

The Banking Year 1947 in Italy

by

MARCELLO MANCINI

1. - 1947 will be a memorable year to the annals of Italian banking as it threw into high relief the influence exercised by banking activities on monetary dynamics and placed credit policies in the centre of the events affecting our national economy.

The basic problems involved in this interesting experience, both in their theoretical and practical aspects, have been already dealt with in this Review (1). We will not reexamine their implications in this paper, but only bring up to date the series of recent legislative and statistical developments related to Italian banking in the last phase (2).

Bank of Italy: regulation of advances to the Treasury, and strengthening of money market controls.

2. - The close ties created by war financing between the Treasury and the Bank of Issue—no longer the "bankers' bank" but the Treasury's bank (3)—has led some to assert that since 1937 the Bank of Italy has been "defenceless and powerless to resist the demands of the Government" (4), because it has been deprived of the weapon provided by the customary legal "ceiling" placed on extraordinary advances to the Treasury.

While we agree that the fixing of such a limit strengthens the possibility of the Central Bank to withstand the demands of the Treasury, it should however be noted that such a

"ceiling" can always be set aside by modifying the terms of the law, especially in times of emergency when the Government is vested with plenary powers. Moreover, recourse to the Bank of Issue may be disguised, especially as was the case in the early years of the war, by taking the form of "indirect" advances (5).

In Italy, indeed, all the measures which enabled the Treasury to apply for "extraordinary" advances, and therefore for the provision of bank-notes, were repealed by the R. Decree of June 17, 1928, No. 1377, which also laid down that the Bank of Italy was only required to supply the Treasury with "temporary" advances for amounts not to exceed 450 million lire, for which it was to receive interest at the rate of 2% per annum. To meet the requirements of the Treasury cash service, the Treasury was to leave with the Bank a permanent liquid fund of 50 million lire.

But conditions arising from the Ethiopian campaign modified the relations between the Treasury and the Bank, and the latter's power of resistance began to be weakened.

Not only did the Ministerial Decree of December 31, 1936, raise the ceiling of temporary advances from 450 million to 1 milliard lire, but it laid down that whenever the emergency requirements of the Government made it necessary, further (extraordinary) funds could be placed at the service of the Treasury under an agreement to be reached on each occasion, against the guarantee given by Treasury Bills. The Treasury was also released from the obligation of depositing with the Bank the permanent fund of 50 million lire for its cash service.

(5) To this class belonged the so-called special operations of the Consortium for Subventions on Industrial Securities (Consorzio Sovvenzioni su Valori Industriali), which were afterwards discounted by the Bank of Italy.

(1) A. GAMBINO, *Recent Developments in Banking Activity in Italy*, No. 2, 1947, p. 109; and L. FEDERICI, *Six months of Italian Economic Policy*, No. 4, 1947, p. 246.

(2) For previous years, see M. MANCINI, *The Italian Money Market and the Financing of the Treasury*, in this Review, July 1947, p. 100.

(3) Report of the Bank of Italy on the financial year 1945, p. 88.

(4) P. JANNACCONE, in the newspaper "La Nuova Stampa", June 26, 1947.

Now, while temporary advances, whose original purpose was that of increasing Treasury elasticity, continued until the last months of 1947 to be limited to 1 milliard lire, the extraordinary advances, for which no ceiling was fixed, rose steadily from 2 milliards in 1938 to 8 in 1939, 15 in 1940, 29 in 1941, 49 in 1942, 79 in 1943. In 1944—the year in which the Bank was under two separate managements—the advances jumped up to 202.6 milliard lire, the increase of 126.6 milliards being due as regards 65 milliards to transactions with the legal Government, and as regards 58.6 milliards to those with the administration in North Italy. The indebtedness of the Treasury to the Bank was accompanied by an increase in the debit balance of the current account for the cash service, a debit which at the end of 1944 stood at 98.4 milliards, being an increase for that year of 51.1 milliards, of which nearly four fifths were owed by the section of the Treasury operating in the territories under German occupation (6).

In 1945, other extraordinary advances were made, the large debit balance of the Treasury current account being consolidated with them. The extraordinary advances thus rose to the figure of 342 milliard lire, while the current account of the Treasury closed with a credit balance of 20 milliards (7). These figures remained practically unchanged at the end of 1946, when temporary and extraordinary advances stood respectively at 1 and at 342 milliard lire, and the Treasury account closed with a credit of some 10 milliards.

During 1947 the Treasury account again closed with a debit balance which rose from 32.5 milliards at the end of November to 100.8 at the end of December. This debit item was englobed in the temporary advances, whose ceiling has been raised by a Decree of January 27, 1948, No. 7, to 100 milliard lire, thus reducing the debit balance of the Treasury current account to little more than 400 millions.

This progressive deterioration of the situation stimulated a movement for introducing regulations which would again assure the Bank of Issue some degree of protection in its rela-

tions with the Treasury, and which above all would enable the Parliament to exercise control over further Treasury demands. This led to the Decree Law of 24-XII-1947 (8) providing that no new extraordinary advances could be made unless their amount was fixed by a special law, thus abolishing the discretionary powers vested in the Executive in this matter, and reintroducing a new—though flexible—"ceiling".

Moreover, the Bank of Italy under certain rules of procedure, was disallowed from giving effect to further overdrafts on the Treasury current account, should that account show a debit balance in excess of an amount which the Decree of 24-XII-1947 had fixed at 50 milliard lire. But as in April 30, 1948, the debit balance with the Treasury had risen to 81 milliard lire, a new Decree Law was issued on May 7, 1948, No. 544, which provides that the indebtedness may not exceed 15% of the total amount of the original budget estimates of expenditure and their subsequent revisions. Thus a fixed limit has been replaced by a variable one expressed as a percentage (9).

3. - When the war came to an end, the situation of the Bank of Issue in its relations with the money market had also been modified by the markedly liquid conditions prevailing in the banks, the reduced efficiency—due to inflation—of some of the means of control, changes in the powers and jurisdiction of certain organs, etc. Here we need only refer briefly to the basic lines of the organization in force prior to the introduction, in July-August 1947, of the new regulations.

Art. 11 of the R. Decree Law of March 12, 1936, No. 375, and subsequent amendments, assigned the protection of savings and the control of credit to an Inspectorate placed under a Committee of Ministers. To assure uniform action, the Governor of the Bank of Italy was placed at the head of the Inspectorate.

The Decree Law of September 14, 1944, No. 266, abolished the Inspectorate whose

(8) See Report of the Bank of Italy for the financial year 1947.

(9) As the total expenditure for the budget of 1948-49 is estimated at 1,087 milliard lire, the deficit of the Treasury account may attain the sum of about 165 milliards, or more than three times the previous "limit".

powers, along with those vested in the Committee of Ministers, were taken over by the Ministry of the Treasury; the Bank of Italy retained only its function of executive control over the Banks. Moreover, while the functions of the Treasury were limited in the field of ordinary credit transactions to laying down regulations, it not only issued regulations but exercised direct control over industrial, agricultural and mortgage credit operations.

During the period that elapsed between the date of the renewed unity of the national territory (April 1945) and the early months of 1947, the distribution of functions between the two organs was found to be far from that best suited for tackling credit problems, and in July 1947 the Government decided that the time had come for decisive action.

Decree No. 691, of July 17, reestablished an "Interministerial Committee on Credit and Savings" to which it assigns "general supervision for the protection of savings, and over matters relating to credit transactions and foreign exchange". The Minister of the Treasury is the Chairman of the Committee on which sit the Ministers of Public Works, Agriculture, Industry and Commerce, and Foreign Trade. The Governor of the Bank of Italy takes part in the meetings of the Committee exercising "the powers and functions vested in the Head of the Inspectorate of Credit" by the Bank Act of 1936. "In making its enquiries and carrying out its decisions the Committee makes use of the Bank of Italy to which are assigned the functions of the Inspectorate of Credit".

We have thus returned in part to the pre-war system; the suppression of the Inspectorate of Credit still holds good, its place being taken, generally speaking, by the Bank of Issue.

As regards the means of control, it should be remembered that open market operations have not yet been introduced into Italy, nor do our experts deem it advisable to introduce them, owing to the special structure of our financial market (10).

Nor could the bank-rate be relied on in the new market situation, especially under exist-

ing inflation conditions in Italy. The Governor of the Bank of Italy stated this publicly in March 1947, and more recently he remarked (11) that, even when it was raised from 4 to 5.50 per cent in September 1947, it only brought about a temporary slackening of the demands of the banks which soon after began again to increase (12). Nor was it possible to trust to "persuasion", whose effects seemed doubtful in view of the dynamic credit expansion in the first half of 1947.

After many debates, an efficient means of controlling credit operations—whose expansion together with the growth of the volume of the currency helped to accelerate the progress of inflation—was found in the introduction of a special system of compulsory bank reserves, as provided by the measures taken in August 1947. The characteristic feature of the new system, which enabled the Bank of Italy to control once more the money market, and its first effects on the Italian economic situation, have already been illustrated in this Review (13) and will therefore not be reexamined here, but as the new policy was inspired essentially by the desire to adjust the grant of credit to the formation of savings, we shall now consider some aspects of the movement of deposits and bank investments in 1947.

The movement of bank deposits and loans in 1947.

4. - The Inter-Ministerial decision of August 4, 1947, introducing, as from the following 30th of September, the new system of reserve requirements, made yet more apparent the insufficiency of savings, substantially due to a situation arising from the shrinkage of national income. The problem had been rendered more acute by the shifts in purchasing power, which with the advance of inflation has passed from social groups traditionally accustomed to saving, to others in whom the saving "propensity" is less developed. In the special case of bank activity, the tendency of

(11) Report of the Bank of Italy for the financial year 1947.

(12) Indeed, the introduction of the new reserve requirements, by inducing the banks to mobilise their bill-case, may even have led to an increase in the number of rediscounts.

(13) See L. FERRACCI, *Six Months of Italian Economic Policy*, loc. cit.

(6) See Report of the Bank of Italy for the financial year 1944.

(7) See Report of the Bank of Italy for the financial year 1945.

(10) Report of the Economic Committee of the Ministry for the Constituent Assembly, Vol. *Credito e Assicurazione*, Rome, 1946.

the classes to whom the "conjuncture" was beneficial to keep the profits they have made in the form of cash, so as to evade assessment for taxation, or else to invest them personally in reconstruction works, has reacted on bank deposits in a far from negligible manner.

This shifting of funds from bank deposits has also been ascribed to the low rates of interest paid for them, but it seems doubtful whether the revision of the rates would prove effective in redirecting a larger flow of savings toward the banking system. To secure this there must first be confidence in the lasting stability of the purchasing power of the currency.

The restricted average increment of the mass of deposits as compared to 1938, and the higher rate of increase of prices which determines the need of credit, gave rise to the insufficiency of the means at the disposal of the banks for meeting the growing demands of their clients. And this insufficiency has been felt even if the nominal amount of bank deposits (savings deposits and current accounts with clients) had been growing almost every month in the first part of 1947 (see Table I).

As from July, however, the growth of deposits slackened, and in October it barely amounted to 0.6 per cent. This second phase coincided with the policy of credit stringency and afforded evidence of the interaction of deposits and credits. November brought symptoms of recovery. In December—a month marked by a conspicuous issue of bank-notes—the recovery was definite and decisive, with an increase (inclusive however of the capitalization of some 10 milliard lire worth of interest instalments) of 53.5 milliardi, being a percentage of 5.6, the highest recorded during the year. The ups and downs experienced in the second half of 1947, affected the current accounts with clients rather than savings and sundry deposits. Thus, while in 1946 the latter increased by 127.6 milliardi, and the former by 163.8, in 1947 the former increased by 160.3, the latter by 155.6 milliard lire.

While total bank deposits thus increased by 315.8 milliardi (291.5 in 1946), the note circulation (Bank of Italy notes, Am-lire and Treasury notes) increased by 282.3 milliardi (122.9 in 1946). The ratio deposits-circulation, which stood at barely 3 in the pre-war period, has

TABLE I

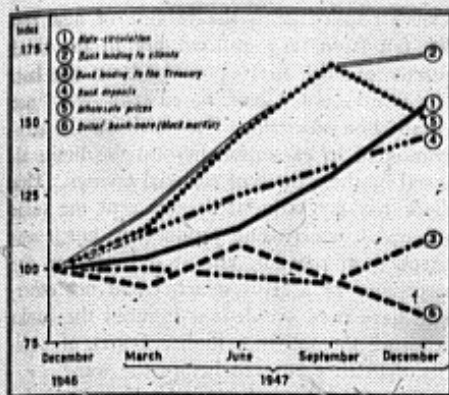
NOTE-CIRCULATION, BANK DEPOSITS AND BANK CREDITS TO CLIENTS IN ITALY (1947)

End of Month	Note-Circulation (a)			Total Bank Deposits (b)			Bank Credits to Clients ("Impieghi") (c)			Ratio of bank deposits to note-circulation %	Ratio of bank credits to deposits %			
	Amount (100,000 lire)	Quarterly variations		Amount (100,000 lire)	Quarterly variations		Amount (100,000 lire)	Quarterly variations						
		Amount of increase (100,000 lire)	Percentage increase		Amount of increase (100,000 lire)	Percentage increase		Amount of increase (100,000 lire)	Percentage increase					
1946-- December	512,711.2	—	—	100	698,055	—	—	100	418,157	—	—	136	59.9	
1947 - January	503,602.9	—	—	98.2	710,325	—	—	101.8	—	—	—	141	—	
- February	512,010.0	—	—	99.9	740,264	—	—	106.0	—	—	—	145	—	
- March	531,623.2	18,912	3.7	103.7	780,764	82,709	11.8	111.8	496,731	78,574	18.8	118.5	147	63.6
- April	549,079.2	—	—	107.1	810,109	—	—	116.1	—	—	—	148	—	
- May	564,736.2	—	—	110.4	851,806	—	—	124.0	—	—	—	151	—	
- June	584,521.7	53,898	9.5	116.0	873,643	92,879	11.0	125.2	616,498	119,767	24.1	147.4	149	70.6
- July	619,320.0	—	—	120.8	913,426	—	—	130.9	—	—	—	147	—	
- August	646,371.9	—	—	126.1	930,225	—	—	133.3	—	—	—	144	—	
- September	674,542.7	90,021	15.4	131.6	975,996	72,353	8.3	135.3	706,940	90,442	14.7	169.1	140	74.7
- October	687,008.5	—	—	134.0	951,546	—	—	136.3	—	—	—	138	—	
- November	709,249.5	—	—	138.3	960,364	—	—	137.6	—	—	—	135	—	
- December	794,990.0	120,447	17.9	155.1	1,013,889	57,893	7.2	145.2	723,195	16,255	2.3	172.9	128	71.3
		282,278			315,834				305,038					

(a) Includes: Bank of Italy notes, Treasury note and A-M lire.

(b) Includes: savings and sundry deposits and current accounts (interbank accounts are excluded).

(c) Includes: bills on hand, rediscounted bills, advances, current accounts (exclusive of interbank and "valuta" accounts), contangos, medium and long-term loans (mutui), current accounts with Sections (for special credits, credits of Pledge Banks and loans recoverable on salaries (prestiti su pegni e contro versone di stipendio), non-State securities and participations (see note 14).



(1) Note-circulation; (2) Bank deposits; (3) Bank credits to clients; (4) Wholesale prices. (Source: Central Institute of Statistics, Banca d'Italia)

	Note-circulation (a)	Bank deposits to clients (b)	Bank credits to Treasury (c)	Bank deposits (d)	Wholesale prices (e)	Dollar bank rate (Black market) (f)
1946 - December	100.0	100.0	100.0	100.0	100.0	100.0
1947 - March	103.7	118.8	99.9	111.8	112.9	94.3
- June	114.0	147.4	99.2	128.2	145.3	107.9
- September	131.6	159.1	95.6	135.5	169.1	97.4
- December	155.1	172.9	110.2	145.2	152.0	85.2

further declined, falling from 1.36 in December 1946 to 1.28 at the end of December 1947 (see Table I).

In the case of post-office savings deposits (books, interest bearing bonds and current accounts) the increase was niggardly, the figure rising to 58.8 milliardi in 1947 as against 60.6 milliardi registered in 1946. It seems likely that the shift of purchasing power above referred to made its effects felt in this branch also.

If we consider the "real" consistency of banking and postal deposits by converting the current sums into 1938 lire, we note drastic reductions more especially in the case of post-office savings deposits. Indeed, the synthetic data given in Table II illustrate the well-known phenomenon of the volatization of savings in the process of inflation.

DECREASE IN THE REAL VALUE OF DEPOSITS

TABLE II

End of Year	Bank Deposits (millions of lire)		Post-Office Deposits (millions of lire)		Wholesale Price Index Numbers (Central Institute of Statistics)
	Current lire	1938 lire	Current lire	1938 lire	
Dec. 1938	—	—	—	—	1938 = 100
• 1945	55,532	55,532	30,368	30,368	1945 = 2,500 (*)
• 1946	406,586	16,263	104,804	4,192	1946 = 3,677
• 1947	698,055	18,984	165,455	4,500	1947 = 5,526
	1,013,889	18,347	224,228	4,058	

(*) Estimate.

5. - In the second half of 1946 bank credits to clients (see Tables I and III) (14) were already

(14) In the report of the Bank of Italy for the financial year 1946 (p. 134) the credits to clients (the so-called "impieghi") made by the banks (i. e. by 365 credit institutes holding 99 % of all deposits) included the following items registered in the

quarterly bank statements: discounts, advances, current accounts, correspondent current accounts, contangos, medium and long-term loans, current accounts with Sections for special credits, credits of Pledge Banks and loans recoverable on salaries. The rules then followed has been modified in the Report on the financial year 1947 by inserting in the calculation of the "impieghi" some other items (rediscounts, securities other than government ones, and participations), while the so-called "va-

ably behind it (92 against 119 milliardi), and this continued also in the third quarter (72 against 90 milliardi).

It was during this period that the banks were drawing on the funds which at an earlier date they had deposited with the Treasury and the Bank of Italy, the result being that the available funds held by those two Administrations fell from 208 milliard lire at the end of October 1946 to 159 at the end of December, 142 at the end of March 1947, 132 at the end of June, and 115 at the end of September; and almost at the same time the banks were mobilising their portfolios (consisting mainly of bills given by the wheat pools) by discounting them with the Bank of Issue, whose discounts rose from 33 milliardi on October 20, 1946 to 95 milliardi on September 20, 1947.

In this way, the expansion of bank loans to business was being transferred from the commercial banks to the Central Bank, thus leading to a further increase in the volume of the currency in circulation, already swollen by the needs of the Treasury. Under the stimulus of this dual drive, the note circulation increased by 18 milliard lire in the first quarter of 1947, by 52 milliardi in the second quarter, and by 90 milliardi in the third (see Table I). At the same time, the wholesale price index number rose (1938=100) from 3,176 at the end of October 1946 to 3,677 at the end of December, 4,139 in March 1947, 5,329 in June and 6,202 in September.

With the adoption of the new system of

lata accounts" have been excluded (see Bulletin of the Economic Service of the Bank of Italy, 1948, No. 1, p. 32).

A comparison of the two series thus compiled shows the differences in their movement and the different deposit-credits ratios (see Table III).

BANK CREDITS TO CLIENTS TABLE III

End of Month	Bank credits to clients (millions of lire)		Ratio of credits to deposits (percentage)	
	System 1	System 2	Sys- tem 1	Sys- tem 2
1946 - June	233,222	229,022	43.8	43.0
Sept.	333,880	333,493	51.1	51.1
Dec.	445,052	418,157	63.8	59.9
1947 - March	524,693	496,731	67.2	63.6
June	443,278	616,498	73.6	70.6
Sept.	755,927	706,950	79.9	74.7
Dec.	820,328	723,195	80.9	71.3

reserve requirements, the volume of new credits fell from 90.4 milliard lire in the third quarter of 1947 to 16.3 milliardi in the last. The result—as has been stated (15)—was "not a restriction of credit but a check on the acceleration of its expansion beyond the limits allowed by the growth of national savings. This check has not reduced by one cent the sums assigned for increasing production; but it was intended to prevent, and it did prevent, the occurrence of a crisis which could not otherwise have been avoided; it induced the banks to assure themselves a higher degree of liquidity than they enjoyed before the war".

Since October, the wholesale price index has fallen from 6,010 (as compared to 6,202 in September) to 5,647 in November and to 5,526 in December (5,185 in May, 1948); on the other hand, the note circulation, which had increased by 12.5 milliardi in October, increased by 22.3 in November and by 85.7 in December.

6. - The principle which has guided the Government in modifying the original regulation of 1926, transforming it into the new system of obligatory bank reserves (16), has been that of assuring the banks the possibility of meeting their reserve needs out of the liquid resources held with the Bank of Issue and the Treasury, without recourse to disinvestments.

The available data published in the Report of the Bank of Italy for 1947 (see Table IV)

TABLE IV
BANK RESERVES AND DEPOSITS

	(milliards of lire)	
	Sept. 30	Dec. 31
Available resources in sight accounts, ordinary term accounts and special reserve accounts	115.3	177.5
Required reserves	112.2	133.6
"Free margin" (excess reserves)	3.1	43.9
Cash in hand of the banks	55.6	61.9
	58.7	105.8
Deposits of the banks liable to reserve requirements	763.2	811.8
Ratio of cash and "free margin" to bank deposits	7.7%	13.03%

show that at the end of September 1947 the banking system was required to place to the

(15) See L. EINAUDI in the newspaper "Corriere della Sera" of April 1, 1948.

(16) See Report of the Bank of Italy for the financial year 1947.

obligatory reserves a sum of 112.2 milliard lire, and that they then held with the Treasury and the Bank of Issue 115.3 milliardi. Had the banks paid at once the whole 112.2 milliardi required, they would have remained with a free margin of 3.1 milliardi; the ratio between cash in hand and excess reserves on the one hand and total deposits on the other, would have stood at 7.7 per cent. The credit stringency experienced on the money market in September, October, and the first phase of November must therefore be considered in relation to the new directions given to the banks as a whole. The banking system, by making a stricter qualitative selection of the applications for credit, aimed at securing again, as rapidly as possible, an adequate margin of liquidity.

In November, and yet more markedly in December, the first symptoms of relaxation were noted. The large flow of deposits to the banks towards the close of the year enabled them to make further payments (in cash and securities) raising to 177.5 milliard lire the funds available for reserves; at the same time, the so-called "free margin" rose from 3.1 to 43.9 milliardi. The cash ratio reached 13.03 per cent, higher than that at the end of 1938 and 1939, which stood around 9 per cent.

7. - To give a summarised view of the changes that have occurred in banking operations, the active items of the system as a whole, from June 1946 onwards, have been grouped under four heads, i.e. (a) cash, sight deposits and time deposits with the Treasury and other institutes (substantially the Bank of Italy); (b) bank investments with clients; (c) investments in government securities; (d) other items (see Table V).

The movement of the absolute and percentage figures clearly shows that the investments in government securities while steadily increasing in absolute figures, fell somewhat in percentage value at the end of December. Cash, sight deposits and time deposits with the Treasury and other institutes which, since September 1946 had shown, for the reasons above set forth, a decline in absolute and percentage values, showed instead a marked increase at the end of 1947, accounted for by the introduction of the obligatory bank reserves.

TABLE V
CHIEF CATEGORIES OF ITALIAN BANKS ASSETS

End of Month	Cash, sight and term deposits with the Treasury and other institutions	Credits to clients	Investments in State securities	Other Items	Total Assets
(a) Absolute figures (milliards of lire)					
1946 - June	210.6	229.0	172.5	82.6	694.7
Sept.	243.8	333.5	189.7	130.9	897.9
Dec.	220.6	418.2	199.8	175.7	1,014.3
1947 - March	201.8	496.7	216.7	220.1	1,135.3
June	209.6	616.5	219.2	291.5	1,336.8
Sept.	212.7	706.9	227.3	363.5	1,510.4
Dec.	278.1	723.2	240.6	399.1	1,641.0
(b) Percentage values					
1946 - June	30.3	33.0	24.8	11.9	100
Sept.	27.2	37.1	21.1	14.6	100
Dec.	21.8	41.2	19.7	17.3	100
1947 - March	17.8	43.7	19.1	19.4	100
June	15.7	46.1	16.4	21.8	100
Sept.	14.1	46.8	15.0	24.1	100
Dec.	16.9	44.1	14.7	24.3	100

Credits to clients and deposits classified by categories of Banking Institutes.

8. - In view of the synthetic character of these notes we shall limit ourselves to a few general considerations on the loans and deposits for each group of banks. The purpose of these remarks is only to show the trend, and they must be accepted with caution as they may conceal the special situation of some particular banks.

In Table VI we give the percentages of the distribution of credits to clients and deposits among the five main categories of Italian Banking Institutes calculated on the basis of published official data (17).

In December 1946 the credits accommodated by the three Banks of national interest accounted for 26.3% of the total; they were followed by the 155 Ordinary Banks with 24%, and the 5 Public Law Credit Institutes, with 22.3 per cent. During 1947 the percentages of the Banks of national interest, Ordinary Banks and Peoples' Co-operative Banks declined, while on the other hand there was an increase in the case of the Public Law Credit Institutes (which at the end of September had attained the maximum percentage of 25.9% that fell at the end

(17) See Bulletin of the Economic Studies Service of the Bank of Italy, No. 1-2, January-February, 1948.

TABLE VI

BANK CREDITS AND DEPOSITS CLASSIFIED BY CATEGORIES OF CREDIT INSTITUTES

End of Month	Public Law Credit Institutes	Banks of national interest	Ordinary Banks	Peoples' Co-operative Banks	Savings Banks and first cat. Pledge Banks	Total
(a) Credits to Clients						
1946 - December	22.3	26.3	24.0	11.4	16.0	100
1947 - March	23.5	26.4	23.9	10.8	15.4	100
- June	24.1	25.9	23.4	10.5	16.1	100
- September	25.9	22.7	23.2	10.2	18.0	100
- December	23.8	22.1	23.5	10.1	20.5	100
(b) Deposits						
1946 - December	20.4	27.5	22.2	11.2	18.7	100
1947 - March	19.7	27.2	22.6	11.4	19.1	100
- June	20.8	26.9	22.6	11.2	18.5	100
- September	21.9	24.8	22.8	11.2	19.3	100
- December	22.2	24.1	22.4	11.3	20.0	100

of the year to 23.8 per cent), and of the Savings Banks and 1st category Pledge Banks.

There have been marked variations in the case of deposits also. The Banks of national interest have fallen from a percentage of 27.5 per cent (December 1946) to 24.1% (December 1947), while both the Ordinary Banks and the Peoples' Co-operative Banks have maintained their percentages practically unaltered. In the case of deposits, as in that of credit accommodations, the increase has occurred in the group of the Public Law Credit Institutes, and the Savings Banks.

Distribution of bank investments between the Treasury and "Clients".

9. - Attention has already been called (18) to the fact that with the expansion of bank loans in favour of economic activities the "voluntary" circuit through which the Treasury procured the means for covering the deficit had been gradually weakened, until, since December 1946, the current changed direction and funds were flowing back from the Treasury to the market. The inversion of the trend, foreseen as the inevitable result of the revival of business activities, caused the Treasury to rely more and more on the Bank of Issue, so

(18) See M. MANCINI, *The Italian Money Market and the Financing of the Treasury*, loc. cit.

that private needs and above all public ones were producing like effects, intensifying the expansion of the volume of monetary instruments and accelerating the velocity of currency circulation.

Table VII shows the steady growth of bank accommodations in favour of economic activities (credits to clients), accompanied by the decline

TABLE VII
BANK LENDING TO THE TREASURY AND TO CLIENTS

End of Month	Bank Lending to the Treasury (a)		Bank Lending to Clients (b)		Total Bank Deposits (c)
	A. amount (milliard lire)	% of deposits	A. amount (milliard lire)	% of deposits	
1946 - June	—	—	229.0	43.0	522.7
- September	—	—	333.5	52.1	632.1
- December	350.1	51.6	418.2	59.9	698.1
1947 - March	—	—	496.7	63.6	780.8
- June	368.1	42.1	616.5	70.6	873.6
- September	346.4	36.6	706.9	74.2	945.9
- December	399.3	39.4	723.2	71.3	1,013.9

(a) Includes: 1) holdings of Gov. securities; 2) total amount of sight and time accounts held by Banking Institutes with the Treasury; 3) total net balance of sight, time, and special reserve accounts held by Banking Institutes with the Bank of Italy.

(b) Includes the items specified in note (c), Table I.

(c) Includes savings and sundry deposits (*depositi fiduciarium*) and current accounts. Interbank accounts are excluded. June and September 1946 figures are inclusive of the "valuta accounts".

Source: Bulletin and Report of the Bank of Italy for 1947.

of the investments in favour of the Treasury from September 1946 to September 1947. At the end of September 1947 investments in favour of the Treasury had fallen to 346.4 milliards, a lower level than that attained in June 1946.

The enforcement of the new system of reserve requirements in the last quarter of 1947 again altered the direction in which the circuit moved, leading to a flow towards the Treasury of 52.9 milliard lire, conveyed through the bank channels.

The change at the end of 1947 in the ratios of bank investments between the two aforesaid branches had an immediate effect on some sections of production. The scarcity of circulating capital, which made itself felt more especially in the case of the metal and engineering trades with which a large number

of medium and small sized industries are connected as well as several commercial organizations, made it essential to provide emergency financial help granted by the State or by bodies connected with government (19) to such sections, more especially in the last quarter of the year.

The fact that the State or semi-official bodies have partially replaced the banks in the assignment of credit has not failed to arouse criticism. Apart from the doubt whether these assignments were always in keeping with orthodox economic and technical standards, stress was placed on the fact that as it is impossible for the State to procure itself the necessary means from the financial market, the new system (20) might lead to a form of financing under which the Treasury would, in the end, avail itself of bank resources to finance industries that were

(19) See R. TREMELLONI, *Premises and Tasks of the Special Funds for Financing the Italian Engineering Industry*, in this Review, October 1947, p. 169.

(20) Under the new regulations, the Banks are obliged to pay into special accounts with the Bank of Italy, as from October 1, 1947, 40 per cent of any increase in deposits.

formerly the clients of the banks. Nor was this all, but the intervention of the State for the more or less direct financing of industrial undertakings might make it difficult in the future for the banks to contribute in supplying working credit, as the undertakings would be unable to offer adequate guarantees, government loans having priority over all others in the ranking order of legal priorities.

The policy of restricting credit to business has helped to dispel the illusion of prosperity which pervaded the market; it has determined a new price trend, and reduced the velocity of the currency circulation. It has thus led to a halt in the progressive depreciation of the lira, in spite of the fact that at the end of the year the note circulation had further increased. As the new issues, particularly the more recent ones, have been made more especially to meet Treasury needs, it would seem however doubtful—unless the growth of public expenditure is also restricted—whether it will be possible to avoid the reaction on prices of the steady increase of monetary instruments.