

Operating Costs of the Italian Banks (*)

I - The Statistical Sources and the Overall Cost Structure.

1. — In Italy since the war there has been a good deal of talk about the problem of the banks' expenses, chiefly because it is closely connected with another much discussed problem that is of great importance to the business community: that is to say, the « high » level of the interest rates charged by the banks for loans to their customers.

During recent years we have already devoted several articles to the subject of banking costs (1). Our object then was to state the main items which make up the total costs of the Italian banks; to compare the post-war conditions with those prevailing before the war; and to describe the current trends. In the present article we propose to supplement those earlier studies and bring them up to date.

For this purpose the chief difficulty — and to some extent it is insurmountable — lies in the inadequacy of the statistics. In the main these come under two heads:

a) the data published each month by the Bank of Italy in its « Statistical Bulletin » with regard to the Italian banking system as a whole;

b) the balance sheets of individual banks.

Unfortunately, owing to the way in which the Bank of Italy's statistics are compiled, they

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The term « bank » includes, in addition to ordinary commercial banks, savings banks and credit cooperatives. Institutes for medium-term credit are excluded.

(1) See *I costi di gestione delle banche italiane*, in « Moneta e Credito », No. 7, 3rd Quarter, 1949; *È possibile ridurre i costi di gestione delle banche italiane?*, in « Moneta e Credito », No. 16, 1951; and *Ancora sui costi di gestione delle imprese bancarie*, in « Bancaria », 1952.

cannot be used for our present purpose (2). We have therefore been obliged to fall back on the profit and loss accounts of the individual banks. But even these do not provide an ideal source. The profit and loss accounts which Italian banks *publish* are subject to no rules laying down their arrangement or what they are to contain (3). And they are made out in widely different forms, being often so synthetical that no statistical study can be based on them. This makes it frequently necessary in the present article to fall back on estimates and assumptions, so that readers should use caution in drawing deductions from the results. These results moreover refer to the banking system as a whole or to the main categories of institutions in it (4); they accordingly conceal the differences between institutions, even though such differences may be great.

2. — In our first article, in 1949, we dealt with 10 banks, and in 1951 the second cover-

(2) The chief reasons why they cannot be so used are as follows:

(a) The administrative costs, the interest paid and discount under all heads, are lumped together into a single item called « expenses and losses ».

(b) Many banks set off the interest paid on current accounts against the interest received on loans; they set off the discount paid on bills rediscounted against that received on bills which they discount for customers, and so forth.

(c) The item « expenses and losses » as well as the corresponding item on the side of receipts, appears only as from the end of 1949 onwards. The 1938 statistics on the other hand indicate only the total *net* profit for the year, or losses if any. This makes comparison impossible.

(d) A study of the three « banks of national interest » revealed that for 1949 and 1950 the Bank of Italy's official statistics showed « expenses » at 19,725 million and « losses » at 22,455 million, whereas the profit and loss accounts of the three banks in question showed these items at 33,490.4 million and 37,384.2 million respectively. No explanation of these substantial differences could be found.

(3) Italian banks send to the Bank of Italy quarterly statements which are drawn up on uniform lines; but these statements are not available to the public.

(4) « Public Law Credit Institutes » (five); « banks of national interest » (three); private companies or firms; credit cooperatives; and savings banks.

ed 24. This time we deal with 50, including all the 24 previously discussed, and for all 50 we have obtained the full set of balance sheets from 1937 to 1953. The sample is made up as follows:

— 5 « public law credit institutions », being all that exist in this class (*Banca Nazionale del Lavoro, Banco di Napoli, Banco di Sicilia, Istituto S. Paolo di Torino, Monte dei Paschi di Siena*);

— 3 « banks of national interest », these too being all that exist (*Banca Commerciale Italiana, Credito Italiano, Banco di Roma*);

found to show certain categories of expenditure in a sufficiently uniform manner (5).

3. — We propose in the present study to classify the Italian banks' costs as follows:

I. - *Administrative expenses (or operating costs):*

— expenditure on personnel, social security, pensions, grants, etc.;

— taxes;

— losses, amounts written off, applied to depreciation, etc.;

— sundry expenses.

COMPOSITION OF ITALIAN BANKING COSTS: PERCENTAGE FIGURES

TABLE I

Items	1938		1948		1953	
Interest on saving deposits	69	29	52	6	33	10
Interest on current accounts	31	13	48	6	67	20
<i>Interest paid - Total</i>	100	(42)	100	(12)	100	(30)
Expenditure on personnel	41	24	68	60	60	42
Taxes and dues	15	9	4	4	7	5
Losses, amounts written off, etc.	17	10	15	13	10	7
Sundry expenses	27	15	13	11	23	16
<i>Operating costs - Total</i>	100	(58)	100	(88)	100	(70)
		100		100		100

— 17 banks incorporated as companies or private firms, whose total assets at the end of 1953 represented 67% of those of all banks in this category;

— 12 credit cooperatives, with total assets representing 79% of all those belonging to such institutions at the end of 1953;

— 13 savings banks, with total assets representing 55% of those of all savings banks.

Taken together, the 50 banks at the end of 1953 held 83% of all deposits and current accounts in lire in the Italian banking system. But owing to the differences of arrangement already mentioned it was unfortunately not always possible to add together corresponding items from the balance sheets of all of them. That could be done only where the figures in the balance sheets of the various banks were

II. - *Interest paid:*

— on saving deposits;

— on current accounts.

(5) The following comment may be offered:

A) Among the *administrative expenses* or *operating costs* the item most commonly found in the statements of the 50 banks that were examined is « taxes ». This is found in the case of 37 banks, while expenditure on personnel is shown separately in the case of only 19, not including any of the larger institutions.

As regards the losses, amounts written off, applied to depreciation, etc. the statements of 18 banks (including 10 savings banks) show separate items; but there is obviously great divergence in what these contain.

Nor can it be said that the amount of the operating costs shown in the statements really represents all that was spent, without any offsetting of expenditure against receipts. In many banks it must be supposed that the contrary was the case.

The statements of some banks indicate only one or two items of expenditure. For further details see the table in footnote (6).

B) Matters are no better in regard to the *interest paid*. Of the banks whose statements we examined only 10 indicated

The general breakdown of banking costs is summarised in Table I. The percentage ratios there shown make it possible to point out in a general way several significant aspects of the matter, even though there are so many gaps in the statistics that the results cannot be regarded as indicating anything more than trends.

Among the items making up bank costs in 1938 the largest share, of 29%, was taken by interest on saving deposits. Next came expenditure on personnel with 24%, sundry expenses 15%, interest on current accounts 13%, amounts written off 10% and taxes 9%. By 1948, after war and inflation, the situation had radically changed. Interest on saving deposits had dropped to the modest level of 6%, while the expenditure on personnel alone took 60%, being followed a long way behind by depreciation at 13%. The interest on current accounts had also fallen from 13% to 6%.

From 1948 onwards, in the new conditions of stable currency, a better balanced pattern began to emerge. The expenditure on personnel, although keeping first place, steadily dropped to 42% of the total costs in 1953. Meanwhile the interest on current accounts rose considerably, reaching 20% of total costs in 1953 as against only 6% in 1948 and 13% in 1938.

Total interest paid, after falling from 42% in 1938 to 12% in 1948, was up to 30% again in 1953. Meanwhile the administrative costs, after going up from 58% in 1938 to 88% in 1948, steadily fell to 70% in 1953. But the ratio of these costs to the total still remains higher than before the war, mainly because of the rise in cost of personnel, even though the average rates of interest paid on saving de-

both the interest paid on saving deposits and also, as a separate item, that paid on current accounts. 12 banks make it impossible to see the amount of interest paid even on saving deposits, indicating this in items obscurely described, or even lumped together with discount paid, interest paid on advances and loans received, or brokerage and commission paid, as well as in some cases with interest paid on current accounts. A further 28 banks regularly show the interest paid on current accounts, but add such subsidiary items as depreciation, so that there is ground for supposing that they may have offset the interest paid on current accounts against the interest received on lendings to customers.

posits and current accounts probably rose to some extent between 1938 and 1953.

II - *Administrative Expenses.*

4. — Let us now turn to the administrative expenses, these being the main subject of this article (6). Table II shows the movement in them for the whole of the Italian banking system from 1938 to 1953.

As will be seen, in 1953 the administrative expenses for the entire Italian banking system were close to 200,000 million lire; and they were more than 100 times as great as in 1938, while the deposits and current accounts were 63.6 times their 1938 size. The rise in administrative expenses was thus much greater than that in deposits and current accounts. But the divergence occurred entirely during the war and the early post-war years. From 1949 onwards there was on the contrary a tendency for the difference to become smaller. We then find both indices still rising, but the deposits and current accounts do so faster than the administrative expenses.

It is worth repeating that the post-war rise in administrative expenses (or operating costs) was mainly due to the cost of personnel. Whereas this accounted for 41% of the operating costs in 1938, the corresponding proportion was as high as 68% in 1948, although it then

(6) As regards administrative expenses the figures given in the text are based on the statements of banks in the various groups as follows:

Bank categories	Number of banks considered	Banks considered for the following items of expenses		
		Personnel	Taxes and dues	Sinking funds, Losses, etc.
Public Law Credit Institutes	5	1	1	3
Banks of National Interest	3	—	2	1
Ordinary Credit Banks	17	4	11	2
Peoples' Co-operative Banks	12	5	10	2
Savings Banks	13	9	13	10
Total	50	19	37	18
Operating costs in 1953 (millions of lire)	159,331	33,646.6	85,522.9	82,186.4
% ratio	100	21.1%	53.6%	51.6%

fell to 60% in 1953. Taxes would appear to have declined from 15% in 1938 to 4% in 1948, and then risen to 7% in 1953. A noteworthy relative decrease seems to have occurred in the « losses, amounts written off, and applied to depreciation », which dropped from 17% in 1938 to 15% in 1948 and 10% in 1953. A warning must however be given that this item is of highly doubtful significance, and the percentages relating to it should be treated with great caution. It probably overlaps with the « sundry expenses », since the combined percentage for the two items shows remarkable steadiness.

5. — Let us now try to arrive at the cost — for the banking system as a whole, and for the five main groups which make it up (7) — of administering 100 lire of deposits or of resources in any other form.

To do this we need to know the absolute amount of the operating costs and of the funds administered, in each group of banks. The absolute figures for administrative expenses are given in Table III, which is an extension of Table II. As for the other element in the ratio, namely the funds administered, one could take:

a) lira saving deposits and current accounts; or

b) total assets — of course greater than a); or

c) total assets plus acceptances for account of customers, guarantees given for customers, and confirmed credits opened; or

d) the amount of a) plus that given in the statistics for customers' securities held in safe custody.

If the ratios between a), b), c) and d) were constant over a period of time, then use of any one of the four would merely shift in equal proportion the percentage ratios which we are going to calculate. But in fact those ratios vary not only between groups of banks, but also from year to year between banks in the group.

What is more, the banks' business is not confined to collect money on time deposit and

(7) See footnote (4).

current account and lending it out; they render sundry services, recorded in the balance sheets under separate headings. One need only think of foreign exchange business, collections, accommodation by way of endorsement and so forth. For these reasons it appears best to take c). However, in view of the preminent importance of time deposits and current accounts, we have also worked out the ratio of administrative expenses to these.

TABLE II

OPERATING COSTS IN THE ENTIRE BANKING SYSTEM

Year	Operating costs			Deposits and current accounts	
	Millions of lire	Index (1938 = 1)	Index (prev. year = 1)	Index (1938 = 1)	Index (prev. year = 1)
1938	1,824	1	—	1	—
1948	100,294	55.-	—	2.28	—
1949	122,391	67.1	1.22	30.7	1.34
1950	136,204	74.7	1.11	36.8	1.20
1951	156,348	85.7	1.15	42.6	1.16
1952	178,305	97.8	1.14	52.8	1.24
1953	196,687	107.8	1.10	63.6	1.20

We have also calculated for each category of banks the ratio between total assets and total deposit and current accounts, each as annual averages (Table IV). The object is to show to what extent the banks in each category do business which goes beyond simply employing deposits (8). Clearly the indication thus obtained is valid only in so far as the banks' subsidiary activities give rise to entries in their balance sheets.

6. — The figures in Tables III and IV make it possible to express the Italian banks'

(8) As will be seen from Table IV, at the « public law credit institutions » and at the « banks of national interest » the subsidiary activities showed a noteworthy increase in extent after the war as compared with 1938. This tendency became less pronounced during the last three years (1951-52-53), more so at the public law credit institutions (which returned almost to the pre-war state of affairs in this respect) than at the banks of national interest.

In the other categories of banks the variations in the ratios were smaller. Between 1938 and 1953 the ratio of total assets to deposits and current accounts for banks in the form of limited companies fell from 1.47 to 1.35, that for credit co-operatives dropped from 1.40 to 1.34; and that for savings banks rose from 1.29 to 1.34.

TABLE III

OPERATING COSTS OF THE ITALIAN BANKS

Year	Public Law Credit Institutions		Banks of National Interest		Ordinary Credit Banks		Peoples' Co-operative Banks		Savings Banks		Total	
	Milliards of lire	Index (1938 = 1)	Milliards of lire	Index (1938 = 1)	Milliards of lire	Index (1938 = 1)	Milliards of lire	Index (1938 = 1)	Milliards of lire	Index (1938 = 1)	Milliards of lire	Index (1938 = 1)
1938	0.4198	1	0.4464	1	0.2734	1	0.1567	1	0.5273	1	1.8236	1
1948	27.4477	65.4	25.7485	57.7	16.5560	60.5	8.5520	54.5	21.8310	41.4	100.1352	55.0
1949	32.1918	76.7	30.2272	67.7	21.5120	78.7	10.6970	68.2	27.7630	52.6	122.3910	67.1
1950	35.4880	84.5	32.9728	73.9	24.3980	89.2	12.6830	80.9	32.4310	61.5	137.9728	74.7
1951	40.6228	96.8	37.7386	84.5	28.7310	105.1	13.2910	84.8	35.7100	67.7	156.9934	85.7
1952	44.9601	107.1	43.3511	97.1	32.8600	120.1	15.9990	96.3	41.8070	79.3	178.0773	97.8
1953	49.1000	117.-	46.7852	104.8	36.7210	134.3	15.9180	101.5	48.1630	91.3	196.6870	107.8

ADMINISTERED FUNDS OF THE ITALIAN BANKS: ANNUAL AVERAGES

(milliards of lire)

Year	Public Law Credit Institutes			Banks of National Interest			Ordinary Credit Banks			Peoples' Co-operative Banks			Savings Banks			Total		
	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios
	Deposit and current accounts A	Total assets B	$\frac{B}{A}$	Deposit and current accounts A	Total assets B	$\frac{B}{A}$	Deposit and current accounts A	Total assets B	$\frac{B}{A}$	Deposit and current accounts A	Total assets B	$\frac{B}{A}$	Deposit and current accounts A	Total assets B	$\frac{B}{A}$	Deposit and current accounts A	Total assets B	$\frac{B}{A}$
1938	8.8	15.7	1.78	13.9	21.6	1.55	8.6	12.6	1.47	5.3	7.4	1.40	18.9	24.3	1.29	55.5	81.6	1.47
1948	283.1	534.4	1.89	395.6	529.1	1.73	271.6	374.7	1.38	143.2	293.4	1.42	262.1	343.9	1.31	1,265.6	1,985.5	1.57
1949	374.-	690.6	1.85	404.5	709.-	1.75	372.5	593.4	1.35	189.4	264.7	1.40	365.6	470.3	1.29	1,706.-	2,638.-	1.55
1950	457.5	852.4	1.86	474.4	827.6	1.74	449.2	608.7	1.35	224.9	315.3	1.40	439.4	570.-	1.30	2,045.5	3,174.-	1.55
1951	537.-	1,086.9	2.02	564.8	1,038.3	1.84	520.3	726.3	1.40	246.6	349.2	1.42	496.2	657.6	1.32	2,364.9	3,858.3	1.63
1952	671.6	1,298.3	1.93	709.-	1,253.4	1.77	654.7	896.6	1.37	306.-	423.9	1.39	591.3	792.2	1.34	2,932.6	4,664.3	1.51
1953	809.-	1,459.4	1.80	855.6	1,422.7	1.66	793.1	1,074.7	1.35	370.2	497.5	1.34	703.5	946.9	1.34	3,531.4	5,401.2	1.53

operating costs in per cent both of their deposits and of their total assets. The result of doing so is given in Table V.

As will be seen, for every 100 lire of total assets the banks in 1953 incurred administrative expenses amounting to 3.6 lire as against 2.2 lire in 1938. On every 100 lire of deposits and current accounts the charge for administrative expenses was 5.6 lire in 1953 as compared with 3.3 lire in 1938. The maximum level would seem to have been reached in 1948, when the expense ratio was 5% and 7.9% respectively on the two bases. Between 1948 and 1953 there was thus considerable improvement, reflecting the efforts made by banks to achieve greater efficiency and productivity. Between those two years the reduction in costs would seem to have reached 28% to 29% for the banking system as a whole, with peaks of 33% for « public law credit institutions » and « banks of national interest » and an average of 24% for the other categories.

This return towards pre-war conditions represents a movement towards a better balanced pattern. The increasingly high rate of remuneration offered from 1948 to 1953 on deposits and current accounts was made possible by the relative decline in operating costs.

7. — We have already pointed out the great relative importance of expenditure on personnel since the war. The growth in this item results partly from the rise in salaries which, even in real terms, would seem on the average to have exceeded the devaluation of the currency. But it is due still more to the increase in the total staff employed from 53,000 in 1938 to 93,000 in 1953. This increase in turn largely reflects the changed conditions which have made banking work more complex, laborious and intricate. This is not the place to enter into a detailed analysis of these factors. We must confine ourselves to pointing out some further principal causes of what occurred.

First of all, many departments are now carrying a much heavier burden of clerical work in connection with new services of a public nature for which the banks have been made responsible, such as the foreign exchange

regulation, the administration of import and export controls (and furthermore the volume of Italian foreign trade has grown considerably larger as compared to prewar), etc.

In the second place, the rôle of Italian banks as account-keepers for the community is now much more important than it used to be before the War (10). The range of banking services made available to the public has become broader and more diversified, while the number of bank customers has increased substantially. In other words, in Italy too, the function of the banks as « ledger clerks » for the whole community has increased in importance as compared to the traditional function of « capital intermediaries ».

In the third place, there is a series of maladjustments connected with the devaluation of the lira (to be discussed more thoroughly in para. 11 below), including:

— the inadequate adjustment of the average value of each transaction to the process of monetary devaluation (11). This increases the book-keeping work and the number of accounting entries;

— more work is entailed in handling and holding cash because the denominations of bank notes have not been increased enough to correspond to the devaluation of the lira;

— for the same reason more work is required for handling and holding securities in the form of shares, Government and other bonds and the coupons belonging to them;

— the clerical and accounting work is increased by the need to write numbers with more digits to express the same real values as in 1938. This difficulty has now been partly overcome by dropping the *centesimi* and showing amounts to the nearest lira.

Lastly, we should mention the increased number of bank branches from 7,384 in 1938 to 7,874 in 1953.

(10) In this respect, the expansion of current accounts and cashier checks is highly significant. The former increased 111 times from 1938 to 1953 (saving deposits having increased only 53 times); the latter increased 97 times (end of year figures).

(11) That is to say the average size of each savings bank book, each current account, each inward or outward payment, each bill discounted or collected, each circular cheque, the average par value of each security representing bonds or shares, etc.

No.	A) As percentages of total assets							Indexes of percentages (1938=1)							Indexes of percentages (prev. year = 1)						
	1938	1948	1949	1950	1951	1952	1953	1948	1949	1950	1951	1952	1953	1949	1950	1951	1952	1953			
1	2.7	5.1	4.7	4.2	3.7	3.5	3.4	1.89	1.74	1.56	1.37	1.30	1.26	0.92	0.89	0.88	0.95	0.97			
2	2.1	4.9	4.3	4.2	3.6	3.5	3.3	2.33	2.05	1.90	1.71	1.67	1.57	0.88	0.93	0.90	0.97	0.94			
3	2.2	4.4	4.3	4.2	3.9	3.7	3.4	2.00	1.95	1.82	1.77	1.68	1.55	0.98	0.93	0.98	0.95	0.92			
4	2.1	4.2	4.2	4.2	3.8	3.6	3.2	2.00	1.90	1.90	1.81	1.71	1.52	0.95	1.00	0.95	0.95	0.89			
5	2.2	6.3	5.9	5.7	5.4	5.3	5.1	2.86	2.68	2.59	2.45	2.41	2.32	0.94	0.97	0.95	0.98	0.96			
6	2.2	5.0	4.6	4.3	4.0	3.8	3.6	2.27	2.09	1.95	1.82	1.73	1.64	0.92	0.93	0.93	0.95	0.95			
		B) As percentages of deposit and current accounts																			
1	4.8	9.7	8.6	7.8	7.6	6.7	6.1	2.02	1.79	1.62	1.56	1.40	1.27	0.89	0.91	0.98	0.88	0.91			
2	3.2	8.4	7.5	6.9	6.7	6.1	5.5	2.62	2.34	2.16	2.09	1.91	1.72	0.89	0.92	0.97	0.91	0.90			
3	3.2	6.1	5.8	5.4	5.5	5.0	4.6	1.91	1.81	1.69	1.72	1.56	1.44	0.95	0.93	1.02	0.91	0.92			
4	2.9	6.0	5.6	5.6	5.4	4.9	4.3	2.07	1.93	1.93	1.86	1.69	1.48	0.93	1.00	0.96	0.91	0.88			
5	2.8	8.3	7.6	7.4	7.3	7.1	6.8	2.96	2.71	2.64	2.61	2.54	2.43	0.92	0.97	0.99	0.97	0.96			
6	3.3	7.9	7.2	6.7	6.6	6.1	5.6	2.39	2.18	2.03	2.00	1.85	1.70	0.91	0.93	0.98	0.92	0.92			

The increase in the number of bank employees has caused a reduction in the amount of funds administered per employee. In 1953 there were 93,000 members of bank staffs administering 3,531 billion lire of deposits and current accounts, whereas in 1938 there were 53,000 administering 3,108 billion lire (lire with 1953 purchasing power). The corresponding figures for average total assets were 5,401 billion in 1953 and 4,488 billion in 1938. Thus the average amounts handled per employee were 38 and 58 million lire in 1953, as against 58.6 and 84.7 million in 1938 (12).

III - Cost of Interest Paid on Deposits and Current Accounts; Total Costs.

8. — It is more difficult to investigate the pattern and the amount of the expenditure on interest, more particularly the interest on current accounts (13). Indeed, the cost of interest on current accounts is the really unknown element in any attempt to arrive — on a statistical basis — at the probable composition of costs in the Italian banking system.

As has been already stated in footnote 5, only 10 of the 50 banks considered (14) show in their published statements what they paid out in interest on current accounts separately

(12) The actual amounts for 1938 have been multiplied by 53, this being the wholesale price index for 1953 on the basis of 1938=1, so as to convert them into 1953 lire.

(13) In Italy, debit (minimum) and credit (maximum) banking interest rates are fixed by the so-called « banking cartel ».

The first cartel agreement was signed in 1919 by the four leading Italian banks of that time. Later, under the « Banking Act of 1936 », the rates for the various transactions and the terms of banking services came under the control of the monetary authorities, which were empowered to establish maximum or minimum rates. In the early fifties official limits were being generally disregarded, and, with the toleration of the authorities, the competition among Banks became very keen also in the field of rates. The rates paid on deposits rose to unusually high levels, especially for sizeable current accounts for which, in 1953, there was a tendency to exceed 4% per annum (as compared to an official ceiling of 0.50%).

At the end of 1953, the Banks — which were feeling the adverse effects of excessive competition through rates of interest — signed a new voluntary agreement, rather complicated and favorable to large current accounts. The Agreement was renewed for 1955, with some changes (the 4% maximum rate can be granted only for current accounts held by special categories of depositors and showing an average annual balance of at least 500 million Lire. The same rate is also payable on deposits fixed for at least one year).

(14) 2 public law credit institutions, 7 limited liability companies and 1 credit cooperative.

from the interest paid on saving deposits (15). The figures for these ten banks indicate that in 1938 the total interest paid represented 42.3% of the total costs, while the balance of 57.7% represented administrative expenses (16). In 1948 the interest load had fallen from 42.3% to 12.3%, only to rise steadily during the next few years to the level of 25.7% in 1953.

Would it be safe to regard this percentage as applying to the whole banking system? We think not. In Table I indeed the ratio of expenditure on interest to total bank costs was put, for the whole banking system, not at 25% but at around 30%. We cannot enlarge here on the reasons for this adjustment (17). They are however based on the difference in relative importance of current accounts, and in the growth of operating costs, as between the 10 banks and the banking system as a whole.

In the field of expenditure on interest, in the whole banking system, the growing weight of interest paid on current accounts is highly significant. This rose from 31% of total interest costs in 1938 to 48% in 1948, and to 67% in 1953. The rise can be explained only in part by the higher rate of growth in current accounts than in saving deposits; aside from that it reflects the favoured treatment accorded to current accounts of a certain size under the pressure of competition, which had become especially keen in the period preceding the inter-bank agreement of January, 1954.

(15) Even for these 10 banks one must certainly make reservations as to whether all the costs are shown in their profit and loss accounts. Probably for instance the discount paid on rediscounted bills (amounting to considerable sums, especially for those banks which finance grain storage agencies), the interest paid on carry-over loans and advances taken, and the commissions paid to correspondents for collections or other services, as well as other outgoings have been set off against receipts of a similar nature. In fact the 10 banks in question show outgoings under these heads in 1953 to the extent of only 260.3 million lire, which we have neglected. Actually it is quite reasonable to set off the outgoings against the receipts under these heads, and the practice does not seriously hinder interpretation of the figures.

(16) Before deduction of « category A income tax » paid by the banks on deposit interest without the right of recovery being exercised. If this tax is deducted from the operating costs and added to the interest paid, the latter would amount to at least 50% of the total costs.

(17) The point is discussed in the Italian edition of this article. See « Moneta e Credito », No. 27, 3rd Quarter of 1954.

9. — The average level of the rate of interest now paid on deposits and current accounts as a whole is not shown in the available statistics, nor can it be calculated therefrom. The best that can be done is to estimate the rate. We have put it at 2.50% for the whole banking system in 1953. If it is borne in mind that for 1950 we put the average rate

between total costs and funds administered for the individual groups of banks and the banking system as a whole in 1953. It will be seen that for each 100 lire of total assets administered the banks in that year had expenses of 5.2 lire, while on each 100 lire of deposits and current accounts the charge was 8 lire.

TOTAL COSTS IN ITALIAN BANKING SYSTEM FOR 1953, BY BANK CATEGORIES TABLE VI

	Administered funds		Total costs			% Ratio:	
	Deposit and current accounts	Total assets	Credit interests	Operating costs	Total	of total costs to deposit and current accounts	of total costs to total assets
	1	2	3	4	5	6	7
	(milliards of lire)						
Public Law Credit Institutes	809.0	1,459.4	20.2	49.1	69.3	8.5	4.7
Banks of National Interest	855.6	1,422.7	21.4	46.8	68.2	7.9	4.7
Ordinary Credit Banks	793.1	1,074.7	19.8	36.7	56.5	7.1	5.2
Peoples' Co-operative Banks	370.2	497.5	9.3	15.9	25.2	6.8	5.0
Savings Banks	703.5	946.9	17.6	48.2	65.8	9.3	6.9
<i>Total</i>	3,531.4	5,401.2	88.3	196.7	285.1	8.0	5.2
<i>Percentage distribution</i>			30.9	69.1	100		

of interest on deposits at around 0.60% (18), the extent of the upward movement during the last few years becomes evident. By 1953, in fact, credit interest rates had reached levels definitely higher than before the war, since it may be assumed that the average level in 1938 was lower than 2.50%.

10. — On the assumption that the average rate of interest paid to depositors was 2.50%, Table VI sets out to show the amount and the breakdown of total costs in the Italian banking system. Readers should especially notice columns 6 and 7, showing the ratio

(18) See *Ancora sui costi di gestione delle banche italiane*, loc. cit.

These ratios, however, are to be taken with considerable caution. It should not be inferred therefrom that the banks, in order to break even, must obtain from their assets an average gross profit of not less than 5.2%. The average return from total assets (and it should not be forgotten that this is an average deriving from widely diversified elements, including non-interest-bearing items and items yielding little interest) can be somewhat lower, because an overall calculation of receipts should include all monies received by the banks from the so-called « subsidiary services ». The latter have acquired increasing importance in the last few years, and not always do they result in entries in the balance sheets of the banks.

IV - Prospects for Bank Costs.

11. — During the first few years after the war the growth of bank costs seemed closely connected with inflation and the related contraction in total deposits and current accounts expressed in real terms. This aspect of the matter tended to overshadow all the other factors which also went to swell the bank's administrative expenses. But those factors became apparent when the fog of inflation cleared, and total saving deposits and current accounts first equalled and then exceeded the 1938 figure in terms of real values.

Evidently, if the banks' deposits keep on growing to a considerable extent, their operating costs ought to feel the benefit. Indeed, the hope that the ratio of costs to funds administered can be further appreciably reduced is mainly based on that expectation. Yet nobody can at the moment foresee how fast the deposits and current accounts will grow. Nor would it be safe to extrapolate the curve as found for the years 1948 to 1953, which would indicate growth at an average annual rate of about 20%.

Apart from growth in the total of deposits and current accounts, the possibility of further reducing bank costs depends on a number of conditions relating to organisation and technical methods. While these may in the aggregate be of considerable importance, the banks are in many cases unable to change them. Let us recapitulate:

A) In paragraph 7 we pointed out that bank note denominations had not been raised to accord with the devaluation of the currency (19). On 30th September, 1951 a mil-

(19) On 31st December, 1938 there were in circulation 115 million Bank of Italy notes of denominations ranging from 50 to 1,000 lire and amounting to a total value of about 19 billion lire. On the average, therefore, 6,069 notes were needed to make up each million lire.

On 31st December, 1953 there were in circulation 411 million Bank of Italy notes, of denominations ranging from 500 to 10,000 lire, and amounting to a total value of about 1,448 billion lire. Accordingly, 284 notes were required to make up every million lire. The notes for 50 and 100 lire have become notes of the Government, but must be included in the calculation so as to keep the basis the same. On 31st December, 1953 they numbered at least 400 million, their total value being about 30 billion lire. At that date, therefore, there were altogether 811 million notes in circulation, to a total value of 1,478

lion current lire required 663 notes of various denominations on the average. The number required in 1938 was 6,069; but, if this is divided by 56, being the proportion in which wholesale prices had risen by 1951, it becomes only 108. Thus the work of cashiers has been increased in the ratio of 663 to 108, that is multiplied by 6.1. There was certainly some improvement between 1951 and 1953, when this ratio dropped from 6.1 to 4.8; and this no doubt contributed towards the relative decline in bank costs during those years. But we are still far from having returned to the conditions existing in 1938.

It is not easy to express this unbalanced position in terms of the greater cost of the cashiers' work to the banks. There can however be no doubt that the increase in cost is substantial, because certain cost elements in the cashiers' department are closely proportionate to the quantity of notes and coins handled.

B) The banks are also having trouble with their work in connection with securities such as shares and Government and other bonds. The total number of securities circulating in Italy would seem to be not less than 50 million actual pieces of paper, without counting the Ordinary Treasury Bills, of which however not many circulate. To the question whether the average par value of each security is high enough in view of the new post-war value of the currency the answer is definitely « no » (20).

billion lire, so that there were on the average 550 notes for every million present-day lire.

Applying a devaluation coefficient of approximately 53 one finds that for each million present-day lire the number of 1938 notes required would be $\frac{6,069}{53} = 115$. Thus the ratio between 1938 and 1953 is 1:2.3 if the 50 and 100 lira notes now issued by the Government are excluded, and 1:4.8 if they are included.

(20) The par value of each mortgage bond is at present 500 lire, the same as it has always been.

The securities representing *Government consolidated and redeemable debt* have not been the subject of any great changes. Only in the case of the 3.5% redeemable debt 1934 have the securities been compulsorily exchanged into new ones of a par value of 1,000 lire each, while a similar scheme is contemplated for the 3.5% rentes of 1902 and 1906.

In the case of *Treasury Bills* the par value of each security has been raised from 500 to 5,000 lire in the most recent issues.

The par value of *bonds of companies and public institutions*

C) Moreover, the average value of each bank transaction of the common types is also too low in view of the devaluation of the currency; but it seems fair to suppose that the market does not feel the need for an all-around revaluation. Let us make this point a little clearer:

(1) From certain incomplete statistical records of investigation it would seem that only the denominations of circular cheques and of the cheques issued by the Central Institution for Savings Banks are on the average as large as they were before the war. But it would also seem reasonable to suppose that this results merely from the wide use of cheques of high denomination, say of 3 to 5 million lire each, and not from any increase worth mentioning in the amount of the cheques issued each year as a whole.

(2) Nor has there been an adequate rise in the average size of *saving deposits and balances on current account*. Their number on 31st December, 1953 was extremely high at 19,247,241; and this fact helped to increase operating costs. It has been suggested that the number of deposit accounts is actually much larger than the number of depositors. This suggestion is based partly on knowledge of depositors' habits, and is supported by the fact that active customers of the banks at the end of 1953 numbered only 2,846,855. It is therefore to be hoped that the banks may devise some means of substantially reducing the

number of their deposit accounts, with a corresponding reduction in costs.

(3) Even more intractable, if one may judge from the scanty data collected, is the problem of *bills of exchange*. The average amount of the individual bill would seem to have remained ever since 1948 at around 37 times what it was in 1938.

D) Finally, certain other statistics which have been collected suggest that the period which elapses between each banking transaction and the next one of the same kind grew shorter between 1938 and 1953. This again means a relative increase of work for the banks.

To conclude, if the ratio of bank costs to administered funds is to be brought down further, then the growth of deposits which has occurred during recent years must continue, while any increase in costs must be kept within narrow limits. Further, the average size of each transaction must be made to accord better with the reduced value of the currency; the many hindrances and restrictions must be removed or made less irksome; and the banks must be tireless in rearranging and improving their own organisation and accounting systems. Finally, competition among the banks must not prevent an agreement to fix deposit rates on a sound basis, reconciling the need to increase banking resources with the equal need to keep the cost of bank loans within such limits that they can be borne by borrowers.

12. — There can be no doubt that bank costs still remain relatively high, mainly because of the heavy burden of expenditure on personnel. And yet, if the facts are realistically considered, it must be said that between 1948 and 1953 operating costs were steadily reduced by a considerable margin in relation to total deposits. The average amount of funds administered per employee has risen; the banks have done much to rationalise their work and improve productivity; and these facts together have produced considerable results. One result was to make it easier to pay higher rates of interest to holders of saving deposits and current accounts in the way that has been several times mentioned.

As can be seen from the figures given in this article, the relative decrease in operating costs during recent years has been partly offset by the rise in interest paid on deposits and current accounts. These two categories of costs however are not to be lumped together in one item, because they indicate very different things. It is only the operating costs which can show how much the banking system is « costing » the community; interest paid, on the other hand, goes straight back to savers. As a matter of fact the rise in rates of interest paid, coupled with a steady reduction of the rates charged by banks for loans of all kinds, has benefited both savers and the

business community (21). In the case of current accounts, which now represent about half the total of deposit and current accounts together, there is ground for wondering whether the rates of interest paid in 1953 and 1954 did not reach too high a level in view of the fact that such accounts ought by their nature to represent working cash balances. The future inter-bank agreements ought to exert a moderating function.

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(21) From 1950 to 1953, while the average general rates on deposits and current accounts increased probably from 0.60% to 2½%, the overdrafts rates in the major cities decreased to under 8% for clients with excellent credit ratings, and the rates on commercial bills are now ranging around 6%.

is tending to be generally fixed at 5,000 lire, whereas in the past it was usually 500 or 1,000 lire.

As to *shares of companies* the only regulation is contained in the Law of 1948 with regard to cooperatives; it lays down a minimum par value of 500 lire. For other companies the par value of the shares ranges from one lira upwards, while par values of 100, 250, 500 and 1,000 lire are frequent. If one takes only those shares which are officially quoted on stock exchanges, the average par value works out at roughly 7 times what it was in 1938.

It is true that the use of certificates representing a number of shares avoids much of the trouble and expense entailed in handling securities; but it is often necessary to refer to the original par value, which brings the expenses up again. Nor is it possible to say whether the use of multiple certificates is as widespread as it ought to be.

It may finally be mentioned that Royal Decree Law No. 1148 of 25th October, 1941, by requiring that all shares must be in registered form, considerably increased the volume of work falling on the banks by comparison with 1938 and the pre-war period.