory notes, or other instruments of credit in Italian lire or Albanian francs. Government securities, stocks and bonds, together with their coupons are excluded. (b) In any manner: Bank money orders, checks, bank drafts, when drawn in Italian lire or Albanian francs, and bearing the stamp mentioned above, together with the words "not transferable".

approved in June. The 2 billion lire project will be spread over eight fiscal years. (1)

Present roads will be resurfaced and new roads totaling 1,200 Kilometers will be built. This work, already under way, created employment for 10,000 laborers. In addition land reclamation was commenced in Durazzo. Temporary aqueducts were built in Tirana and in Coriza which will soon be enlarged and improved. Construction of additional aqueducts in Durazzo, Valona and Berat is being planned. Finally steps are being taken to improve the harbor facilities at Durazzo, the principal port of Albania, whose commerce has increased enormously. Air and truck transportation have also increased substantially. Within a few months the number of trucks was tripled.

Construction of public buildings is proceeding rapidly. Plans are under consideration to stimulate private building projects.

This speeding up of operations has naturally benefitted the employment situation. In public works alone the number of laborers at the end of the year was more than three times the July total.

In the industrial field the Italian Albanian Petroleum Company drilled many new wells in the Devoli region, and has begun soundings in several new districts including Pathos where promising results are expected. Production of bituminous products, copper and chromium increased satisfactorily. Recent research has uncovered abundant iron deposits.

As the complete report of the Undersecretary for Albanian Affairs pointed out last October, it can be stated, in conclusion, that Albanian resources appear to hold great importance, particularly in metal ores and fuel oils. The development of these resources, under the guidance of the Fascist Government, will lead to a higher standard of living in a new Albania, and will constitute an important contribution to the economic self-sufficiency of Italy.

The balance sheet of the Bank for International Settlements suffered severely from the effects of the serious political developments in Europe. On December 31, 1939 XVIII it showed resources of 480 million Swiss francs against 596 millions on December 31, 1938 XVII. The decline results mainly from the withdrawal of short term and demand deposits by the Central Banks. The decline, starting slowly but gathering speed, became most acute in October following the withdrawal of the guarantee fund of the French Government. However the Bank stood up to this severe test of its liquidity remarkably well.

Withdrawals stopped after October and transactions, particularly in gold, became more active after a period of stagnation.

After an understandable period of hesitation, the Banks of Issue participating in the administration of the Bank for International Settlements, unanimously realized that, in spite of political developments, the Bank, the outgrowth of their former technical collaborations, had not only to survive the serious international crisis, but also to operate with such integrity and efficiency that full and prompt response would be possible to all the tasks placed

(1) The Law of July 6, 1939 XVII No. 1064 appropriates 800 millions of this total for roads, and includes this amount in the budget of the Ministry of Foreign Affairs. This total will be spread over eight fiscal years commencing 1939-40. Law No. 1065 of the same date appropriates 1,200 millions for reclamation projects. This total also will be spread over eight fiscal years commencing 1939-40.

upon it when, at the conclusion of peace, the work of economic and financial reconstruction would be resumed. In the interim, while the Bank continues its normal operations, though in a field restricted by existing conditions, it can still contribute to the continuation of existing contacts between the monetary authorities of the various countries. Following the war such contacts will constitute the prerequisites for reconstruction efforts.

The 300,000 registered shares of the Banca d'Italia were on December 31, 1939 XVIII in the hands of 106 institutions, subdivided as follows:

Shares and Shareholders

Institutions	Shares
84 Savings Banks	184,736
11 Public Law Credit Institutions and Banks of National Interest	68,764
1 Provident Institution	15,000
10 Insurance Companies	31,500
<u>Total 106 Shareholders</u>	<u>300,000</u>

At the end of 1939, of the 500,000 shares forming the old capital of the Bank, 498,493 1/3 had been repaid.

During 1939 the Bank's operations included the following cash turnover:

Cash Turnover

Receipts	Lire 477,714,667,970.30
Disbursements	" 474,220,912,902.69
<u>Total</u>	<u>Lire 951,935,580,872.99</u>

Reserves on December 31, 1939 amounted to 3,131.6 millions of which 2,738.2 millions were represented by gold and 393.4 millions by credits abroad.

Reserves

In the final statement, in March, gold stocks totaled 2,601.6 millions.

On December 31, 1939 Bank Notes in circulation totaled 24,432.2 millions, demand drafts and checks 1,218.3 millions, demand deposits 1,268 millions.

Circulation

The March statement shows circulation reduced to 22,643.9 millions, demand drafts and checks to 987.4 millions, and demand deposits to 923.7 millions.

On December 31st last, temporary Treasury advances made in accordance with Art. 21 of the Ministerial Decree of December 31, 1936 XV — as provided by the Royal Decree Law of July 2, 1935 XIII No. 1293 — amounted to 1,000 million lire, and special advances against Treasury bills amounted to 8,000 million lire.

Treasury Liabilities to the Bank

The total of normal advances is therefore at the same level as at the close of 1938, while the total of special advances increased by 6,000 million lire.

It should be observed, in this connection, that the events of last summer contributed to temporarily expanding the difference between State expenses and revenues. In view of this difference the Treasury has had recourse to the Banca d'Italia to a greater degree.

Independent of the assistance rendered to the Treasury by the Banca d'Italia, many important reasons, particularly price increases, contributed to increasing circulation last year. It will suffice to recall briefly that lire prices reflected the wage increases granted in March 1939, as well as the more stringent taxes, and the international events already discussed.

We may conclude that these advances to the Treasury provided, in part, the basis of the monetary circulation, i.e., currency and circulation in the hands of producers, credit institutions, and the public. As a whole they constitute the bulk of the currency, and consequently must increase to remain in balance with the increased needs of business and individuals as a result of higher wages and prices. Within these limits it would be wrong to conclude that the rise in circulation brought about the rise in prices, or that additional circulation might lead to a further rise in prices.

Beyond these limits temporary financing of public expenditures by the Bank of Issue, however, also contributed, without doubt, to the increase in prices. Through creating more employment and increasing average working hours in many industries, public expenditures produce substantial additional incomes as a result of higher earnings, both wages and profits, without a corresponding increase in the supply of commodities available for civilian consumption. Although part of the increased earnings was spent, the balance found its way into savings.

Considering the Italian situation it becomes evident that government expenditures, especially in recent months, not only stimulated spending, but also gave an impetus to private savings. Credit institutions took advantage of their swollen deposits to keep their obligations to the Bank of Issue within conservative limits, and even to reduce them, concurrently increasing their investments by meeting the needs of industry, or by the purchase of additional State securities.

The issuance of the nine year Treasury Bonds found these conditions prevailing. Individual savers and business concerns alike, desirous of converting their recent savings temporarily deposited in the credit institutions into more permanent investments, took advantage of the offerings of Treasury Bonds. Credit institutions, accordingly, to meet the heavy withdrawals of deposits for this purpose, were forced to draw upon the Bank of Issue. These credits were supplemented by the option allowed subscribers to pay for their bonds in installments or in combination with life insurance contracts.

From these facts a clear distinction is apparent between two situations. The first phase covers the period when the Banca d'Italia extended advances to the Treasury to meet expenses of defense. These expenditures, incidentally, helped to build up deposits, thus reducing the needs of the credit institutions for assistance. The second phase covers the period when, as a result of depositors' response to the Treasury's market offerings, the Bank of Issue had to partly shift its direct assistance from the Treasury to the credit institutions.

Thus, fluctuations in total circulation outstanding during the year were much less than those in the net debt of the Treasury to the Banca d'Italia during the same period. This was to be expected in the absence of circumstances contributing to wide fluctuations in circulation, circumstances such as wide swings in prices, or large scale private hoarding or dehoarding.

These facts and other statistics indicate that an equilibrium was finally reached with the volume of circulation well in balance with the current price level and the index of production. No reasons are apparent, therefore, to expect large future fluctuations in circulation. Two comments may be made as to possible influences of the banking policy on future fluctuations.

In the first place, we must keep in mind not only the installment obligations of subscribers for the nine year bonds to credit institutions and in-

insurance companies, but also the corresponding obligations of the latter institutions to the Bank of Issue. These obligations may well provide the incentive for savings which will, in turn, be largely used to amortize the obligations themselves, with a resultant reduction of the institutions' obligations to the Bank of Issue. The Bank will thus be in a position to maintain a satisfactory control on the volume of circulation through reinvestments.

In the second place, we must consider the relation between circulation and the credit institutions. During the present period of active efforts toward self sufficiency and increased national defense, credit institutions have been able to invest all their funds in useful economic activities, and to maintain those principles of security and liquidity which afford the only guarantee that bank investments will not eventually become a charge against the Bank of Issue, and thus against circulation. The sound and flexible condition of our credit institutions is most gratifying. Such a condition benefits not only producers, credit institutions, and individual savers, but also the Bank of Issue itself. It will be maintained through an administration which bases its decisions on its past experience.

At the close of last year domestic bills discounted totaled 4,832.8 millions; collateral loans 2,991.2 millions; Clearing House loans 46.8 millions. Together these three types of investments total 7,870.8 millions, or an increase of 402.8 millions over the previous year.

Loans and
Investments

Government securities and securities guaranteed by the Government amount to 777.3 millions, an increase of 8 millions compared to the previous year.

The two important changes during 1939 are: an increase of 1,129.2 millions in the total of domestic bills discounted, and a decrease of 695.4 millions in the total of collateral loans.

The factors responsible for this increase are easily seen if we compare the figures of December 20, 1938 with those of 1939. Between these dates, there was a reduction of 156.5 millions in the total of discounts and rediscounts which had been extended to meet the special capital tax on stock companies. Regular discounts in the Kingdom decreased 36.2 millions, totaling only 149.5 millions. Regular discounts in our colonies increased 5.9 millions. Loans for pooling grain increased 424.1 millions. Regular rediscounts and loans for pooling other commodities increased 562 millions. (1) The latter increase is due mainly to transactions of the Syndicate for Advances against Industrial Securities.

The 695.4 million decrease in collateral loans results from two conflicting trends. First, an increase of 163.1 millions occurred in collateral loans at regular interest rates; 49 millions of this was the result of increased loans by our Colonial branches. On the other hand, decreases occurred in the following: 330.8 millions, as already mentioned, in advances against the Redeemable Realty Loan; 381.9 millions in loans against 5% Rentes, for which the Ministerial Decree of September 18, 1939 XVII extended the reduced interest rate until September 30, 1940; and 145.8 millions in miscellaneous collateral loans at reduced interest rates.

(1) The aggregate of these changes between December 20, 1938 and December 20, 1939 totals 799.3 millions. The larger increase of 1,129.2 millions previously mentioned as the difference at the year end results from varying fluctuations in the last ten days of the respective years, and from differing increases in holdings of certain short term Treasury Bonds.

Relations between the Bank and the credit institutions during the past fiscal year were characterized by an outstanding increase of credit to the Syndicate for Advances against Industrial Securities, by a certain increase in credits to the special Agrarian Credit Institutions, and by a remarkable decrease in credits to the regular credit institutions.

The official discount rate, unchanged since May 18, 1936 XIV, remained at 4½% for the entire year 1939.

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 143.4 millions as a result of the amortization plan concluded under the auspices of the Treasury.

Bank premises, which represent a capital investment, are carried at 113.7 million lire in the December 31, 1939 XVIII statement.

Despite the difficulties of procuring materials last year, the Bank administration, through concerted efforts, succeeded in finishing the buildings under construction, and in building additional quarters for branches of the Bank in the Colonies.

Thus the branches of Enna and Bengasi were able to move into new quarters during 1939, and the Belluno, Pisa and Parma branches were enlarged and remodeled. The Modena and Brescia branches are being rearranged and modernized for greater efficiency. Construction is proceeding rapidly on the new Aquila and Viterbo branches. A new branch building is being built in Rome necessitated by the ever increasing volume of business handled by the Provincial Treasury Department, particularly in paying pensions.

In Italian East Africa temporary quarters were built for the Dessie branch, and storage warehouses were provided at Dire Dawa, a caravan center which is becoming more important. Warehouses were also built at Harar and Addis Ababa.

A comfortable staff-house was bought at Asmara. Additional stores were added to the Chisimaio branch to quarter some of the employees.

Correspondent banks totaling 589 on December 31, 1939 XVIII extended banking services to 3,068 centers not having branches of the Banca d'Italia.

During last year's administration the network of our Colonial Branches was strengthened. Following the opening of a new Branch in Dessie, the Bank's activities, already efficiently cooperating with the Government in developing sound resources and local enterprises, were further extended.

During 1939, also, Colonial Branches handled more business. Their volume is expanding gradually as a result of the greater economic and banking needs of certain regions. Provisions were accordingly made to extend the facilities of the branches to better meet the requirements of our customers. On the whole, results thus far achieved can be considered satisfactory. In general, future prospects are favorable, particularly in view of the progressive development of our Colonies' natural resources.

The second great migration to Libya, to which we have already referred, had a favorable effect on the volume of commercial and industrial activities in those provinces. Public works, preliminary to the migration, bolstered

Institute for
Industrial
Reconstruction

Bank Premises

Correspondent
Banks

Colonial Branches

business activities offsetting the conditions resulting from the unfavorable yield of the year's crops which were damaged by bad weather, and especially by a general drought.

However, the branches of Tripoli and Bengasi were quite busy and reported increases in certain fields compared to last year's business. The Bonded Warehouse Company of Tripoli was exceptionally busy, requiring additional financing to increase their facilities so as to handle the increased demand.

The economic trend in Rhodes may be considered generally normal. International developments have not interfered with the projects inaugurated and supervised by the local Government for developing the Island. The branch was more active than last year, and the balance sheet shows satisfactory profits. During the year the Bank commenced construction of large storage warehouses equipped with all modern improvements including refrigeration plants.

In Italian East Africa reasonable progress was made in demobilizing the enormous economic organization created by the Ethiopian campaign. On the other hand considerable progress was made in construction projects designed to provide a sound basis for the future promising economy of the Empire. These projects are based essentially on autarchic principles, and are aimed at freeing these Colonial regions as much as possible from the need of supplies from the mother country, and particularly from foreign countries.

Although the demobilizing process has caused certain burdens in many regions, especially in Eritrea, economic conditions as a whole, have benefited by the strengthening of sound activities designed to exploit natural resources.

In Eritrea the exploitation of mineral resources, particularly of gold, is proceeding rapidly and satisfactorily. Agricultural production registered further progress in the direction of an almost complete economic independence from imports of foodstuffs.

The Asmara and Massaua branches handled approximately the same volume of business as in past years, and operated at a profit. Profits of the Asmara branch were substantially lower, however, as well as the profits of the Customs Warehouse Company in Massaua. The reduction in the latter case was due to progressively diminishing trade at the port of Massaua.

The activity of the branch at Assab was very limited. After the opening of the Assab-Dessie road to commercial traffic and the construction of the first pier of the Assab port, however, an increase in business may be expected this year and in the future.

In all the territories recently occupied there has been consistent progress in civilian settlements, and in setting up administrative agencies. This progress is being accelerated by projects designed to develop agrarian potentialities and to exploit lumber and mineral resources to the best advantage. The latter, although not yet well known, are indeed abundant in these regions. Groups of Italian colonists have already been placed in the plantations started by the various new colonization agencies. Numerous industries are also being established in various regions, with the aim of meeting local needs, thus laying the foundations for that Imperial self-sufficiency which is the goal of the fascist Government.

With the growth of the city the Addis Ababa branch was more active in all its departments. A branch agency authorized to transact all types of banking business was established in the business section of the city to offer adequate banking services for the growing needs of our customers.

To carry out urban construction projects in the capital of the Empire, as well as in other principal centers now being established, the financing of mortgages is urgently needed. Government authorities accordingly are considering the drafting of a decree designed to surmount practical difficulties which have to date interfered with our Bank's willingness to offer such mortgages.

Activities of our Gimma branch were notable. Those of our branch office at Dire Dawa declined, as compared to the previous year, largely as a result of the constantly diminishing use of the port of Gibuti for landing goods in transit to our Empire.

The business of our Gondar and Harar branches was only fair. The Gondar Branch, because of a recent improvement in business, was able to show a modest profit.

Initial activities of our new Dessie Branch indicate a promising future because of the fertility of surrounding regions and the growing importance of that district following the opening of the Assab highway.

Somaliland was the first among the regions of the Empire to return to normality. This comparatively sudden change brought about a somewhat serious phase of readjustment which was, however, offset to a certain extent by intensified and expanded agricultural production. Generally satisfactory results were achieved by the Mogadiscio branches and by their agencies at Merca and Chisimaio. The latter, although it showed a slight loss, enjoyed a reasonable volume of business compared to preceding years. The improvement was due to an increase in native population and to the intense colonization now in progress in the reclaimed territory of Giuba.

Again last year the Bank's central offices, as well as its outlying branches, collaborated with the Inspectorate for the Defense of Savings and the Granting of Credit Facilities to insure compliance with the provisions and regulations controlling credit institutions.

The Banca d'Italia supervises all registered credit institutions, 354 active institutions now operating without authority to accept deposits, and 203 institutions cancelled from the register as they have been in the course of liquidation ever since the present banking law was enacted.

During 1939, officers of the Banca d'Italia made 181 inspections, including institutions of particular importance, subdivided as follows:

- 119 Public Law Credit Institutions, Banks of National Interest, ordinary Credit Banks, Cooperative Institutions, Savings Banks
- 19 Banking Firms
- 43 Rural and Handicraft Banks

181

Examinations made, since the law on banking control went into effect, reached a total of 4,057.

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

Inspectorate for
Foreign
Exchange
Operations

As a result of the Royal Decree-Law of May 12, 1938 XVI, No. 794, the Banca d'Italia has been particularly active in exercising supervision and control over credit institutions subject to the supervision of the Committee of Ministers and of the Inspectorate for the Defense of Savings and the Granting of Credit Facilities, in order to insure compliance with existing regulations controlling foreign trade and exchange. In addition the National Institute of Exchange often sought the Bank's assistance in matters concerning supervision and control of non-banking firms and individuals.

We are pleased to report that, with very rare exceptions, the examinations reveal that the credit institutions collaborate efficiently with the central agencies for the protection of our currency, and conform conscientiously to the provisions governing currency matters.

On December 31st last, the ordinary reserve fund amounted to 119,278,300.47 lire. It consists of the remainder of reserves which existed at the time of the reorganization of the Institute, of amounts apportioned to ordinary reserves on the balance sheets of 1936-1937-1938, and of the increase of investment earnings.

Ordinary Reserve
Fund

On December 31st last, the extraordinary reserve fund amounted to 65,814,888.32 lire. It consists of amounts apportioned to extraordinary reserves during the years 1936-1937-1938 and of dividends from investments.

Extraordinary
Reserve Fund

The Profit and Loss account for the year 1939 shows the following results:

Profit and Loss
Account

Gross Profits	L. 461,295,444.53
Expenditures	343,976,016.05
	<hr/>
Net Profit	L. 117,319,428.48

The gross profits are made up of:

Discount Operations	L. 179,676,564.48
Interest on Advances	148,169,937.64
Interest on Clearing House Loans	2,344,646.51
Interest on Current Accounts	47,175,824.20
Commissions	18,780,190.03
Profits on Foreign Business	138,513.99
Miscellaneous Profits	18,994,537.67
Interest on Government Securities	39,471,253.46
Income from Real Estate	2,763,490.58
Interest on Colonial Branches Fund ...	685,000.00
Profit arising from liquidation of former Note-Issuing Banks	3,095,485.97
	<hr/>
Total	L. 461,295,444.53

Expenditures and taxes comprised the following items:

Administration expenses	L. 147,180,348.08
Directors' and other fees	2,644,242.37
Transport of Specie, etc.	2,149,613.22
Printing of Notes	13,570,199.04
House Property Account	10,417,483.72
Foreign Business Expenses	71,559.18
Various Taxes	53,503,485.91
Unpaid Bills	575,766.67
Amortizations	62,139,822.53
Interest and Annuities	22,933,971.33
Charities and other Contributions	5,150,000.00
Contributions toward Employees'	
Pension Fund	10,639,524.00
Depreciation of Bills against losses, etc.	10,000,000.00
Temporary Staff Pension Fund	3,000,000.00
	<hr/>
Total Expenditures	L. 343,976,016.05
Net Profit	117,319,428.48
	<hr/>
Total	L. 461,295,444.53

Distribution of
Profits

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 1939:

20% to the Ordinary Reserve Fund	L. 23,463,885.69
20% to the Extraordinary Re- serve Fund	23,463,885.69
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 reserves 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..	52,110,597.10
	<hr/>
Total Net Profits.....	L. 117,319,428.48

Conclusion

The results of the 1939 balance sheet which we herewith submit for your approval, may be considered very satisfactory, not only in themselves, but also as representative of the entire activity of your Bank during this last year. This activity has been worthy in every respect of the traditions of the Bank of Issue. It has also constituted an important cog in the delicate machinery controlling and stimulating the economic forces of our Country.

Four years ago the Duce gave us specific instructions to improve the Italian credit system so that our banks would be able to meet the new needs of the country, and would be able to participate to their utmost in the battle

being waged to win our economic independence. Today we are able to state that the tasks assigned to our respective fields have been carried out most successfully. It is therefore a great pleasure to point out the working efficiency of the Italian banking system, its sound enterprises, and its capacity to properly adjust itself to the vicissitudes of the critical period that the world is now passing through.

The fast tempo of our activities has not been relaxed nor has it been greatly altered by the wide repercussions which have been inevitable, even in our country, as a result of the recent international events, of the outbreak of war, and of the upset trade conditions. These circumstances created new problems — difficult at times — but we have always been able to solve them adroitly as they arose.

We shall treat all future problems in a like manner, no matter from whatever circumstances they may arise. Needless to say, their solution will be greatly facilitated by the favorable conditions under which the active forces of our country are evolving and thriving, by the corporative consciousness of all economic groups, by the full spiritual unity of our people, and, above all, by the staunch faith which we have in the future of our country.

When the Leader is determined every obstacle can be overcome, and no goal is unattainable.

V. AZZOLINI
Governor

BALANCE SHEET

December 31st, 1939.

PROFIT AND LOSS ACCOUNT.

BANCA

PAID-UP CAPITAL

BALANCE SHEET,

ASSETS:			
Gold in Hand.....		L.	2,738,188,662.83
Balances Abroad.....		"	393,450,775.00
	Total Reserve.....	L.	<u>3,131,639,437.83</u>
Gold deposited abroad, due by the State.....		"	1,772,798,105.00
Cash in Hand.....		"	801,168,633.79
Inland Bills		"	4,832,768,068.33
Bills for Collection.....		"	24,142,610.74
Advances to Customers	{ Against Government Securities and Mortgage Bonds	L.	2,991,192,978.72
	{ Against Silk and Cocoons.....	"	4,128.20
			<u>2,991,197,106.92</u>
Investments (Government Securities owned by the Bank).....		"	777,293,835.53
Cr. Accounts in the Kingdom:			
Deferred Payments at Clearing Houses.....		L.	46,787,421.11
Other Accounts		"	<u>41,453,740.64</u>
			88,241,161.75
Advances to the Treasury—Extraordinary.....		"	8,000,000,000.00
Advances to the Treasury—Temporary.....		"	1,000,000,000.00
Premises		"	113,656,090.03
Credit with Institute for Industrial Reconstruction.....		"	4,708,097,530.74
Other Assets		"	1,376,108,643.02
		L.	<u>29,617,111,223.68</u>
Securities and other valuables deposited.....		"	47,700,847,278.51
		L.	<u>77,317,958,502.19</u>
Amounts written off in past years.....		"	206,358,350.06
	TOTAL.....	L.	<u>77,524,316,852.25</u>

46th YEAR.**D'ITALIA.**

LIRE 300,000,000.

December 31st, 1939—XVIII**LIABILITIES:**

Notes in circulation.....	L.	24,432,169,200.00
Demand Drafts Outstanding.....	"	1,218,343,302.58
Current Accounts	"	1,268,021,393.13
Total Sight Liabilities.....	L.	26,918,533,895.71
Capital	"	300,000,000.00
Statutory Reserve	"	119,278,300.47
Extraordinary Reserve	"	65,814,888.32
Time Deposits	"	490,903,935.59
Treasury Current Account	"	474,998,772.79
"Internal Debt Sinking Fund Office" Current Account.....	"	12,389,634.12
"Institute for Industrial Reconstruction" Sinking Fund.....	"	143,419,559.95
Other Liabilities	"	974,452,808.25
Net Profits for the Year.....	"	117,319,428.48
	L.	29,617,111,223.68
Securities and other valuables deposited.....	"	47,700,847,278.51
	L.	77,317,958,502.19
Amounts written off in past years.....	"	206,358,350.06
TOTAL	L.	77,524,316,852.25

PROFIT AND YEAR

		Dr.		
Expenditure	Expenses in respect of:	Administration	L. 147,180,348.08	
		Board of Directors, etc.	" 2,644,242.37	
		Transport of specie and other valuables	" 2,149,613.22	
		Printing of notes	" 13,570,199.04	
		House Property Account Stamps and commissions on foreign business	" 10,417,483.72	
			" 71,559.18	
			176,033,445.61	
	Taxes	Circulation tax on notes	" 31,370,673.38	
		Circulation tax on demand drafts	" 2,308,769.41	
		Income Tax	" 12,894,767.90	
		Additional Income Tax	" 2,764,740.49	
		Real Estate Tax	" 1,639,723.57	
		Bank Shares transfer tax	" 1,195,500.00	
		Stamp duties	" 401,512.82	
		Contribution for Govern- ment supervision	" 200,000.00	
		Other tributes	" 727,798.34	
				229,536,931.52
				53,503,485.91
Unpaid bills		L. 575,766.67		
Amounts written off	" 62,139,822.53			
Interest and annuities	" 22,933,971.33			
Charities and other contributions	" 5,150,000.00			
Contribution to Employees' Pension Fund	" 10,639,524.00			
Depreciation of bills against losses, etc.	" 10,000,000.00			
Temporary Staff Pension Fund	" 3,000,000.00			
		343,976,016.05		
Net profit to be divided	L. 117,319,428.48			
		461,295,444.53		
	TOTAL	L.	461,295,444.53	

DISTRIBUTION

To ordinary Reserve Fund	L. 575,766.67
" extraordinary Reserve Fund	" 62,139,822.53
Dividend to Shareholders at the rate of 6%	" 22,933,971.33
Annual contribution to the Reserve Fund of "Credito Fondiario"	" 5,150,000.00
To the Treasury	" 10,639,524.00
	" 10,000,000.00
	" 3,000,000.00
	343,976,016.05
	117,319,428.48
	461,295,444.53

Audited and found correct on March 10th, 1940—XVIII.

CASANELLO ANTONIO.
EMILIANI MARINO.
NESI ADOLFO.
PAPPALARDO FELICE.
STRINGHER DIEGO.
Auditors.

GUIDO PIERINI,
Chief Accountant.

LOSS ACCOUNT

1939—XVIII.

		Cr.		
Profits from the Year's business	Re-discounts brought in from pre- vious year	L	29,160,829.50	
	Year's discounts	"	192,401,624.03	
			221,562,453.53	
	less: re-discounts carried forward . . .	"	41,885,889.05	
			L	179,676,564.48
	Interest on advances	"		148,169,937.64
	Interest on Cr. accounts	"		49,520,470.71
	Commissions	"		18,780,190.03
	Interest, discount and exchange profits on foreign business, less re-discount charges	"		138,513.99
	Other profits	"		18,994,537.67
			415,280,214.52	
Profits from Investments	Interest on Government Securities	L	39,471,253.46	
	Revenue on real estate	"	2,763,490.58	
	Interest on investment of Colonial Branches Fund	"	685,000.00	
	Profits arising from the liquidation of late note-issuing banks	"	3,095,485.97	
			46,015,230.01	
TOTAL L.				461,295,444.53

OF NET PROFIT

.....	L	23,463,885.69
.....	"	23,463,885.69
.....	"	18,000,000.00
.....	"	281,060.00
.....	"	52,110,597.10
TOTAL NET PROFIT TO BE DISTRIBUTED	L	117,319,428.48

VINCENZO AZZOLINI.
Governor.

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