

# The Balance-Sheet of the Bank of Italy

by

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The purpose of this survey is to illustrate the several items of the balance-sheet of the Bank of Italy, to put into relief the more notable variations that have occurred from 1938 to 1949, with special reference to post-war developments, and to point out rapidly the more immediate causes. To facilitate matters for the reader we have shown in Table I the situation of the Bank in 1938, 1942, 1945, 1946, 1947, 1948 and 1949.

## I. - ASSETS

### Gold in hand.

The gold holdings of the Bank of Italy are still entered, under the first item on the balance-sheet, at their 1936 parity of 1 kg. fine = 21,381,227 lire (1). The price at which the Bank of Italy makes its gold purchases is however based on the dollar exchange rate (see note (a) on Tab. II). Therefore, in view of the variations in the lira-dollar exchange rate, the purchase price of gold, expressed in current lire, has in these last few years come to differ more and more widely from that of 1936. Under these conditions when, in 1949, the Bank of Italy made some gold purchases, it had to open a special sub-account, described as *counter-value of gold purchased*, under which the difference between the sum actually paid in lire for the purchase, and the figure imputed to the gold reserve, was entered (See Table II) (2).

The Italian gold reserves which at the end of 1938 amounted to 171.8 tons of gold fine, were reduced to 128.1 tons at the end of 1939 and to 106.7 tons at the end of 1940. In 1941 and 1942 they increased as a result of operations with the Bank of International Settlements and the Swiss National Bank, but then the downward trend was renewed. At the end of 1943 the gold reserve stood at 120.4 tons of which only 104.6 were entered on the balance-sheet (as against 125 tons at the end of 1942). 1944 witnessed the removal of the gold by the Germans (72.2 tons) and the settlement of the operations with the Bank

of International Settlements and the Swiss National Bank, to whom 15.8 and 10.8 tons were returned respectively. Thus, at the end of 1944 the gold reserve of the Bank of Italy was reduced to 21.6 tons only, the lowest level ever touched.

In 1946 there was a first increase of 2.8 tons, followed by the striking increase registered in 1948 (34.2

GOLD IN HAND TABLE II

End of year	Gold in hand (a)	Counter-value of gold purchased (b)	Total (c)	Gold in hand
				metric tons
				millions of lire
1938	3,674	—	3,674	171.8
1939	2,738	—	2,738	128.1
1940	2,282	—	2,282	106.7
1941	2,349	—	2,349	109.8
1942	2,673	—	2,673	125.—
1943	2,237	—	2,237	104.6
1944	463	—	463	21.6
1945	463	—	463	21.7
1946	523	—	523	24.5
1947	525	—	525	24.6
1948	1,256	1,633	2,889	58.8
1949	4,224	96,282	100,506	197.6

(a) The gold in hand is entered at the price of L. 21,381,227 per Kg.

The purchase price of gold of L. 21,381,227 paid by the Bank of Italy per-Kg. of fine gold (bullion) in bars of more than 999/1000 as from 5-10-1936, was raised to L. 112,527,532 on 1-6-1945, and to Lire 253,186,947 on 21-2-1946. Between October 10, 1947, and the end of April 1948, it fluctuated between a minimum of Lire 552,510,182 and a maximum of Lire 678,541,017, and was then stabilised at Lire 647,033,300 from May 1948 to September 19, 1949. Since October 1949, the price of gold is fixed by the U.I.C. Since then it has fluctuated between a minimum of Lire 702,181,173 and a maximum of Lire 711,018,000, closing at the end of 1949 at lire 702,707,430.

(b) The counter-value of gold purchased refers to the difference between the total expenditure on purchase at the price paid by the Bank of Italy and the portion entered at the parity price of gold in hand.

(c) The total refers to the sum of the two previous series. The difference between the counter-value in lire of the gold in hand (column 2) at the price paid by the Bank of Italy (cross-rate between the official U. S. dollar exchange rate and the official price of \$ 35 per troy oz. and the total (column 3) gives the available revaluation balance available, on the assumption that the new lira parity be fixed in relation to the Bank of Italy price for gold. The result of this operation reckoned for the end of 1949 would place the value of the revaluation balance at 38,320 million lire (gold calculated at the price of 702,707,430 lire per Kg. fine).

(1) This will evidently have to be changed when Italy declares her lira parity to the International Monetary Fund.

(2) The balance of the Gold in hand does not include the 30 million dollars of gold purchased in the U.S. in 1947 against dollar payments and deposited in Washington prior to the payment to be made to the I.M.F., when the official parity of the dollar will be announced. This item is now included in balances abroad.

## ASSETS

	1938	1942	1945	1946	1947	1948	1949
Oro in cassa (Gold in hand)	3,674.0	2,674.6	463.0	523.2	525.4	1,256.3	4,224.0
Credito sull'estero (Credits abroad)	152.0	—	—	—	—	—	—
Oro depositato all'estero do- vuto dallo Stato alla Banca (Gold deposited abroad due to the Bank by the State)	1,772.8	1,772.8	1,772.8	1,772.8	1,772.8	1,772.8	1,772.8
Cassa (Cash in hand)	467.4	440.0	18,430.9	1,132.1	1,267.7	1,524.2	2,025.7
Portafoglio su piazze italiane (Inland bills)	3,703.6	6,344.1	9,745.9	44,029.4	137,214.2	128,921.8	170,775.7
Effetti ricevuti per l'incasso (Bills for collection)	27.9	7.1	10.1	5.9	19.8	10.0	8.1
Anticipazioni (Advances to customers)	5,686.6	7,041.9	5,443.1	13,084.1	34,257.0	51,735.5	59,871.6
Prorogati pagamenti alle banche di compensazione (Deferred payments to Clear- ing Houses)	77.8	241.2	240.7	1,270.3	5,507.0	5,636.5	5,001.1
Disponibilità in divisa al- l'estero (Balances abroad)	—	—	—	8,689.4	12,814.8	17,204.1	20,508.1
Titoli dello Stato o garantiti dallo Stato (Investments (Government and Government guaranteed se- curities owned by the Bank))	769.3	948.0	888.8	37,760.1	37,482.8	39,343.9	37,734.1
Immobili per gli uffici (Premises)	106.9	115.4	55.6	22.0	52.8	63.9	25.3
Debitori diversi (Sundry debtors)	1,397.2	2,314.9	12,397.2	18,110.9	49,246.2	210,736.9	465,698.9
Partite varie (Sundry accounts)	4,708.1	17,817.3	40,752.6	491.4	4,362.4	4,178.9	4,061.6
Anticipazioni al Tesoro (Advances to the Treasury— Temporary)	1,000.0	1,000.0	1,000.0	1,000.0	100,000.0	100,000.0	100,000.0
Anticipazioni al Tesoro Straordinarie (Advances to the Treasury— Extraordinary)	2,000.0	49,000.0	342,697.0	342,697.0	342,697.0	342,697.0	342,697.0
Emissioni delle Forze Alleate o per conto di esse: (Notes issued by the Allied Forces or on their account):							
a) Amliresse emesse diretta- mente dalle FF.AA. (AM-lire issued directly by the Allied Forces)	—	—	—	114,453.2	113,896.5	113,896.5	113,896.5
b) Fondi in moneta nazio- nale forniti alle forze medesime (Funds in domestic cur- rency supplied to said Forces)	—	—	—	22,198.0	31,433.4	31,245.3	31,245.3

(a) Consorzio Sovvenzioni su Valori Industriali (Consortium for Subventions on Industrial Valuables).

(b) Istituto per la Ricostruzione Industriale (Institute for Industrial Reconstruction).

BANK OF ITALY  
(millions of lire)

## BALANCE-SHEETS, 1938-1949

## Table I

	1938	1942	1945	1946	1947	1948	1949
Conto corrente del Tesoro per il servizio di Tesoreria (Treasury current account)	—	—	—	—	435.4	77,026.8	74,075.8
Impieghi in titoli per conto del Tesoro (Investments in securities for account of the Treasury)	—	—	68,000.0	68,000.0	83,000.0	147,000.0	197,000.0
Servizi diversi per conto dello Stato (Miscellaneous services for a/c of the State)	—	—	—	6,666.6	9,887.6	24,748.0	12,475.3
Uff. C. Parziale finanziamento valute gestione cambi (Italian Exchange Office - partial financing of foreign currency administered)	—	—	—	18,810.0	15.6	—	—
LIABILITIES							
	1938	1942	1945	1946	1947	1948	1949
Circolazione dei biglietti (Banca d'Italia e AM-lire) (Notes in circulation: Bank of Italy notes and AM-lire)	18,953.5	73,320.3	296,021.0	551,051.9	788,127.0	963,012.0	1,048,193.4
Vaglia cambiari, assegni e altri debiti a vista (Demand drafts and cheques outstanding)	905.2	5,754.2	13,448.7	15,098.0	16,233.9	17,872.4	14,718.9
Depositi in conto corrente liberi (Free deposits on current accounts)	815.2	6,223.5	46,865.3	59,118.8	52,541.6	68,027.4	110,744.9
Conti correnti vincolati (Fixed deposits)	339.7	490.8	124,170.4	105,999.1	86,520.1	163,992.3	262,716.9
Conto corrente del Tesoro per il servizio di tesoreria (Treasury current account)	849.8	5,386.6	20,504.6	10,096.6	—	—	—
Cassa autonoma di ammortamento del Debito Pubblico interno (Internal public debt - auto- nomous sinking fund)	4.0	0.2	—	—	—	—	—
Fondo ammortamento I.R.I. (I.R.I. sinking fund)	94.0	302.4	478.7	541.7	—	—	—
Creditori diversi (Sundry creditors)	1,087.1	2,040.9	4,164.4	8,487.9	21,339.6	26,594.1	46,984.8
Tesoro dello Stato - aiuti in- ternazionali (Counterpart-funds)	—	—	—	—	—	58,198.6	159,536.8
Utili netti dell'esercizio (Net profits)	131.4	173.4	75.6	70.9	103.4	199.7	220.7
Capitale sociale (Capital)	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Fondo di riserva ordinario (Statutory reserve)	79.1	253.1	331.7	378.8	409.9	451.1	503.1
Fondo di riserva straordinario (Extraordinary reserve)	16.4	178.0	245.5	281.0	312.9	350.6	413.8

(tons) of which 31.7 were accounted for by the gold returned from the « Brussels pool », and 2.5 by the redemption of part of the gold due to Yugoslavia under the terms of the Peace Treaty. At the end of 1949 the gold in hand had risen to no less than 197.6 tons (against 58.8 at the end of 1948) as the result of purchases made on several occasions in the United States, partly with dollars belonging to the Bank of Italy, and partly with dollars held by the Italian Foreign Exchange Office and ceded to the Bank of Italy as partial cover of the debt the Office had with the Bank for advances received (see further, the item *Sundry debtors*).

The movement of the gold reserve is summed up in Table II.

#### Gold deposited abroad due to the Bank by the State.

This item relates to a loan made by the Bank of Italy to the State in 1924 to enable it to deposit in London an equivalent quantity of gold as a guarantee for war loans received from Great Britain. As a result of the special annuities paid by Germany until the Hoover moratorium, the amount of the deposit fell to 140.4 tons of gold, equivalent, on the basis of the reserve revaluation made in 1927, to 1772.8 million lire. Since then it has remained unchanged (3).

#### Cash in hand.

This item includes Treasury notes, foreign bank notes, coin and the Post-Office instruments held by the Bank of Italy (exclusive, of course, of the Bank of Italy notes themselves and of the AM-lire) (4).

CASH IN HAND TABLE III  
(millions of lire)

End of year	Treasury notes	Coin	AM-lire	Postal and other securities	Total
	a	b	c	d	e
1938	...	...	...	...	467
1939	...	...	...	...	801
1940	...	...	...	...	1,041
1941	...	...	...	...	555
1942	...	...	...	...	440
1943	...	...	2,082	...	2,839
1944	732	...	1,584	363	2,679
1945	929	...	16,821	681	18,431
1946	708	...	...	...	1,132
1947	399	...	...	...	1,268
1948	300	89	...	1,135	1,524
1949	453	113	...	1,459	2,027

(3) This debt of the Treasury to the Bank of Italy was diverted from the gold reserve account as far back as 1928, and so has not followed the revaluation of the reserves made in 1936 (when the lira was devalued). Had this gold been revalued at the purchase price now used by the Bank of Issue, the Bank's credit on the State would stand at 90 milliard lire, instead of the 1.8 milliards entered on the balance-sheet.

(4) From August 1943 to the end of 1945, before the agreement had been reached between the Italian Government

The consistency of the *Cash in hand* from 1938 to the end of 1949 is shown in Table III.

#### Inland bills.

This item brings together the several discount and rediscount operations on bills and securities. Discount operations — for the most part discount of Treasury Bills to private persons — represent a negligible sub-item (at the end of 1949, 1,257 millions lire against 169,520 million lire of rediscounts). Before the war ordinary rediscounts were the major item but during the hostilities and still more so in these post-war years, the first place has been taken by bills relating to the compulsory agricultural pools. The growth of the agricultural pool rediscounts has been partly due to the failure or delay of the State in reimbursing the subsidies for which it was liable, and partly to the scarcity of available funds — reflecting the scarcity of real savings — from which Italian banks, and more especially the agricultural banks that have to discount the bills, have suffered in the post-war period.

The total balance of the *Inland bills* item which stood at 3.7 million lire at the end of 1938, rose in the first years of the war, as a result both of the large volume of rediscounts made by the Consortium for Subventions on Industrial Valuables (5), and of the financing of the agricultural pools. After attaining a peak in 1942 (6.3 milliards), the ever graver military situation introduced the descending parabola which reduced the total balance of the bill-case to a bare 3.8 milliard lire at the end of 1944.

The close of hostilities started an upward trend which continued almost uninterrupted until the end of 1947, with all the characteristic features of inflationary expansion (See Tab. IV). As mentioned above, much the most serious inflationary factor was represented by the bills rediscounted for the pools, which rose from 3.1 milliard lire at the end of 1944 to 100 milliard at the end of 1947. While ordinary rediscounts increased almost threefold in 1946 and tenfold in 1947, they were still barely one fifth of the figure attained by those for the pools.

1948, the first year of relative monetary stability following the inflationary developments of the previous years, marked a pause. Two factors were mainly responsible for this: the government began to make repayments on account of subsidies, and the ordinary rediscounts to the banks were reduced by almost 11 milliard lire as a result of the gradual rebuilding of deposits.

In 1949 the volume of discounts on Treasury Bills became once more normal (1.1 milliard lire), ordinary

and the Allied Authorities under which the former took over the outstanding AM-Lire, the latter were entered under *Cash in hand*. (See Table III).

(5) The « *Consorzio per Sovvenzioni su Valori Industriali* » (C.S.V.I.) to which we shall have occasion to refer several times in this survey, is an institute for medium term credit founded in 1914 and modified on several occasions. It is a public law institute, presided over by the Governor of the Bank of Italy. It rediscounts its bills largely with the Bank of Issue.

rediscounts increased but very slightly (from 9 to 11 milliard lire), but the bill-case for the pools again marked an upward trend (in 1949 the government made no repayments for subsidies). At the end of the year the total consistency of the inland bills had thus risen to 170.8 milliard lire as compared to 128.9 milliard in December 1948.

TABLE IV  
INLAND BILLS  
(Amounts from 1945 to 1949 - millions of lire)

	1945	1946	1947	1948	1949
<i>Rediscounts:</i>					
Agricultural pools	6,936	33,229	100,278	100,460	142,961
C.S.V.I.	1,771	3,402	16,651	15,495	15,535
Ordinary rediscount	938	2,773	20,257	9,066	11,023
<i>Discounts:</i>					
Treasury bills, finance notes, mortgage bonds	63	930	28	3,901	1,257
<b>Total:</b>					
Dec. 20 (a)	9,708	40,335	—	—	—
Dec. 31 (a)	9,746	44,029	137,214	128,922	170,777

(a) As for 1946 the returns for *Inland bills* were made on December 20

The several shifts to which we have just referred have deeply modified the composition of the inland bills accounts as compared to pre-war figures. At the end of 1949, rediscounts for the pools accounted for no less than 84 % of the total (in 1938 36 %); the ordinary rediscounts accounted for 7 % (47 % in 1938); the rediscounts for the Consortium for Subventions on Industrial Valuables, 9 % (12 %); discounts on Treasury Bills 1 % (2 %).

At the end of 1949 the classification of the inland bills by borrowing groups was as follows: Banks, 71.1 milliards; special Agricultural Credit Institutes, 8.4 milliards; C.S.V.I., 15.5 milliards; private clients and other Institutes, 0.2 milliards.

#### Bills for collection.

This item is of very little importance and covers the balance of the bills of exchange collected by correspondents of the Bank of Italy in places where the Bank has no offices and that have not yet been forwarded to the branch offices on whom the correspondents depend (6).

#### Advances to customers on securities and goods.

This item covers, mainly, advances made on the deposit of Government or Government guaranteed securities, and for a very small quota, advances on goods and gold (see Table V). The growth of advances from the end of 1938 to the end of 1949 (from

(6) The balance of this item which stood at the end of 1938 at 27.9 million lire, has gradually fallen to 7.1 million at the end of 1942, rose again to 10.1 million at the end of 1945 and at the end of 1949 stood at 8.1 million.

3,686.6 to 59,872 million (see Table I) has been kept within rather narrow limits when the depreciation of the lira is taken into account. The reason for this is to be sought not only in the prudential policy followed by the Bank of Italy but also in the limited growth of the securities accepted in deposit.

The volume of advances, after the curtailment that occurred during the war — when the banks enjoyed exceptional liquidity — recovered to some extent in 1945 (from 4.1 to 5.4 milliard lire) in connection with the issue of the so-called « Soleri loan » (7). The recovery became more marked in 1946 (from 5.4 to 13 milliard lire) in connection with the 3.50 % Reconstruction Loan (8). 1947 witnessed the most marked increase, due both to private persons and to banks (from 13 to 34 milliards). This was due to the marked inflationary pressure of the early part of the year and also to the policy of credit restrictions adopted in September which reversed the business trend and stressed the scarcity of money on the

TABLE V  
ADVANCES ON SECURITIES  
AND GOODS BY CATEGORIES

(millions of lire - amount outstanding at end of year)

	1945	1946	1947	1948	1949
Advances on Government securities	5,431	13,068	31,716	49,664	58,080
Advances on other securities	(a)	(a)	2,423	2,000	1,755
Advances on goods and gold	12	16	119	69	59
<b>Total</b>	<b>5,443</b>	<b>13,084</b>	<b>34,257</b>	<b>51,735</b>	<b>59,872</b>

(a) For 1945 and 1946 the advances on « other securities » are included among the « advances on Government Securities ».

market. In 1948 the volume of advances seemed to have been stabilised in the early months, but later on there was another marked growth which seems to have been produced, at least to a large extent, by the difference between the official discount rate (5.5 %) and the rate of interest on advances (4.5 %) (9). Finally in 1949, this item has followed a discontinuous trend; the increase over the whole year has been anyhow a narrow one, rising from 51.7 milliards in December 1948 to 59.8 milliards in December 1949 (see Table V). The share of the banks as compared to that of private persons continues to be preponderant (10).

(7) Named after the Minister of the Treasury of the day. It was the first loan offered to the public after the war to meet the more urgent reconstruction needs. It yielded 60 milliard lire.

(8) The Reconstruction Loan yielded 231 milliards.

(9) This difference has been ironed out since April 15, 1950.

(10) The variation of credit utilised in relation to the credit opened is interesting. In 1947 the proportion used by private persons fluctuated between 60 and 80 per cent., in 1948 between

*Deferred payments to Clearing Houses.*

This item covers the balance of the day by day advances granted by the Bank of Italy to the banks and to the members of the Clearing Houses to assure the cover of all their operations. The balances of deferred payments have always been of little importance as compared to the total volume of the assets of the Bank of Italy. At the end of 1949 they amounted to some 5 milliard lire (see Table I).

*Balances abroad.*

This item has again come to the fore in the Bank of Italy statement of March 1946 (11) when the free market for export exchange was established (12). It represents the counter-value in lire of the credits and the foreign bills held abroad by the Bank, which purchases them for the most part from the Italian Exchange Office (Ufficio Italiano Cambi - U.I.C.). They are foreign exchange and credits arising from exports, emigrant remittances, financial operations, etc.

On March 1946 the available amounts held abroad stood at 4,614.6 million lire. From March to December 1946 the sum grew steadily, except for a small decline in November, and reached a peak of 8,689 million lire, equivalent to 86.90 million dollars (See Table VI). A drastic downward tendency set in 1947. The curve touched bottom in July of that year with 4,303.9 million lire, equivalent to 43 million dollars. The decline is all the more serious when it is remembered that of these 43 million dollars no less than 30 million must be considered unavailable owing

50 and 70 per cent.; in 1949 between 57 and 59 per cent. In the case of the banks the trend has been towards a higher percentage of recourse to lines of credit: from 17.25% in 1947, to 35% at the end of 1948, to 36% at the end of 1949.

(11) In pre-war days these items were entered in an account — suppressed in 1940 — entitled *Credits held abroad*. In 1938 this account closed with a balance of 152 million lire, equal, at the rate of exchange of 19 lire per dollar, to 8.4 million dollars. At the end of 1939 the balance had risen to 393.5 million lire, equal to 20.7 million dollars. From 1940 to March 1946 they were classified as a sub-account of the item *Sundry debtors* (See Table VII).

(12) We should remember that since June 1945 the official lira-dollar exchange rate stood at 100 lire per dollar.

A decree that took effect as from 4.1.1946 established an additional quota of 125% on the official rate for foreign exchange obtained from exports (the lira-dollar export exchange rate was thus raised in practice to 225 lire for a dollar). The said exchange had to be surrendered in full to the Italian Exchange Office (*Ufficio Italiano Cambi - U.I.C.*).

A decree that came into force on March 26, 1946, required the surrender of foreign exchange — sterling, U.S. dollar, Swiss Franc, Portuguese Escudo, Egyptian Lira — to the U.I.C. for only 50% of the amounts obtained by the exporter, allowing the remaining 50% to be freely sold on the market. Therefore, from March 26, 1946 until Nov 2, 1947 the export rate has been equal to the average between the U.I.C. buying rate (225 lire per dollar, and 350 since August 2, 1947) and the free market rate.

to the purchase in February 1947 of 30 million gold dollars deposited in Washington to be paid into the International Monetary Fund (See note 2).

## BALANCES ABROAD

TABLE VI

End of year	Millions of lire	Equivalent in millions of current dollars (a)
1938	152	8.4
1939	393	20.7
1945	4,864	48.6
1946	8,689	86.9
1947	12,815	66.8
1948	17,204	(74.5) (b)
1949	20,609	(80) (b)

(a) From February 1947 about 30 millions of gold dollars deposited at Washington are included.

(b) The data in brackets have been calculated.

On August 2, 1947 the lira was devalued (13) and the Bank of Italy revalued its foreign exchange holdings at the new exchange rate (350 lire per dollar, 1411 lire per sterling, 81.59 lire per Swiss franc) surrendering the plus-values resulting from the devaluation to the Italian Exchange Office. In spite of the devaluation, the holdings in foreign bills showed a very small increase in the period from August to October 1947, not more than 5.6 million dollars at most. In November 1947 (14) there was a further devaluation of the lira and the Bank of Italy proceeded to revalue its foreign bill holdings on the basis of 589.47 lire per dollar, 1961.30 lire per sterling, and 149.32 lire per Swiss franc, again surrendering the plus-values to the Italian Exchange Office.

Throughout 1948 this item tended upward, closing at the end of the year at 17,204 million lire, being an increase over the figure for December 1947 of 4,389 million lire (15). The rise continued, though

(13) By a Decree that took effect as from August 2, 1947, the official rate (100 lire per dollar) and the U.I.C. buying rate (225 lire per dollar) were unified and established at 350 lire per dollar.

(14) A Decree that took effect as from November 2, 1947, revived the distinction between the official rate of exchange and the rate of surrender to U.I.C. The official rate remained unvaried (350 lire per dollar) but the U.I.C. buying rate was fixed each month by the Italian Exchange Office on the basis of the free market quotations of the previous month. Thus the U.I.C. buying rate and the free market rate practically coincided. The export exchange rate was stabilised around 575 lire for a dollar until the monetary devaluations of September 1949, when it rose to about 624 lire for a dollar. (See this Review No. 6, July 1948; B. Brovedani, *Exchange Rate Structure and Price Levels in Italy: 1947-1948*, p. 369 et seq.; see also this Review, No. 7, *Statistical Appendix*, Tables R, S, T, U, V, pp. 458-460; and No. 8, *Statistical Appendix*, Tables X, Y, p. 80).

(15) At the exchange rate of 575 lire per dollar the foreign exchange reserves expressed in dollars seem to have increased during 1948 by 7.6 million dollars. This valuation is, however, only an approximate one owing to the increase which occurred

irregularly, throughout 1949 (20,609 million lire at the end of December - See Table VI).

*Government and Government guaranteed securities owned by the Bank.*

Under its Charter, the Bank of Italy may only hold Government or Government guaranteed securities. From December 1938 to December 1945, the volume of the security portfolio showed but slight variations (from 759.3 to 888.8 million - See Table I). A great increase occurred however in 1946 owing to the settlement of the special operations with the C.S.V.I. (16). In 1947, 1948 and 1949, the figure remained practically at the 1946 level (37 milliard lire).

*Premises.*

This item covers all buildings belonging to the Bank of Italy, including the dwelling houses for the staff. Since 1940 (120.4 million lire), the figure has been steadily falling and in 1946 stood at the negligible figure of 22 million lire, owing to the almost complete standstill of new building and the concurrent accumulation of amortisation payments. Since then an upward trend has started which became more marked in 1949. At the end of that year the item *Premises* was entered for 258.3 million as against 63.9 million at the end of 1948.

*Sundry debtors.*

This item brings together a number of accounts summarised in Table VII:

(a) much the most important item is now the ordinary current account of the Italian Exchange Office to which we shall refer further on;

(b) reference has already been made to the item *counter-value of gold purchased*, being the difference between the actual purchase price of gold paid by the Bank of Italy and the price at which the said gold is still officially entered in the gold reserve account (See par. *Gold in hand* and Table II);

(c) we have already referred to the item *Balances abroad* (See par. *Balances abroad* and Table VI); since 1946 this item is entered separately;

(d) the item *Miscellaneous services for a/c of the State* is also entered since 1946 as a separate item. We shall refer to it further on (see respective paragraph);

(e) the last two accounts: 1) *Debt of the State to the International Bank*, and 2) *Other accounts* are of secondary importance.

In view of the importance of the U.I.C. account, we will briefly examine it. To this account are cre-

is the official sterling exchange rate (raised, as is known, in November 1948 to 2,317 lire, i.e. to 4.03 times the dollar rate). We shall not however be far removed from the truth if we reckon the dollar equivalent of the foreign exchange holdings held abroad at the end of 1948 at 74.75 million.

(16) See further on, the item *Sundry accounts* and Table IX.

dated the receipts and debited the payments made by the branch offices of the Bank of Italy, that act as treasurers for the Exchange Office. Therefore, substantially, this Account — added to the item *Balances abroad* — reflects the money movement connected with Italy's foreign trade. A debit balance of the U.I.C. means that the request for Italian currency to pay exporters for the foreign exchange they earn is heavier than the request of importers who want foreign exchange to meet their obligations. Therefore, the expansion of the indebtedness of U.I.C. to the Bank of Italy should be offset by a corresponding increase in the foreign exchange reserves. This is the situation that has arisen in Italy in 1947, 1948 and 1949 (17).

TABLE VII

## SUNDRY DEBTORS

(millions of lire - end of year)

	1945	1946	1947	1948	1949
U. I. C. Ordinary current account					
Counter-value of gold purchased	14	8,097	36,364	193,960	352,847
Balances abroad	—	—	—	1,633	96,182
Miscellaneous services for a/c of the State	4,864	—	—	—	—
Debt of the State to the International Bank	4,426	—	—	—	—
Other accounts	—	—	7,290	7,290	7,290
<i>Total</i>	12,397	18,111	49,228	210,737	465,599

The debit balance of the U.I.C. current account which stood at a little more than 8 milliard lire at the end of 1946 turned definitely downwards in the first months of 1947, until a minimum of 1.8 milliard lire was reached in August of that year. This shrinkage is an eloquent indication of the scarcity of foreign exchange that made itself felt in the summer of 1947, leading to the devaluations of August and November (18). In the last months of the year the situation improved to a marked degree, and at the end of December the debt of U.I.C. to the Bank of Italy had risen to 36.4 milliard lire. In 1948 and 1949 the expansion continued at an accelerated rate, passing from 36.4 milliards at the end of 1947 to 193 milliards at the end of 1948, and to 352.8 milliards at the end of 1949 (19).

(17) The bulk of foreign exchange reserves is entered in the balance-sheet of the U.I.C.

(18) See notes 13 and 14.

(19) The growth of the credit held by the Bank of Italy with the U.I.C. during 1948 was accounted for to the extent of 104.5 million dollars by larger credits on clearing accounts and of 141.5 million dollars by the increase in the available supplies

## Sundry accounts.

This item appeared for the first time in the Bank of Italy's statement for 1947 as a result of the merging of two credit items "Special transactions of the Consortium for Subventions on Industrial Valuables" (C.S.V.I.), and Credit with the "Institute for Industrial Reconstruction" (Istituto per la Ricostruzione Industriale - I.R.I.) and of the debit item I.R.I. sinking fund (See Table VIII).

TABLE VIII  
SUNDY ACCOUNTS  
(millions of lire)

End of year	Special transactions C.S.V.I.	I.R.I.	I.R.I. sinking fund	Total (a)
1938	—	4,708	94	(4,614)
1939	—	4,708	143	(4,565)
1940	—	4,708	195	(4,513)
1941	—	4,708	248	(4,460)
1942	17,817	4,708	302	(22,223)
1943	40,292	4,708	359	(44,641)
1944	41,711	4,708	418	(46,001)
1945	40,753	4,708	479	(44,982)
1946	491	4,708	542	(4,658)
1947	261	4,708	607	4,362
1948	145	4,708	674	4,179
1949	100	4,708	744	4,064

(a) The amount of sundry accounts from 1938 to 1946 is given in brackets, as the three previous series were not yet summed up in a single item.

(A) The opening of the item *Credit with the Institute for Industrial Reconstruction* dates back to the foundation of the I.R.I. in 1932, and is connected with the settlement of the large frozen debts that industrial and banking groups — which then formed the I.R.I. holding — had with the Bank of Italy in the shape of bills rediscounted with it. Since 1932 this item has remained unchanged in the amount of 4,708.1 million lire. The interest and amortisation payments falling due in 35 years' time, as then agreed on, were instead credited, as already mentioned, under the item *I.R.I. sinking fund* (entered among the liabilities of the Bank), which has gradually increased, rising from 94 million lire at the end of 1938 to 744 million at the end of 1949 (See Table VIII).

(B) A much larger amount is entered under the item *Special transactions of the Consortium for Subventions on Industrial Valuables*, which first appeared in the Bank of Italy's Statement for 1942. In that year the C.S.V.I. discounted — and then rediscounted at once with the Bank of Italy — a large block (nearly 17 milliard lire) of 30 year 5% special instruments issued by the Treasury to finance land-

of free foreign exchange. During 1949 dollar assets remained nearly stationary as the new proceeds were utilised for purchases of gold (see par. *Gold in hand*); assets in sterling and credits on clearing account (especially in Argentinian pesos) showed a further marked increase.

reclamation works, but used as a matter of fact by the Ministry of the Interior to make grants to men recalled to the colors and to cover the deficits of the local government bodies. In this way the C.S.V.I. — through rediscounts met by the Bank of Italy — was used to finance expenses that properly belonged to the State budget; this completely changed the character of the C.S.V.I. This policy was continued and in January 1943 a special Act authorised the C.S.V.I. to rediscount with the Bank of Italy special securities issued by the Treasury for financing operations directly connected with war-outlays (payment of munitions, exports of war materials, etc.).

All these operations were accounted for separately from the usual operations of the C.S.V.I. and were grouped under the sub-account *Special transactions* (See Table I). While in 1945 the *Ordinary transactions* were still only slightly in excess of two milliard lire, the *Special transactions* rediscounted with the Bank of Italy, which did not exist in 1941, had jumped up to 17.8 milliard lire by the end of 1942, to 40.3 milliards at the end of 1943, to 41.7 milliards at the end of 1944 (20). In 1945 steps were first taken to find a settlement for these transactions, and

TABLE IX  
ORDINARY AND SPECIAL TRANSACTIONS  
OF CONSORTIUM FOR SUBVENTIONS ON  
INDUSTRIAL VALUABLES  
(millions of lire - end of year)

	1943	1944	1945
Ordinary transactions (a)	1,731	654	2,356
Special transactions (a)	42,612	43,808	42,781
<b>Total</b>	<b>44,343</b>	<b>44,462</b>	<b>45,039</b>
Transactions discounted (b)	(41,823)	42,115	42,716
Transactions not discounted (b)	(2,520)	2,347	2,313

(a) Rediscounted and not rediscounted.  
(b) Ordinary and special.

by 1946 they were brought to a conclusion when the Bank of Italy took over — converted in State securities — the bills of this type rediscounted to the C.S.V.I. Thus, at the end of 1946 the *Special transactions* rediscounted by the Bank of Italy, have been almost cancelled (barely 491 million lire remained), while the government securities portfolio of the Bank of Italy had risen to 37.8 milliard lire (from 888 million at the end of 1945 - See Table I and par. *Government securities*).

## Advances to the Treasury—Temporary.

This item appears for the first time in the balance sheet of the Bank of Italy in 1928, for a sum of 459 million lire; in 1936 it had risen to 1 milliard lire.

(20) This policy was severely criticised by prof. Eisner who described it as a "mala strada" in the Report of the Bank of Italy for the years 1943-5.

This figure remained unvaried until the end of 1947. By a Decree Law of January 21, 1948, the total amount of temporary advances had been raised to 100 milliards (See Table I).

## Advances to the Treasury—Extraordinary.

This item refers to the advances made by the Bank of Italy to the Treasury, guaranteed by special Treasury Bonds (D.M. 31 December 1936). It was by this means that the Treasury during the war years obtained from the Bank of Issue the largest advances.

The balance of this item rose indeed from 2 milliard lire at the end of 1938 to 8 milliards at the end of 1939, 15 milliards at the end of 1940, 79 milliards at the end of 1943. It continued to expand at an accelerated rate during the period of the liberation of Italy by the Allied troops; by the end of 1944 it had reached a total of 202.64 milliard lire (21) and at the end of 1945, 342.7 milliards (22), a figure that has since remained unchanged (23).

## Notes issued by the Allied Forces or on their account.

This item appears for the first time in the Statement of the Bank of Italy at the end of March 1946, as a result of a Convention between the Treasury and the Allies of January 4, 1946 (See Table I) (24). It

TABLE X  
NOTES ISSUED BY THE ALLIED FORCES  
OR ON THEIR ACCOUNT  
(millions of lire)

End of year	Notes issued by Allied Forces			Bank of Italy notes issued on account of the Allied Forces	General total (a)
	a	b	c		
	AM-lire in circulation	AM-lire in the cash of the Bank of Italy	Total		
1943	17,854	2,082	19,936	—	(19,936)
1944	63,811	1,584	65,425	—	(65,425)
1945	86,879	26,821	102,849	—	(102,849)
1946	87,822	26,631	114,453	22,198	136,651
1947	65,865	48,054	113,896	37,433	145,330
1948	51,069	62,828	113,896	37,245	145,142
1949	14,874	99,022	113,896	37,241	145,142

(a) For 1943, 1944, 1945, the general total is given in brackets, as in those years this item did not yet exist on the balance-sheet of the Bank of Italy.

(21) The 1944 increase was due to the extent of 63 milliards to advances made to the legal Government of the South and for 58.6 milliards to the Fascist Government of the North: a total increase of 123.6 milliard lire.

(22) The increase that occurred in 1945 is to be imputed to the extent of 20 milliard lire to the demands of the legal Government and of 130 milliards to those of the Fascist Government of the North.

(23) A Decree Law of December 24, 1947 lays down that no extraordinary advances may be made by the Bank of Italy without a special legislative measure.

(24) The Convention provided that the Bank of Italy would meet the needs of the Allies by the issue of notes of its own; the issue of AM-lire was therefore to cease.

relates to the issue made by the Allies themselves in AM-lire, and to the funds provided to the Allies by the Bank of Italy in national currency (See Table X).

The AM-lire amounted to 19.9 milliards at the end of 1943, to 65.4 milliards at the end of 1944, to 102.8 milliards at the end of 1945, to 114.4 milliards at the end of 1946. There was a slight reduction at the end of 1947 when the figure stood at 113.9 milliard lire. The amount of the national currency issued by the Bank of Italy on Allied account amounted to 22.2 milliard lire in 1946 and to 9.2 milliard in 1947. The total thus stood at 31.4 milliard lire (25). Meantime the gradual replacement of AM-lire by Bank of Italy notes reduced the volume of the former still outstanding at the end of 1949 to 14.9 milliard lire only.

## Treasury current account.

This item sums up all the active and passive accounts held by the Provincial Treasury Offices, for whom the Bank of Italy acts as agent since February 1895.

TABLE XI  
TREASURY CURRENT ACCOUNT  
(millions of lire)

End of year	Treasury debit	Treasury credit
1938	—	850
1939	—	475
1940	1,043	—
1941	—	1,261
1942	—	5,387
1943	47,284	—
1944	98,384	—
1945	—	20,505
1946	—	10,097
1947	435	—
1948	77,027	—
1949	74,076	—

During the war the balance of this account altered between active and passive. From July 1947 onwards the balance has been steadily entered as a credit one in the Statement of the Bank, i.e. it figures as a Treasury debt. At the end of 1949 it amounted to almost 75 milliard lire (See Table XI) (26).

(25) The request for supplies of notes by the U.S. was terminated by the Convention of Jan. 25, 1947. The British authorities ceased their demands 90 days after the signature of the Peace Treaty, i.e. on May 10, 1947.

(26) Under a decree of December 24, 1947 it had been arranged that whenever the Bank of Italy's monthly Statement showed that the current account for its services as treasurer cloied with a Treasury debit of more than 50 milliard lire, the Bank was to ~~report~~ <sup>bring to the attention</sup> at once on the Minister of the Treasury so that he might take the necessary steps. If on the expiry of 20 days the debit balance had not again been reduced to less than 50 milliards, the Bank of Italy was to refuse any further demands for credit. Nevertheless, in April 1948 the 50 milliard ceiling was for the first time considerably exceeded. As the Treasury continued to press upon the Bank, the strict

## Investments in securities for account of the Treasury.

The Bank of Italy receives in the form of fixed deposits payable from 8 days to 6 months, large volumes of liquid resources from the banks (27), which the Bank of Italy reinvests, at least in part, in Treasury Bills. We shall speak further on of the development of these accounts (See par. *fixed deposits*). This item was first registered at the end of 1942 when (Ministerial Decree December 13), an earning investment more liquid than the Treasury Securities, that already filled the portfolios of the banks, was provided for those cash resources that could not be used in ordinary commercial transactions. Substantially, the so-called «indirect monetary circuit» - commercial banks - Bank of Italy - Treasury, was thus set up (28).

TABLE XII

INVESTMENTS IN SECURITIES FOR ACCOUNT OF THE TREASURY  
(millions of lire)

End of year	Bank fixed deposits	Investments in Treasury Bills	Surplus of available funds on investments
1943	18,525	8,000	10,525
1944	85,897	30,000	51,897
1945	120,175	68,000	52,175
1946	101,158	68,000	33,158
1947	83,149	83,000	149
1948	160,835	147,000	13,835
1949	259,962	197,000	62,962

As can be seen in Table XII these fixed deposits amounted at the end of the 1943 to 18.5 milliard lire; the reinvestments in Treasury Bills made by the Bank of Italy stood at 8 milliard lire, leaving a difference between the two items of 10.5 milliard lire. A year later the fixed deposits had risen to 81.9 and the reinvestments to 30 milliard lire, with a difference of 51.9 milliard lire. At the end of 1945 the three figures stood respectively at 120.2-68.0-52.2 milliard lire; the entire increase that had occurred in the fixed

limit of 50 milliard lire was later substituted (D. L. May 7, 1948) by a more elastic system and one more in keeping with the budget position. The new regulation, which is still in force, provides that the Treasury's deficit on current account with the Bank of Italy may not surpass 15% of the total amount of current expenditures appearing in the budget estimates. E. g.: if we take the statement of the expenditure estimates at the end of 1949 for the 1949-50 financial year (1,406,332 million lire), the ceiling of the Treasury debit balance (15%) would be 210,950 million lire, whereas the actual debit balance at that date stood at 74,975.8 million.

(27) A very small part of the fixed deposits (little more than 1% at the end of 1949) came from corporations other than banks.

(28) See M. MANCINI: *The Italian Money Market and the Financing of the Treasury*, this Review, No. 2, July 1947, p. 100 et seq.

deposits during 1945 had been reinvested in Treasury Bills.

Meantime the end of the hostilities and the revival of production under a regime of rapidly rising prices were reducing the liquidity of the money market. At the end of 1946 the fixed deposits had fallen to 101.2 milliard lire, a reduction in a year of 19 milliard; reinvestments in Treasury Bills had not however shrunk, and the difference between the value of fixed deposits and reinvestments declined by 19 milliard (from 52 to 33). The data for 1947 clearly point to a growing illiquidity typical of periods of open inflation. At the end of September, the fixed deposits had fallen to some 48 milliard lire, while the Bank of Italy's investments in Treasury Bills still stood at 60 milliard; this meant that the free deposits held by banks with the Bank of Issue (to which we shall refer further on) had been reinvested by the latter.

In September 1947 the new system of compulsory reserves (29) was introduced, and the inflation was curbed. At the end of the year fixed deposits (*thes inclusive also of the legal reserves*) and the reinvestments in Treasury Bills balanced: 83,149 against 83,000 million lire. The gap was reduced to barely 149 million. In 1948 and 1949 the situation continued to improve. At the end of 1948 the fixed deposits had risen again to 160.8 and the reinvestments to 147 milliard; at the end of 1949 the former stood at 259, the latter at 197 milliard. The difference between the two items thus reached a record of 62 milliard lire. This progressive growth of the difference was made possible by the improved situation of the State Budget which allowed the Treasury to reduce its pressure on the money market (30).

*Miscellaneous services for a/c of the State.*

As stated above, the item *Miscellaneous services for a/c of the State* was included until 1946 under the item *Sundry debtors* (See Table VII). The few data available about its consistency date back to 1945 (4,452.9 million lire). At the end of 1948 the rate of increase took a sudden leap forward and at the end of the year the figure stood at 24,748 million lire. This sudden increase was due to transitory accounts relative to payments made in connection with the enforcement of the Peace Treaty with France, and to the payment of scrips to former Italian prisoners in the United States. When these liabilities had been

(29) On the new system of compulsory reserves see this Review, No. 21, July-September 1949, *Recent Banking Developments in Italy: December 1947 - September 1949*, pp. 25 et seq. - See also in this issue, the note (2) to Table XVII.

(30) The fixed accounts have given rise to the problem (at least in the case of the portion not reinvested in Treasury Bills) of interest payments. Who should pay them? The Bank of Italy or the Treasury? Under an agreement signed in 1944 and still in force, the cost of interest is met by the Treasury.

settled the item *Miscellaneous services for a/c of the State* fell once more to 12,745 million lire at the end of 1949.

## II - LIABILITIES

*Notes in circulation: Bank of Italy Notes and AM-lire.*

An analysis of the economic causes leading to the expansion of the Bank of Italy note circulation during the period under consideration does not come within the scope of this Survey; here we shall only make a few remarks on the technical-accountancy features of the situation (See Table XIII).

TABLE XIII

NOTE CIRCULATION  
(millions of lire)

Year	Bank of Italy Notes	AM-lire	Note circulation - Total	
			End of year	Annual average
1938	18,956	—	18,956	17,363
1939	24,432	—	24,432	21,057
1940	31,306	—	31,306	26,493
1941	49,609	—	49,609	37,297
1942	73,320	—	73,320	56,633
1943	156,632	17,954	174,486	107,418
1944	248,614	63,847	312,461	234,966
1945	296,021	86,029	382,050	357,559
1946	417,210	87,822	505,032	408,164
1947	722,264	65,863	788,127	595,824
1948	911,944	51,069	963,013	812,906
1949	1,033,319	14,874	1,048,193	928,819

The Bank of Italy note circulation consists of notes of 50, 100, 500 and 1000 lire. A Ministerial Decree of August 4, 1945, authorised the temporary issue of 5,000 and 10,000 lire notes to be used for the purpose of currency reform. As later on any project of «monetary purge» was given up, the temporary notes were (as from August 1946) included in the circulation. The Report of the Bank of Italy for the year 1949 gives notice that the printing of the definitive notes for these denominations is now nearly completed.

As noted in the paragraph *Notes issued by the Allied Forces, or on their account* the AM-lire notes began to circulate in the occupied territories in August 1943 (after the landing in Sicily) (31). Under an agreement between the Bank of Italy and the Treasury (January 1946) the Bank of Italy took over the outstanding AM-lire, opening an account to its credit with the Treasury for an amount corresponding to the value of the AM-lire.

(31) The AM-lire were issued not only in notes for denominations rising from 50 to 1000 lire, but also in small denominations of 1, 2, 5 and 10 lire.

The Bank of Italy in 1943-44 endeavoured to hold in its tills as small a volume of AM-lire as possible; on the contrary, in January 1945 it started replacing those that passed through its hands. This is why on the eve of the convention of January 1946 above referred to, the AM-lire held by the Bank of Italy amounted to no less than 20.6 milliard lire, as against barely 1.5 milliard at the end of December 1944. Since then, their collection has been going on more openly, and in spite of the issue of a further 9 milliard AM-lire during 1946, the amount held by the Bank of Italy at the end of 1949 had risen to 99 milliard (32).

The expansion of the circulation and the upward trend of prices have naturally led to an increase in the number of notes for larger denominations more than proportionate to those for the smaller denominations. Thus, while the average denomination stood in 1938 at 165 lire, it had risen to 389 lire at the end of August 1946, on the eve of the issue of the new temporary monetary instruments. Since then the average denomination has rapidly increased, standing at the end of 1949 at 1135 lire (33).

*Demand drafts and cheques outstanding.*

This item covers (a) demand drafts (*vaglia cambiari*) (34), (b) cheques (*assegni*), (c) other instruments payable on sight (*debiti a vista*) (such as telegraphic orders of payment, etc.) issued by the Bank of Italy. As can be seen in Table XIV, demand drafts are by far the most important item; at the end of 1949 they alone amounted to 13,044.5 million lire, whereas the value of the cheques and other sight instruments did not exceed in all 1,674.4 million.

The legal status of the instruments of the Bank of Issue (regulated by the Royal Decree of December 21, 1933) differs but little from that of those issued by the commercial banks. Nevertheless, it has now become customary to use the former almost exclusively for making certain payments (35). As a result of this differentiated use, a comparison between the movement of these two kinds of instruments is not very instructive. Nevertheless one cannot but note the disproportion between the limited growth of those of the Bank of Italy, which by the end of 1949 had

(32) The Act of January 5, 1950 fixes the date of June 30, 1950 as that on which AM-lire cease being legal tender. From then until June 30, 1951 they can be exchanged at the Bank of Italy, the commercial banks, and the post-offices.

(33) The number of bank-notes now outstanding stands around 972 million, as compared to 115 million in 1938. But now, Bank of Italy notes of 50 to 100 lire take the place of the small currency notes in circulation before the war.

(34) Under the Royal Decree of December 31, 1933, the *Banca di Napoli* and the *Banca di Sicilia* were allowed to issue demand drafts.

(35) For instance, until 1948 only Bank of Italy drafts and cheques were accepted for making payments in bank instruments by the Office of the Registrar to the Treasury Offices.

increased barely 15 fold over those in circulation in 1938, (from 716.7 to 13,044.5 million lire) and the enormous growth of commercial and savings banks instruments (36), which had increased not less than 83 fold (from 955 to 81,143 million lire).

TABLE XIV  
DEMAND DRAFTS, CHEQUES AND OTHER SIGHT DEETS  
ISSUED BY THE BANK OF ITALY  
(millions of lire)

End of year	Demand drafts (vaglia cambiali)	Cheques (assegni)	Other sight debts	Total
1937	217	20	13	749
1938	877	23	5	905
1939	1,168	39	11	1,218
1940	1,379	89	1,710	3,169
1941	1,996	120	176	2,292
1942	5,059	394	310	5,754
1943	7,197	680	24	7,902
1944	12,434	1,542	212	14,188
1945	11,873	1,379	197	13,449
1946	12,278	1,806	314	15,098
1947	14,716	1,377	141	16,234
1948	15,674	1,267	932	17,873
1949	13,044	676	999	14,719

The growth of Bank of Italy demand drafts and other instruments took place mainly in the first years of the period under examination, i.e. from 1938 to 1944.

FREE DEPOSITS WITH BANK OF ITALY  
(millions of lire)

End of year	Total	Banking institutes	Non banking institutes			
			Total	Public corporations	A.F.A., U.N.R.R.A., A.U.S.A., I.C.E.	Other accounts
1938	816	—	—	—	—	—
1939	1,268	—	—	—	—	—
1940	2,071	—	—	—	—	—
1941	1,882	—	—	—	—	—
1942	6,224	4,639	1,585	—	—	—
1943	17,385	9,208	8,177	—	—	—
1944	24,643	12,957	11,686	—	—	—
1945	46,865	11,663	35,203	2,289	32,914	—
1946	59,119	20,053	39,066	1,996	32,618	4,457
1947	52,542	33,410	19,131	2,949	12,620	3,562
1948	68,027	23,389	44,638	3,437	7,984	33,217
1949	110,743	27,324	83,411	5,458	39,438	38,513

when they rose from 905.2 to 14,187.7 millions. Since then they have remained practically stationary (at the end of 1949 they amounted to 14,718.9 million lire). This practical arrest in the expansion of Bank of Italy instruments has undoubtedly been due to the permission granted in 1948 to Post Offices and other

(36) *Assegni circolari, fedi di credito, etc.* (a kind of cashier's drafts).

Government Administrations to use also the instruments of other banks in making payments to the Treasury Provincial Offices.

*Free deposits on current account.*

This item covers the cash resources held with the Bank of Italy in the shape of free deposits on current account, either by banks or by other non-banking organisations. Since the war, accounts of the A.F.A. (37), U.N.R.R.A., A.U.S.A. (38) and I.C.E. (39) have been added to the number, and are registered in a separate sub-account (See Table XV). Finally in 1949 another sub-account has been opened (E.R.P. loans) into which 38,525 million lire have been paid (being the proceeds of the sales of E.R.P. goods on the Italian market) as the counter-value, at the rate of 575 lire per dollar, of the 67 million dollars received by Italy as loans under the E.R.P.

Each of these sub-items has a special movement and nature of its own, so that the movement of the item as a whole has little significance. Until the end of 1944 it was mainly fed by bank cash funds, which rose from 4.6 milliard lire at the end of 1942 (for previous years the amounts were not accounted for separately from the free deposits made by non-banking institutions) to 9.2 milliards at the end of 1943 and 12.9 milliards at the end of 1944, as compared to total standing respectively at 6.2-17.4-24.6 milliard lire. It would seem that in those years the banks gave a certain preference to free deposits (more especially

TABLE XV

Bills or other Government securities. During 1945, the flow from the banks came to a complete standstill and began again, though only at a moderate rate, in 1946, continuing in 1947, concomitantly with the growth of the volume of bank deposits. But in 1948 the figure fell (from 38.4 to 23.4 milliards); nor is this surprising when we remember that in the meantime those legal reserves were being built up which provide a further guarantee of liquidity and therefore allow of reducing the liquid assets held in other forms. The shrinkage in 1948 was only partially offset in 1949, when the figure rose from 23.4 to 27.3 milliard lire.

Meantime, there was a shift from free bank deposits to non-banking deposits which acquired priority, including, as they did, several new items to which reference has been made, so that at the end of 1949 they accounted for 78% of the total (83.4 milliards out of a total of 110.7).

*Fixed deposits.*

This item is inclusive of the fixed deposits held with the Bank of Italy and coming both from the banks and from non-banking institutions. It should be noted, however, that the funds coming from the latter have always accounted for an almost negligible amount (at the end of 1949, little more than 1% of the total).

As has been mentioned, the fixed banking account came into being towards the end of 1942 and marked the beginning of the operation of the so-called «in-

direct monetary circuit» (See above *Investments in securities for account of the Treasury*). Reference has also been made to their growth until the end of 1945; to their decline from 1946 to 1947 under the pressure of the revival of production; to their gradual upbuilding once more in 1948 and 1949 as a result of the introduction, in September 1947, of the new system

TABLE XVI  
FIXED DEPOSITS WITH BANK OF ITALY  
(millions of lire)

Year	Total	Banking institutions		Fixed deposits of non banking institutions	Investments in T. B. for bank reserve requirements
		Fixed deposits for reserve requirements	Other fixed deposits		
1938	340	—	—	340	—
1939	491	—	—	491	—
1940	593	—	—	593	—
1941	594	—	—	594	—
1942	491	—	—	491	—
1943	20,565	—	18,525	2,040	—
1944	31,407	—	31,397	1,000	—
1945	124,174	—	120,128	3,996	—
1946	105,999	—	101,158	4,841	—
1947	86,520	73,292	9,856	3,372	32,841
1948	193,992	147,712	13,023	3,257	114,336
1949	262,717	246,416	13,546	2,755	107,385

of legal reserves. In the Table XVI the fixed deposits introduced in 1942 (ordinary fixed deposits) are clas-

INTEREST RATES ON CURRENT ACCOUNT DEPOSITS WITH BANK OF ITALY  
(per cent per annum)

In effect, beginning	Demand deposits				Time deposits				Legal reserves (a)
	Banks	Private	Corporations of social interest	Other corporations	Banks, social insurance and relief institutes		Banks		
					8 day notice	15 day notice	3 month notice	4 month notice	
September 15, 1932	0.50	—	1.50	0.50	—	—	—	—	0.50
September 18, 1933	0.50	—	1.50	0.50	—	—	—	—	0.50
January 2, 1943	1.50	1.00	1.50	1.50	2.50	3.00	—	—	1.50
March 1, 1944	1.50	1.00	1.50	1.50	2.50	3.00	4.00	4.50	1.50
September 11, 1944	1.00	0.50	1.00	0.50	2.50	3.00	4.00	4.50	1.00
March 30, 1945	1.00	0.50	1.00	0.50	2.50	3.00	4.00	4.50	1.00
April 11, 1945	0.50	—	0.50	—	2.50	3.00	4.00	4.50	0.50
January 26, 1946	0.50	—	0.50	—	2.50	3.00	3.50	4.00	0.50
September 1, 1947	0.50	—	0.50	—	2.50	3.00	3.50	4.00	4.25
September 21, 1947	0.50	—	0.50	—	2.50	3.00	3.50	4.00	4.75
January 1, 1949	0.50	—	0.50	—	2.50	3.00	3.50	4.00	5.00
April 9, 1949	0.50	—	0.50	—	2.50	3.00	3.50	4.00	4.75

(a) In 1936 the Banks were required, in order to protect depositors, to pay into special accounts with the Bank of Italy the whole of the deposits received by them in excess of 20 times their net assets. In February 1946 this proportion was raised, owing to the devaluation of the lira, from 1 to 30. Under the new regulations of August 1947, the banks are now obliged to pay into special accounts with the Bank of Italy: a) deposits received up to Sept. 30, 1947, 20 per cent of the amount in excess of ten times their net assets (capital plus reserves). The amount thus tied up must not, however, exceed 15 per cent of the total deposits; b) as from October 1, 1947, 40 per cent of any further increase in deposits. The amount thus tied up must not exceed 25 per cent of the total deposits.

after the rate of interest had been raised from 0.50 to 1.50 per cent as decreed on January 2, 1943 - See Table XVII), rather than to the purchase of Treasury

(37) « Allied Financial Agency ».

(38) « Aid U.S. Administration ». On this matter see G.E.M. *Italy's State Budget, 1945-48*, in this Review, No. 1, January-March, 1949, p. 52.

(39) « Istituto per il Commercio Estero » (Institute of Foreign Trade).

sified apart from those set up in September 1947 as legal reserves (*special fixed deposits*). The passage in 1947 and 1948 of a considerable part of the former to the latter account is evident. At the end of 1946 the ordinary fixed deposits amounted to 101.2 milliard lire; a year later they had fallen to barely 9.9 milliards; but in the meantime the special fixed deposits had been formed and amounted to over 73 milliard lire. The legal reserves continued to grow uninterruptedly in 1948 and 1949 concomitantly with the increase in the volume of deposits. At the end of 1949 they consisted of 246.4 milliard lire, held as fixed deposits, and of 107.4 milliard invested in Treasury Bills (See Table XVI) (40).

Meantime, in the Spring and Summer of 1949, almost all the banks had attained the ratio of 25% between reserves and deposits and therefore only 25% instead of 40% of any further growth of deposits had to be ear-marked as reserves. Thus a larger volume of liquid resources was set free for commercial loans (41).

#### Sundry creditors.

This item refers — as does that of *Sundry debtors* entered on the asset side of the balance-sheet — to a whole series of debit accounts of the Bank of Italy about which only fragmentary details are available. It amounted at the end of 1938 to 1,087 million lire and at the end of 1943 to 5,600 million. It jumped up to 27,530 million (for reasons not yet made public) at the end of 1944, but fell again to 4,164 million at the end of December 1945. Then the upward trend was resumed: 8,488 million at the end of 1946; 21,340 million at the end of 1947; 26,594 million at the end of 1948; 46,085 million at the end of 1949.

#### Counterpart-funds.

This item was entered for the first time on the balance-sheet of the Bank of Italy in May 1948, subsequent to the Convention signed between Italy and the United States on January 3rd of that year. This Convention pledged the Italian Government to transfer to a special account (counterpart-fund) held by

(40) As is known, the legal reserves may consist both of fixed deposits held with the Bank of Italy and of Treasury Bills also deposited with the Bank of Issue. The amount of the Treasury Bills ear-marked for the reserve is stated in the last column of Table XVI; they rose from 32.8 milliards at the end of 1947 to 114.3 milliards at the end of 1948 and stood at 107.4 milliards at the end of 1949. It was in April 1949 that the volume of the Treasury Bills began to decline, with the reduction — which occurred on April 9 — of the rate of interest paid on Treasury Bills from 5% to 4.50%, at a time when the rate of interest on fixed deposits was only reduced from 5 to 4.75 per cent (See Table XVII in the text). Since April 1950 the two rates of interest have been unified.

(41) See *Recent Banking Developments, etc.* loc. cit., p. 235.

the Bank of Italy the equivalent in lire of the dollar value of the goods supplied to Italy under the Interim-Aid programme. Later on the same system was applied to the E.R.P.

Table XVIII shows how the figures entered in the balance-sheet of the Bank of Italy under the heading *Counterpart-funds* have been obtained. At the end of 1949, for instance, the « Notifications » received by the Italian Government both for the Interim-Aid and for E.R.P. supplies, amounted to 345,220.1 million lire, of which 107,502.5 million had already been spent by the Italian Government on the different reconstruction and development plans. The remainder therefore stood at 237,717.6 millions, at which figure the Lira-Fund should have stood. But for a whole series of reasons that we will not go into here (political prices, losses of various kinds and, mainly, deferred payments, etc.), the amounts in lire actually cashed do not always correspond to the counter-value in dollars of the supplies, as shown by the « Notifications ». The difference is covered by advances made by the Bank of Italy to the Treasury. At the end of 1949 these advances amounted to 78,180.8 million lire. If this sum be deducted from that above mentioned (237,717.6 millions), the remainder stands at 159,536.8 million, which is the amount we find entered on the balance-sheet on the Bank of Italy.

#### Net profits.

The trend of the profits of the Bank of Italy shows how greatly charges have increased as compared to pre-war figures and in comparison to profits. At the end of 1938 the net profits of the Bank amounted to 131.4 million lire; at the end of 1949, notwithstanding lira devaluation, they amounted to barely 230.7 millions, being the difference between receipts amounting to 24.2 milliards and expenses standing at 24 milliards.

The absence of efforts to raise the profits has accentuated the non-profit character of the Bank of Issue.

#### Capital.

The Bank of Italy was founded in August 1893 when the *Banca Nazionale del Regno*, the *Banca Nazionale Toscana*, and the *Banca Toscana di Credito* amalgamated. Its original capital was the same as that it now holds, i.e. 300 million lire in 300,000 shares of 1,000 lire each.

Until 1926 the Bank of Italy shared with the two Southern Banks, the *Banco di Napoli* and the *Banco di Sicilia* the privileges of a Bank of Issue. Since 1926, under the Decree Law of 6th May of that year, it has become the sole Bank of Issue.

Under the Royal Decree-Law of March 12, 1936 the Bank of Italy became a Public Law Institute. The

### INTERNATIONAL AID (« INTERIM AID » AND « E.R.P. ») COUNTERPART-FUNDS (millions of lire)

TABLE XVIII

	INTERIM-AID		
	End of 1948	End of 1949	Changes
Notifications . . . . .	92,586.0	101,364.4	+ 8,784.4
Payments incurred . . . . .	28,413.4	46,555.3	+ 18,141.9
Counter-Part Lira-Fund . . . . .	64,166.6	54,809.1	- 9,357.5
Special advances of the Bank of Italy to the Government - gross . . . . .	92,586.0	101,364.4	+ 8,784.4
Reimbursements . . . . .	45,675.4	59,537.5	+ 13,862.1
Special advances of the Bank of Italy to the Government - net . . . . .	46,904.6	41,826.9	- 5,077.7
Funds available . . . . .	17,262.0	12,982.2	- 4,279.8

#### E. R. P.

	E. R. P.		
	End of 1948	End of 1949	Changes
Notifications . . . . .	62,604.7	243,855.7	+ 181,251.0
Payments incurred . . . . .	3,130.3	60,947.2	+ 57,816.9
Counter-Part Lira-Fund . . . . .	59,474.4	182,908.5	+ 123,434.1
Special advances of the Bank of Italy to the Government - gross . . . . .	62,604.7	243,855.7	+ 181,251.0
Reimbursements . . . . .	44,066.9	207,501.8	+ 163,434.9
Special advances of the Bank of Italy to the Government - net . . . . .	18,537.8	36,353.9	+ 17,816.1
Funds available . . . . .	40,936.6	146,554.6	+ 105,618.0

#### INTERIM-AID AND E. R. P.

	INTERIM-AID AND E. R. P.		
	End of 1948	End of 1949	Changes
Notifications . . . . .	155,184.7	345,220.1	+ 190,035.4
Payments incurred . . . . .	31,543.7	107,502.5	+ 75,958.8
Counter-Part Lira-Fund . . . . .	123,641.0	212,247.6	+ 114,076.6
Special advances of the Bank of Italy to the Government - gross . . . . .	155,184.7	345,220.1	+ 190,035.4
Reimbursements . . . . .	89,742.3	267,039.3	+ 177,297.0
Special advances of the Bank of Italy to the Government - net . . . . .	65,442.4	78,180.8	+ 12,738.4
Funds available . . . . .	58,198.6	159,536.8	+ 101,338.2

same Law provided that the capital of the Bank may be held exclusively by Savings Banks, Public Law Banks, Banks of National Interest, Social Insurance and other Insurance Institutes.

In 1938 the nominal capital was raised from 240 to 500 million lire and the paid-up capital from 180 to 300 million.

At the end of 1949 the Savings Banks held the majority of the Bank's capital (59.3 %) while 25.2 % was held by Public Law Banks and Banks of National

Interest, 5 % by the Social Insurance Institute and 10.5 % by other Insurance Institutes.

*Ordinary and extraordinary reserve funds.*

From December 1938 to December 1949 the ordinary reserve rose from 79.1 to 505.1 million lire. During the same period the extraordinary reserve fund rose from 36.4 to 413.8 million lire. The reserves as a whole had thus increased nearly fourfold.