

Recent Banking Developments in Italy: December 1947-September 1949 (*)

I. The trend of alien funds (1).

1. — Deposits and current accounts with 365 Italian banks, holding 99% of all alien funds, rose from December 31, 1947 to October 31, 1949 as shown in Table I (2).

Attention is drawn to the following points:

(a) alien funds increased at a growing rate from the end of 1946 to the end of 1947 (the index number rose from 69 to 100) and from that date until the end of 1948 (from 100 to 150). At the end of October 1949 the index stood at 181.

This trend can be clearly seen by the

MOVEMENT OF DEPOSITS AND CURRENT ACCOUNTS
(millions of Lire)

TABLE I

End of Period	Deposits & current accounts				Deposits				Current accounts			
	Amount	Index N.	Annual variations	% of annual variations	Amount	Index N.	Annual variations	% of annual variations	Amount	Index	Annual variations	% of annual variations
1	2	3	4	5	6	7	8	9	10	11	12	13
<i>In current Lire</i>												
31.12.1938	55,532	5	—	—	38,037	7	—	—	17,495	4	—	—
31.12.1946	698,035	69	+ 291,469	—	368,249	70	+ 127,640	—	329,806	68	+ 163,829	—
31.12.1947	1,013,889	100	+ 315,834	+ 8.35	528,516	100	+ 160,267	+ 25.56	485,373	100	+ 155,567	— 5 —
31.12.1948	1,520,278	150	+ 506,389	+ 60.43	805,497	152	+ 276,981	+ 72.82	714,781	147	+ 229,408	+ 47.46
31.10.1949	1,833,193	181	+ 312,915	- 22.87 (a)	959,457	182	+ 150,360	- 32.95 (a)	873,336	180	+ 153,555	- 15.1 (a)
<i>In Lire of 1938 purchasing power (b)</i>												
31.12.1938	55,532	282	—	—	38,037	371	—	—	17,495	184	—	—
31.12.1946	24,544	125	+ 10,248	—	12,948	126	+ 4,488	—	11,596	123	+ 5,761	—
31.12.1947	19,652	100	+ 6,122	- 40.28	10,244	100	+ 3,106	- 30.80	9,408	100	+ 3,015	- 46.10
31.12.1948	27,930	142	+ 9,303	+ 51.96	14,798	144	+ 5,088	+ 63.80	13,132	139	+ 4,214	+ 39.75
31.10.1949	31,538	172	+ 5,608	- 25.42 (a)	17,560	171	+ 2,762	- 32.67 (a)	15,977	170	+ 2,845	- 11.74 (a)

(a) The basis of this percentage is provided by the first 10 months of 1948

(b) Current lire have been converted into 1938 lire on the basis of the wholesale price index number compiled by the Central Institute of Statistics.

(*) The first part of this Survey — *The Trend of alien Funds* — is due to Prof. G. Pietranera; the second part — *Loans, Investments and Reserve Requirements* — to Dr. C. Zaccaria. For banking developments in Italy in previous years see, in this Review: M. MANCINI, *The Italian Money Market and the Financing of the Treasury*; A. GAMBINO, *Recent Developments of Banking Activity in Italy*, (No. 2, July 1947); M. MANCINI, *Bank Credits in Italy classified by Branches of Industry and Bank Groups*, (No. 3, October 1947); M. MANCINI, *The Banking Year 1947 in Italy*, (No. 6, July 1948).

(1) In this survey, with the expression « alien funds », except where otherwise stated, we mean deposits and current accounts with clients.

(2) The period covered in the tables and in the text is

percentage changes in the annual rate of growth given in column 5 of Table I. The variation for 1947 showed a rise of 8.35% over 1946, and that for 1948 one of 60.43% over 1947. But for the first ten months of 1949 the figure was 22.87% below that for the corresponding period of 1948;

generally that from December 1947 to the last months of 1949. The data and the index numbers of 1938 and 1946 are given to allow of comparisons. Their basis is 100=1947, the peak year for inflation.

(b) the general trend of the series given in Table I may be summed up as follows: a growing mass of alien funds subject to annual variations which kept increasing until the end of 1948, but declined considerably in 1949. This has been the outcome of development, on the one hand, of deposits and on the other of current accounts. The former increased more rapidly than the latter until the end of 1948, but during 1949 they fell off in a more marked degree;

(c) the figures and index numbers of the first part of Table I are expressed in current lire; those of the second part in lire of 1938 purchasing power. When expressed in adjusted lire the alien funds are seen to have declined rather than increased from 1946 to 1947, and from 1947 onwards the increase is less marked than that expressed in current lire.

2. — The statistical trend thus traced raises the question of the general causes making for the growth of alien funds and their component items.

We will first refer to the factors in the growth of current accounts. The increase in production and in the volume of transactions since 1947 and the consequent greater need of liquid funds, provide the necessary premise for the growth of current accounts. Taken as a whole, they had risen to nearly 41 times their pre-war level by the end of 1948 and to 49.91 times by the end of October 1949.

In appreciating the changes occurring in the movement of current accounts it should not be forgotten that they are the major factor in the formation of bank money (3). Therefore a comparison between their growth and that of legal tender currency (4) is of special interest, as the latter provides, under the Italian financial system, the more important means of payment (5).

(3) We include in bank money, besides balances on current accounts with clients, also the so-called « *aspetti circolari* » (a special kind of cashier's drafts).

(4) Bank of Italy notes, Treasury notes, and Am-lire.

(5) The quotient between deposits and current accounts and legal tender had fallen from 2.46 in 1938 to 1.36 in 1948; it stood at 1.91 in October 1949; the ratio between current accounts and legal tender has varied from 0.77 in 1938 to 0.80 in 1948, rising to 0.90 in October 1949.

Table II shows the percentages of increase of the two series (legal tender and current accounts). For the sake of clarity, the respective percentages of variation in the rates of annual growth are given side by side in the next columns.

TABLE II
LEGAL TENDER AND CURRENT ACCOUNTS
(Annual rates of growth and variations in the annual rates)

Period (a)	Legal tender		Current accounts	
	Annual rate of growth %	Variations in annual rate of growth %	Annual rate of growth %	Variations in annual rate of growth %
	1	2	3	4
1945	+ 921	—	+ 849	—
1946	+ 126	— 88	+ 97	— 90
1947	+ 55	— 66	+ 47	— 52
1948	+ 21	— 38	+ 47	0
1949 (October)	+ 6	— 71	+ 22	— 54

(a) 1945 compared to 1938; the other percentages refer to the previous year; the basis for the 1949 percentage is provided by the first ten months of 1948.

It should be noted that:

(a) both the series for legal tender and that for current accounts increase steadily until October 1949 (see col. 1 and col. 3 in Table III);

(b) both series increase at declining rates until the end of 1948, except in the case of current accounts whose rate of growth in 1947 and 1948 was the same (see col. 2 and col. 4);

(c) the decrease (—88) in the rate of increase of legal tender in 1946 as compared to 1945 was less than that which occurred in the case of current accounts; in other words, the growth of current accounts proceeded at a slower rate than the expansion of legal tender, lagging somewhat behind it;

(d) in 1947 the trend was reversed; legal tender lagged behind current accounts (—66% against —52%). That is to say that the rate of expansion of current accounts slackened less than in the case of legal tender;

(e) in 1948, in spite of credit restrictions, the rate of expansion of current accounts remained at the level of the previous year, while the rate of expansion in the case of legal tender fell by 38%;

(f) in the first ten months of 1949 current accounts increased by 22 per cent. (the rate

having declined by 54%), while legal tender increased by 6% only, a decline of 71%.

TABLE III
RATIOS BETWEEN BANK MONEY AND LEGAL TENDER
AND BETWEEN THE SEVERAL ITEMS OF BANK MONEY

Ratio:	1938	1945	1946	1947	1948	1949 Aug. (a)
(1) of bank money to legal tender . . .	0.74	0.81	0.74	0.68	0.80	1.01
(2) of C/ accounts to legal tender . . .	0.77	0.72	0.64	0.60	0.73	0.87
(3) of «cashier's drafts» and other types of bankers drafts to legal tender . . .	0.10	0.26	0.19	0.16	0.15	0.13
(4) of «cashier's drafts» and other types of bankers drafts to current accounts . . .	0.13	0.36	0.30	0.27	0.21	0.15

(a) August 1949 is the latest date for which data are available for all the series considered.

To sum up: from the end of 1946 to October 1949 the decline in the rate of expansion of current accounts was less marked than in the case of legal tender (6).

3. — The movement of the index numbers considered calls attention to a series of events that have occurred in the monetary and financial fields from pre-war days until now. Substantially, these index numbers, which stress the reversed trend in the expansion of current accounts and legal tender, are characteristic of two different periods in our post-war economy.

The first period, from pre-war days down to the end of 1946, is characterised by the inflationary pressure of Treasury needs. The heavy budget deficit and the poor yield of taxation and of government borrowing on financial market combined to increase recourse to the Bank of Italy. At the same time, the slow revival of production, aggravated

(6) This has not only helped to bring the current accounts — legal tender ratio to a higher than pre-war level, but has also caused the bank money — legal tender ratio to exceed the traditional 1938 level (See Table III). The ratio between bank money and legal tender fluctuated in the period 1938-1941 around 0.74; in 1947, when inflation touched its peak, it fell to 0.68. It has risen to 1.01, in August 1949, in spite of the small contribution made by cashier's drafts to the total volume of bank money.

by administrative disorder, accounts for the slower expansion of current accounts. It should be remembered that by the end of 1946 bank deposits had only increased 9.69 fold over the 1938 figure. Thus, while in 1946 legal tender touched a level of 22.78 (1938=1), current accounts reached 18.84. Bank money as a whole was indeed equal to currency circulation (22.61 as compared to 22.78) but only because of the marked expansion in the volume of cashier's drafts (41.58), which was but the creation by the banks of new purchasing power.

During 1947 the trend was reversed and the volume of current accounts increased more rapidly than that of legal tender. While inflationary pressure was at its peak, the revival of production proceeded at an accelerated rate, sharpening the competition between the Treasury and business for the scanty available capital. The total volume of bank money rose in one year by 50%, the peak position being held by cashier's drafts which stood at 55 times their pre-war figure. This clearly points to the growing contribution made by the banks, under the pressure of market demand, to inflationary forces.

Finally, in the last eighteen months which have witnessed the operation of the « Einaudi measures », the relative stabilisation of the lira, the first results of the efforts to balance the budget, the heavier pressure of taxation, the formation of the « Counter-part lira-fund », the foundations were laid, first for lowering the rate of increase, and then — in the first ten months of 1949 — for an actual decline in the volume of legal tender and recovery in the ratio of current accounts to legal tender.

At the end of October 1949, the current account-legal tender ratio had risen to 0.90 as against 0.77 in 1938.

4. — The factors that have affected the growth of bank deposits are of a different nature.

First of all, to what extent do bank deposits really represent monetary savings? Post-war developments would indeed lead to the presumption that only a small part of the funds collected by the Italian banks should be considered as real savings. An important fraction represent cash funds of business enterprises.

Their economic function is therefore rather that of current accounts. Now, the volume and movement of these cash funds are, as is known, in direct relation to business activity and are not determined by the factors that lead to the formation of savings and therefore to the expansion of national income.

This supposed provisional character of part of bank deposits is confirmed by their tendency to move from the Savings to Commercial Banks, which are more generally engaged in handling operating funds of business enterprises rather than in the collection of saving deposits. It is also confirmed by the opposite trend of current accounts to shift from the Commercial to the Savings Banks, a trend which made itself felt until the end of 1947. These shifts, indeed, seem to confuse savings - and money - deposits in such a way as to make it difficult to draw any inference about the movement of savings based on the technical distribution of the funds collected by the banks.

Bank deposits, which in 1938 were 5% higher than in 1937, showed a 53% increase in 1946 over 1945; in 1947 the increase over 1946 fell to 43%, rising again in 1948 when they were 52% above the 1947 figure. From January to October 1949 the increase has not exceeded 19.5%.

The post-war expansion of bank deposits points to a movement of slow recovery. On the supposition that these funds represent to a large extent monetary savings, this might account for their maximum increase in 1948, a year in which the value of the lira was consolidated and the formation of real savings became more marked.

We cannot here undertake an analysis of the growth of savings, even if restricted to 1949 only, and must limit ourselves to some of the more obvious symptoms. Among these, one of the most significant is the growth of deposits with the Savings Banks in 1948 and 1949 (7).

(7) One of the most striking features in the distribution of deposits among the several classes of banks, is the marked recovery in the current accounts held by the Savings Banks from 1938 to 1947. During that period current accounts held by Savings Banks increased no less than 110.3 times (1938=1) as against an average increase for banks in general of barely 27 times.

In 1948 the first symptoms of a reversal of this trend made

Yet more significant is the trend of Post Office deposits, which for the most part represent genuine saving deposits.

Table IV compares the volume of P. O. deposits with those held by the ordinary banks, and shows that they are now definitely growing after the serious setback caused by the war.

TABLE IV
ALIEN FUNDS HELD BY THE POST OFFICE SAVINGS BANKS AND BY THE BANKING INSTITUTES
(milliards of Lire)

End of period	Banking Institutes (a)	Post Office Savings Banks (b)	Percentage Ratio of 2 to 1
1938	55.5	30.4	34.7
1945	406.6	104.8	25.6
1946	698	165.2	23.6
1947	1,013.9	231.6	22.8
1948	1,520.3	392.7	25
1949 - January	1,562.4	413.2	26.4
February	1,379.3	428.4	27.1
March	1,619.5	452.4	27.9
April	1,679.8	497.4	30.7
May	1,644.4	495.1	30.1
June	1,672.3	511.7	30.6
July	1,724.1	534.3	30.99
August	1,767.4	548.3	31.02
September	1,805.8	573.3	31.74
October	1,833.2	592.2	32.30

(a) Deposits and current accounts collected by the Banking Institutes considered in this survey (see pag. 225).

(b) Includes "conti postali postiferi" (interest bearing bonds) and current accounts.

The ratio of P. O. deposits to those held by the ordinary banks, which had fallen from 54.7% in 1938 to 22.8% in 1947 when inflation was at its peak, had risen to 32.30% in October 1949.

5. — These data confirm the fact that in 1948 there was a marked expansion in the volume of monetary savings. During that year deposits rose at a rate of 52%, exceeding the 43% of 1947, while the growth in P. O. depo-

ments themselves felt and became marked in 1949. The index numbers for 1948 point to a decline in the rate of expansion of current accounts with the Savings Banks, while the rate of increase of savings deposits was accelerated. In the first 10 months of 1949 — for which data are available — the rate of growth of Savings Bank deposits exceeded even that noted in the case of ordinary banks, while at the same time there was a decline in the volume of current accounts.

This would point to the conclusion that a return to the traditional structure of Savings Bank activities is now taking place, accompanied by the usual reactions on the accumulation of savings.

sits was still more marked. This shows that the increase in the former was not made at the expense of the latter, but lagged considerably behind it, and this lag has increased in the course of 1949.

This leads back to the study of the specific factors that have restricted in 1948 and 1949 the expansion of bank deposits as compared to the other forms in which monetary savings are collected.

There is nothing surprising in the fact that in 1947, a year of inflation and loss of confidence in the lira, the growth of bank deposits

determining factor. In Table V the rates paid by the banks on time-deposits for more than 6 months are compared to those paid on interest bearing P. O. bonds and 12 month Treasury Bills and to the yield of debentures. Now, so marked a difference as that shown in this table must necessarily have been a main factor in determining the destination of those monetary savings traditionally unaccustomed to direct investment in industry. Moreover, the development in the agricultural situation must be taken into consideration. The downward trend of prices for farm products, the lower yields

TABLE V
BANK AND P.O. SAVINGS BANK RATES OF INTEREST; YIELD OF TREASURY BILLS, EQUITIES AND DEBENTURES
(per cent per annum)

Period	Bank rates (a)	Rates on P. O. bonds	Interest on 12 month Treasury Bills	Equities (b)		Yield of debentures (c)
				Index No of quotations (1938=100)	Yield	
1947 - December	2	5	5	1,238.7	1.40	5.37 - 7.82
1948 - December	2	5	5	1,468.2	2.72	
1949 - April (until 8th)	2	5	5	1,614.7	3.20	
- April (as from 9th)	2	4.50	4.50	1,509.7	4.62	
- August	2	4.50	4.50			

(a) Maximum legal rates paid on time deposits for more than 6 months.

(b) Data taken from the "Bollettino" of the Banca d'Italia.

(c) Minimum and maximum yields (Sec. Report of the Bank of Italy, 1948, p. 136).

was small, while there was a shift towards equities. It is however interesting to note that P. O. savings accounts (see Table IV) were affected more severely than those of the banks by the inflationary movement, although the security offered by both forms of investment are of equal value. Even if this fact is accounted for, at least partially, by the different character of P. O. savings accounts and bank deposits, it also shows that the banking system, thanks to its greater bargaining power and its more dynamic policy, is in a position to offset more efficiently anti-saving inflationary forces and to exercise a more attractive power in collecting monetary savings.

In 1948 the inflationary movement was brought to a standstill. The Banks however had to meet Treasury and industrial competition in conditions of inferiority. The difference between the rates of interest has become a

of many crops, the definite change to a buyers' market, were all factors that induced the farmers to keep in a liquid form the funds which during the inflationary period had been reinvested in the farm. And, as is known, P. O. accounts are the typical form of savings of the agricultural population.

But if the banks have had to meet on the one hand Treasury competition, on the other they have had to face a more determined effort on the part of business to secure capital by large debenture issues. These have jumped from 18.4 milliard lire in 1947 to 64.7 milliard in 1948, rising to more than 100 milliard in 1949. To secure these results, the nominal rate of interest on the new debentures has been raised to 6-7%.

Investments in equities have met with greater difficulties now that the currency is relatively stable. Yet in spite of the low yield of shares

and unfavourable past experience, these investments also have exercised pressure on the market, holding up to shareholders the prospect of capital gains. In 1948, 70 milliard lire were subscribed in new share issues — apart from bonus shares representing capital increases —

II - Loans, Investments and Reserve Requirements.

6. — When undertaking an examination of bank credit developments from September 1947 — a turning point in the Italian money

COMPOSITION OF ASSETS OF ITALIAN BANKS, SEPTEMBER 30, 1947 - SEPTEMBER 30, 1949 TABLE VI
(milliards of Lire)

	Old Series						New Series			
	30/9 1947	31/12 1947	31/3 1948	30/6 1948	30/9 1948	31/12 1948	31/3 1949	30/6 1949	30/9 1949	
<i>Amounts outstanding</i>										
Cash and sums available at sight	154.8	202.2	189.8	207.5	201.2	231.6	169.0	157.0	151.8	162.1
Fixed deposits with Treasury and other Institutions	57.8	75.8	95.6	129.1	165.4	138.2	177.7	207.7	211.1	265.6
Government securities (a)	234.0	250.4	375.7	351.4	408.3	414.2	414.2	439.2	446.2	427.1
Credits to clients (b)	—	783.3	808.5	848.9	978.5	1,132.7	1,120.7	1,179.0	1,234.7	1,355.1
Other assets (c)	—	329.1	440.1	441.8	494.0	365.5	313.9	328.9	317.0	361.6
<i>Index Numbers</i>										
Cash and sums available at sight	76.6	100	93.9	102.6	99.5	144.5	100	91.9	89.8	97
Fixed deposits with Treasury and other Institutions	76.6	100	126	170	218	171	100	116.9	116.9	151
Government securities (a)	93.4	100	122	141	163	165	100	106.0	107.7	103
Credits to clients (b)	—	100	103	108	124	144	100	105.2	110.2	121
Other assets (c)	—	100	134	134	150	141	100	104.8	108.9	115.1
<i>% of deposits and c/c</i>										
Cash and sums available at sight	16.3	19.9	16.8	16.4	14.3	15.7	11.1	9.7	9.1	9.0
Fixed deposits with Treasury and other Institutions	6.1	7.5	8.5	10.2	11.8	9.1	11.7	12.8	13.8	14.9
Government securities (a)	24.8	24.3	27.1	28.0	29.1	27.2	27.2	27.2	26.7	23.6
Credits to clients (b)	—	77.3	71.6	67.2	69.6	74.5	73.7	74.8	73.8	75.0
Other assets (c)	—	32.4	38.9	35.0	35.1	30.6	20.6	20.3	20.4	20.0
<i>% of total assets (d)</i>										
Cash and sums available at sight	—	12.3	10.3	10.5	9.0	9.7	7.7	6.8	6.3	6.3
Fixed deposits with Treasury and other Institutions	—	4.6	5.1	6.5	7.3	5.8	8.0	9.0	9.6	10.3
Government securities (a)	—	15.3	16.7	17.8	18.1	17.3	19.0	19.0	18.5	16.8
Credits to clients (b)	—	47.7	43.9	42.9	43.6	47.6	51.0	51.1	51.4	52.6
Other assets (c)	—	20.1	24.0	22.3	22.0	19.6	14.3	14.1	14.2	14.0

(a) Treasury bills and other Government securities.

(b) Includes: bills in hand (portafoglio), contingencies (riporti), advances (anticipazioni), current accounts (conti correnti), loans recoverable on salaries (prestiti su pegno e contro cessioni stipendio), loans (mutui), current accounts with sections for special credits (conti correnti con le sezioni speciali), credits abroad (impieghi all'estero), non-Government securities (titoli non di Stato).

(c) For the most part, « current accounts with banks », « foreign exchange accounts » and « other items ». This last item consists, in its turn, of « accounts with Branch Banks and Departments » and of « sundry accounts ».

(d) The percentages have been calculated in relation to total assets, so as to obtain a series of percentages whose total shall sum up to 100. In Italian banks the ratio between deposits and the total balance-sheet fluctuated in 1948 between 61 and 64 per cent; at the end of December it stood at 63.8 per cent. But owing to the reduction in the balance-sheet totals, due to the new criteria followed in making the returns, this ratio raised in the new series of statistical data to 69.2 per cent. The difference between deposits and total liabilities is almost accounted for by the following items: « current accounts with banks », « foreign exchange accounts », « cashier's drafts » and « other items ».

and another 50 milliard were subscribed in 1949.

A third factor that has probably begun to make itself felt also during 1949 is recovery in the building trades which have absorbed a growing percentage of savings.

market — to September 1949, it should be noted that since December 31, 1948, the Bank of Italy has adopted a new system for collecting returns which makes comparisons very difficult. The differences between the old and the new series are shown in Table VI in which

the data for the two are given side by side. It will be seen that:

(a) the item « cash and sight funds » is considerably larger when reckoned on the old system than on the new: 231,622 as against 169,048 millions;

(b) on the other hand, « fixed deposits with Treasury and other Institutions » of the new series stand at a higher figure than the corresponding item of the old series: 177,748 millions and 138,260 millions respectively. The Banks indeed were naturally inclined to swell item (a) at the expense of item (b);

(c) there has been no change in the returns for government securities;

(d) the explanatory notes in No. 8 of this Review (January-March 1949) described the principles followed in making returns and calculations in the case of credits to clients (the so-called *impieghi*) and the differences in the results obtained by the several systems. During 1948 the Bank of Italy had a special return made for credits to clients, showing the situations in December 1947, March, June, September, December 1948, chiefly for the purpose of ascertaining what portion of the foreign exchange accounts (8) ought to be included therein. This series gives the figure of 783,300 million lire at the end of December 1947 and of 1,132,300 million at the end of December 1948 (see Table VI). Since December 1948 a quarterly series has also been available, compiled from the quarterly bank statements, and drawn up on the new system. This series would show that credits to clients amounted at the end of December 1948 to 1,120,700 million lire (see Table VI);

(e) lastly, the new series places the balance-sheet total at a figure considerably below that given by the old series (on 31.XII.48 the respective figures are 2,196 and 2,328 milliard lire), the reason for this being that some items previously included in the balance-sheet have

been entered in separate accounts (« risk accounts » and « order accounts ») (9).

7. — Table VI shows in summarised form:

(a) that cash and sight funds have increased from December 1947 to September 1949 at a definitely slower rate than deposits and current accounts. The cash alien funds ratio which on 31.XII.1947 stood at 19.9% had 1948, rectify this ratio (11.1 instead of 15.2%) after touching a low of 14.3% in September. The new returns, for the end of December 1948, rectify this ratio (11.1 instead of 15.2%) which continued to fall in the following months and stood at the end of September 1949 at 9%. This reduction should not however be considered as indicating a deterioration in the liquidity position of the Banks, for in the meantime that compulsory reserve fund has been formed (to which we shall refer further on) which provide a new element of liquidity;

(b) during 1948 a moderate shift occurred in the distribution of alien funds towards bank lending to Government (consisting substantially of « fixed deposits with the Treasury and other Institutions », and of « Government Securities ») at the expenses of bank credits to clients and cash assets. This shift, which occurred during the first three quarters of the year, was only to a minor extent reabsorbed by the new trends of the fourth quarter, when business calls for credit became more urgent. During the first nine months of 1949 there were very few variations. At the end of September 1949 the situation was practically the same as in December 1948, though the summer months had seen some shrinkage of investments in Treasury Bills.

The developments of « fixed deposits with Treasury and other institutions » have been, however, very different from those of « Government securities ». The rate of increase of the former, connected with the formation of the compulsory reserves, has, generally speak-

(8) The sale on the free market of 50% of the foreign exchange received for exports (Decree Law 26.III.46) has led to the opening of special accounts with the Banks known as « foreign exchange accounts », of which only a small part should be included among the credits to clients.

(9) For fuller information on the new principles followed by the Bank of Italy since December 1948 in making these returns, see G. PIETRANERA and C. ZACCHIA, *Raccolta ed impieghi bancari: dicembre 1947-giugno 1949*, in « Moneta e Credito » (quarterly Review of the Banca Nazionale del Lavoro), No. 7, 3rd Quarter, 1949, pp. 323-325.

ing, exceeded that of the latter; and this divergency became more marked after April 1949 when the increase in the volume of Government securities was reduced to a minimum, due largely to the reduction in the rate of interest (0.50 less since April 9, 1949) (10) and to the reactions caused by the proposed funding of national debt.

Meantime, the character of the «fixed deposits» had been undergoing a substantial change. Until 1947 they consisted of funds that the banks themselves deposited with the Bank of Italy for periods varying from 8 or 15 days, to 3, 4, or 6 months, the rate of interest varying, from 2.50 to 4 per cent. These accounts had been opened in February 1944 to facilitate the flow of bank funds to the Treasury during a period of exceptional liquidity for the banks and of financial stringency for the Treasury. They became later on a normal form of investment for the Banks.

But, in the summer of 1947, as is known, the Einaudi anti-inflation policy forced on the banks a new system of legal reserves (11).

The banks had to deposit with the Bank of Italy, either in the form of cash or of Government Securities, 20% of deposits and current accounts outstanding at September 30, 1947, in excess of 10 times their capital, up to a maximum amount not to exceed 15% of total alien funds. As from October 1, 1947, 40% of any increase in alien funds was to be earmarked for the reserve until the total ratio between reserves and alien funds should amount to 25%. Interest at the rate of 4.75% is paid on cash reserves. The need of earmarking so high a percentage of deposits led to the withdrawal of almost all the old fixed accounts with the Treasury (except those held by the Savings Banks to which the reserve obligation did not apply). By the end of 1948 the amounts entered under the item «fixed deposits with the Treasury and other Institutions» consisted mainly of sums placed with the Bank of Italy and earmarked for the reserve;

(10) See this Review, No. 8, January-March, 1949, Statistical Appendix, p. 75, Table G.

(11) The regulations on the reserves do not apply to the Savings Banks which are in the habit of assigning a large part of the funds they collect to the Treasury. Moreover, their activities are regulated by special laws.

(c) the inflationary movement of 1947 had brought about a violent expansion of credits to clients, while at the same time drying up the flow of bank funds towards the Treasury. At the end of 1947, i.e. three months after the adoption of the «Einaudi measures», the ratio between credits to clients and alien funds still stood at 77.3% (the change introduced in the system of returns makes it difficult to draw accurate comparisons with the situation in the previous quarters). This ratio fell in a marked degree in the first half of 1948, then rose again in the second half, but in December 1948 it was still notably below that of December '47 (74.5 as against 77.3 per cent.). In September 1949 the situation was still substantially the same as in December 1948.

The trend of credits to clients can be observed also in Table VII in which a direct comparison is drawn between quarterly, half-yearly, and yearly increase of alien funds and credits during the period December 1947 - September 1949. Their rate of increase had been limited in the first half of 1948 when Italian economy was suffering from the depression caused by the sudden reverse of credit policy, and when production and prices were falling (12). Moreover, during the winter the situation was aggravated by the shortage of electric power which inevitably slowed down industrial activity. Credits to clients in the first quarter of 1948 rose by 25.2 milliard lire (3.2%) and in the second by 39.5 milliard lire (4.9%); total increase for the half year, 64.7 milliard lire as against 247.2 milliards for alien funds. In the second half of the year the situation was reversed. Credits to clients rose by no less than 284.3 milliard lire and alien funds by 259 milliard. Taken as a whole, alien funds rose, in 1948 by 506.4 milliard lire and credits to clients by 349 milliard. This means that the banks invested in loans to their clients 68.9% of the new deposits and current

(12) In the first quarter of 1948 the index number of industrial production — as shown by the ISTAT data — declined by 7.2% as compared to that of the previous quarter. The wholesale price index number fell by 6.60%. But in the second quarter the index of industrial production was already rising (8.9%) while the downward trend of prices continued, though at a slower rate, until August, when it was reversed.

accounts. This is undoubtedly a high ratio, symptomatic of the scarcity of capital from which the Italian market suffers, but it points to a return to normalcy as compared to the situation in 1947 when the ratio of loans to alien funds stood at 115.8% (deposits and current accounts held 315.8, loans granted 365.2). In 1947 bank lending to Government, both directly and through the Bank of Italy,

clearer we must speak of the trend of loans and investments made only by those banks subject to reserves requirements (Savings Banks and Pledge Banks are therefore excluded). (See Table VIII).

As stated, during 1948 the banks had to earmark 40% of their newly formed deposits and current accounts for the reserve; in that year, of the 385 milliard lire by which alien

INCREASE OF DEPOSITS AND CREDITS TO CLIENTS FOR ITALIAN BANKS
(milliards of lire)

TABLE VII

Period	Increase of deposits	Increase of credits to clients	% ratio of 2 to 1	Excess of deposits increase over credits to clients	Excess of credits to clients increase over deposits
1948 - I quarter	+ 115,619	+ 25,200	21.8	90,419	
II quarter	+ 131,630	+ 39,500	30.0	92,130	
I half-year	+ 247,249	+ 64,700	26.2	182,549	
1948 - III quarter	+ 143,974	+ 130,500	90.1	13,474	
IV quarter	+ 115,166	+ 153,800	133.5		42,634
II half-year	+ 259,140	+ 284,300	109.7		25,160
1948 - In the whole year	+ 506,389	+ 349,000	68.9	157,389	
1949 - I quarter	+ 99,320	+ 58,300	58.7	41,020	
II quarter	+ 52,705	+ 55,767	105.6		3,062
I half-year	+ 152,025	+ 114,067	71.2	37,958	
III quarter	+ 133,478	+ 120,352	90.2	13,126	

amounted to barely 60 milliard lire, equal to 16.4% of the credits granted to clients; but in 1948 they rose to over 200 milliards (60% of the loans).

8. — This shift of bank funds in 1948 towards the Treasury was not due to any lack of demand for credit on the part of business (this demand was indeed pressing), but to reserve requirements (13). To make this point

(13) As already noted, the legal reserves may consist in Government securities to be deposited with the Bank of Italy or in cash (also to be paid into a special account with the Bank of Italy). These liquid funds are then invested by the Bank in Treasury bills (and are entered on the asset side of the balance-sheet of the Bank of Issue under an item described as «investments in government securities on Treasury account»). Therefore, under this system, the reserves are invested either directly by the Banks themselves, or indirectly through the Bank of Italy, in Treasury securities and provide one of the means by which the Government draws on short term private savings. Unlike the American system under which the reserves bear no interest, they are, under the Italian system, earning interest for the banks (the present rate of interest is 4.75% for

funds increased, 146 were thus immobilised. As a matter of fact, with a view to reducing the margin of missing reserves (22.46 milliard lire at the end of 1947) the sums earmarked by the banks for the reserves in 1948 attained a total of 150.9 milliard lire (missing reserves at the end of 1948, 17.5 milliard lire). Loanable funds amounting to 234.1 milliard lire remained, being 55.5 milliards less than the credits granted (289.6 milliards). The deficiency was made good by the larger number of «*assegni circolari*» (cashier's drafts) (which increased from December 1947 to December 1948 by 14.5 milliard lire); by the larger advances obtained from the Bank of Italy (which rose by 15.2 milliards roughly); by reducing the margin of liquidity by some 21.5 milliard

cash earmarked funds and 4.50% for 12 month Treasury Bills). The higher costs the Italian banks have to meet would not have allowed of «sterilising» such a large mass of deposits. (See M. MAZZANTINI, *I costi di Gestione delle Banche Italiane*, in «Moneta e Credito», No. 7, 3rd Quarter, 1949, p. 288 and seq.)

lire (see Table IX, col. 9); and for the remainder by utilising funds accrued to the banks under forms other than those of deposits.

2.96%. At the same date the so-called « free margin » (14) amounted to 58.8 milliards, equal to 7.7% of the deposits and current accounts.

TABLE VIII

INCREASE OF DEPOSITS, LEGAL RESERVES AND CREDITS TO CLIENTS FOR COMMERCIAL BANKS (a)
(milliards of lire)

Period	Increase of deposits and c/a	Increase of legal reserve (b)	Increase of deposits minus reserves	Increase of credits to clients	% ratio of 4 to 1	Difference of 3 to 4
	1	2	3 = 1 - 2	4	5	6
1948						
I quarter	+ 85.9	+ 35.9	+ 50.0	+ 16.8	48.4	+ 34.2
II quarter	+ 109.4	+ 47.7	+ 61.7	+ 34.3	31.3	+ 27.4
I half-year	+ 195.3	+ 83.6	+ 111.7	+ 50.1	25.9	+ 61.6
III quarter	+ 102.8	+ 35.1	+ 67.7	+ 94.5	91.9	- 26.8
IV quarter	+ 86.9	+ 32.2	+ 54.7	+ 145.0	166.8	- 90.3
II half-year	+ 189.7	+ 67.3	+ 122.4	+ 239.5	126.2	- 117.1
1948 - in the whole year	+ 385.0	+ 150.9	+ 234.1	+ 289.6	75.2	- 51.5
1949						
I quarter	+ 79.3	...	...	+ 45.1	56.9	...
	+ 45.7	...	...	+ 38.2	83.6	...
I half-year	+ 125.0	...	...	+ 83.3	66.6	...
III quarter	+ 94.5	...	...	+ 83.8	+ 88.7	...

(a) Only banks having legal reserve requirements. Savings banks are excluded.
(b) Actual increase.

As shown by Table IX, in September 1947, the reserve-alien funds ratio should have been 14.7% (nearly equal to the 15% fixed as the maximum). In December 1948 it stood at 7.5%, being even lower than in September 1947 (7.7%);

DEPOSITS, RESERVES AND CASH ASSETS OF COMMERCIAL BANKS (a)
(milliards of lire)

TABLE IX

Date	Deposits subject to reserves	Required reserves	Actually deposited reserves	Reserves not yet deposited	% ratio of required reserves to deposits	% ratio of actual reserves to deposits	Cash and other cash assets	Total	Free Margin	
									milliards of lire	percentage of deposits
	1	2 = (3 + 4)	3	4	5 = (2 : 1)	6	7	8	9 = (8 - 2)	10 = (7 - 2) : 1
30. 9.47	763.2	112.1	22.6	89.7	14.70	2.96	148.5	171.0	58.8	7.7
31.12.47	810.6	133.6	111.8	22.5	16.48	13.72	128.4	239.6	106.0	13.1
31. 3.48	896.6	170.2	147.1	23.1	28.30	16.40	117.5	264.5	94.4	10.5
30. 6.48	1,005.9	208.4	194.7	13.7	22.58	19.36	128.6	323.3	133.9	14.3
30. 9.48	1,108.8	247.2	229.8	17.5	23.65	20.73	139.3	369.1	121.9	11.0
31.12.48	1,195.6	279.6	262.0	17.6	24.63	21.92	107.1	369.0	80.4	7.5

(a) Only banks having legal reserves requirements. Savings banks are excluded.

14.7% (nearly equal to the 15% fixed as the maximum). But the real ratio, i.e. the ratio of sum actually earmarked for the required reserve to alien funds amounted barely to

(14) The so-called « free margin » consists of cash plus free deposits with the Treasury and the Bank of Italy plus fixed deposits held with those two institutes beyond reserve requirements, minus sums to be earmarked for the legal reserves but not yet actually paid in (See Table IX in the text).

but, in the meantime the ratio between required reserves and alien funds jumped at 21.9%.

9. — The situation that arose in 1949 cannot be accurately described, as data on the amount of required and actual reserves are not yet available.

When once the ratio of 25% has been reached, — and this was probably the case in the spring of 1949 — only 25% (instead of 40%) of any further increase in deposits will have to be earmarked for the reserve. The Banks will thus reacquire greater freedom of movement. The period of maximum pressure of the Einaudi measures may be considered to have passed (15).

The curve for alien funds and for credits to clients for the banks as a whole followed a very different trend in 1949 and in 1948. The first half of 1948 had been characterised by a very marked growth of alien funds, while credits to clients stagnated. In the first half of 1949 banking activity was at a high level; the volume of credits to clients rose by 114 milliard lire (71% of the deposits and current accounts collected during that period), as against 26% in the corresponding months of 1948.

On the other hand, investment in government securities increased by only 32 milliard lire as against 103 milliard in 1948; « fixed deposits with the Treasury » rose by some 53 milliard both in the first half of 1948 and in the corresponding period of 1949. Credit expansion continued in the third quarter of 1949: from July to September loans to clients absorbed about 90% of the deposits and current accounts collected.

At the end of September 1949, credits to clients accounted for 75% of the alien funds (See Table VI). Though, as already stated, the statistical innovations introduced make it difficult to draw reliable comparisons, it is believed that the above ratio is much the same

as that existing in 1938. Today, however, the liquidity position of the banks is strengthened by the required reserves which did not exist in 1938; and this has led some writers to maintain that the Italian banking system might now exceed the present ratio of loans to alien funds, high as it is.

This is the situation taken as a whole. It is however the resultant of policies and situations which often vary considerably, one from the other, arising from different estimates of the prospective economic trend. It was above all the American recession, early in 1949, whose developments it was then difficult to foresee, and its possible impact on the Italian situation, that counselled prudence in the policies followed by some sections of Italian banks (16). Further factors of uncertainty were introduced by the monetary devaluations of last September, which brought our exporting industries up against difficult problems.

On the other hand, a whole series of circumstances help to keep business demand for bank credit — both short and still more medium-term credit — at a high level in spite of the high rates of interest charged. Credit is needed to build up again the working capital devoured during the period of hectic inflation from 1946 to 1947; to modernise and rationalize plants; and to offset the limited opportunities for the self-financing of business. Besides, conditions prevailing on the financial market make it difficult to raise substantial amounts of capital through investments in equities. This has compelled business undertaking in 1948 and again in 1949 to have recourse to borrowing. The two most important channels for collecting capital have been the issue of debentures and bank credit. This explains the pressure placed on the banks to adopt a more « liberal » credit policy and the proposals recently advanced for lowering the margin requirement below the 25% figure.

(15) Nevertheless, in the last quarter of 1949 several proposals were made with a view to reducing the present 25% ratio between reserves and deposits so as to enable the banks to give more help to business. These proposals reflect the present differences of opinion between the supporters of a more aggressive investment policy and the supporters of a cautious monetary policy.

(16) The President of the Italian Confederation of Industry in his Report, submitted on December 6, 1949, remarked (p. 172), in terms that were too general: « the difficulties private enterprise has encountered in obtaining the credit it requires have not been due only to the excessive cost of money, but also to the complicated formalities and guarantees required by the Banks, who have carried on their business in a climate of great circumspection and prudence ».

But a check is placed on the banking activity not only by developments and dangers on the domestic and international economic trend but also by the discrimination between short-term and medium-term credits, a discrimination which is one of the major concerns of the Italian banking authorities.

The Governor of the Bank of Italy made some significant comments on this question in

does however sound a note of warning that all necessary measures should be taken to reduce production costs and to raise returns to a level that will allow the enterprises to provide once more at least for normal amortization funds...». And further on we read: «but if request should be made that the activities of the banking system be directed to conspicuous degree along lines that are specifically those

BANK CREDITS IN ITALY, BY BUSINESS BRANCHES

TABLE X

Business Branches	Decem. 31, 1938		Decem. 31, 1946		Decem. 31, 1947		December 31, 1948		I. N. (31 XII 38=1)
	millions of lire	% of total	millions of lire	% of total	millions of lire	% of total	millions of lire	% of total	
1. Personal (professional, consumer, etc.)	4,139	11.81	31,794	8.52	54,599	7.44	69,637	6.60	16.8
2. Public Institutions (Institutions for specialised ec. activities excluded)	5,163	14.74	22,976	5.79	36,393	4.96	45,975	4.35	8.9
3. Banks, exchanges, fin. and ins. Cos.	3,398	9.70	23,850	5.89	39,969	5.44	57,525	5.45	16.9
4. Transport and communications	547	1.55	10,255	2.58	21,870	2.98	25,399	2.40	46.4
5. Electric Power, gas, water	310	0.91	6,260	1.57	11,470	1.56	6,837	0.81	27.7
6. Hotels, entertainments	286	0.81	2,780	0.70	4,923	0.67	8,622	0.81	30.1
7. Building and real estate, public works, land-reclamation	4,211	12.02	28,217	7.11	50,274	6.85	65,159	6.17	15.4
	9,940	8.39	45,748	6.49	54,666	7.45	88,746	8.41	30.1
<i>Industry and wholesale trade in:</i>									
9. Cereals, foodstuffs, drink	4,315	12.40	97,909	24.79	174,893	23.90	271,804	25.85	62.9
10. Wood and related products	510	1.48	8,856	2.22	16,484	2.24	22,690	2.15	44.4
11. Non-metallic mineral ores	909	2.59	8,721	2.19	22,678	3.09	42,861	4.06	47.1
12. Steel, metal and engineering products	3,184	9.09	40,754	12.52	75,865	10.34	106,455	10.09	33.4
13. Chemical products	588	1.67	13,802	3.40	30,673	4.18	35,090	3.32	59.6
14. Paper and printing	351	1.00	4,785	1.20	9,390	1.27	12,961	1.22	36.9
15. Hides and skins	576	1.64	11,017	2.77	14,637	1.99	26,493	2.51	45.9
16. Textile products and clothing	2,238	6.38	36,168	9.12	74,140	10.10	107,676	10.20	48.1
17. Other trades and industries	172	0.49	3,542	0.89	7,704	1.05	13,732	1.24	76.1
18. Retail trade and miscellaneous services	1,179	3.36	17,821	4.49	32,936	4.49	45,040	4.35	38.9
	35,077	100.—	396,394	100.—	733,444	100.—	1,055,004	100.—	30.1
Index numbers: 1938=1			11.3		20.9		30.1		

his 1949 Report: «In the case of Italy, the growth in the value of production during 1948 does not, if we bear in mind the average duration of productive cycles, seem to justify the supposition that the credits obtained from the banks are fully used to supplement the need of working capital. It is therefore probable that part of the funds supplied by the banks have been used for investments of a more permanent description. This should not cause alarm in the case of an economy suffering from a shortage of capital and called on to make a great effort of reconstruction so as to secure as soon as possible an equilibrium that will enable it to do without external help. It

of medium and long term credit Institutions, then it must not be forgotten that because an important part of the Italian banking system failed in past decades to exercise necessary prudence in this matter, it had to be salvaged by the tax-payers... Under these conditions we may safely say that the banking system is unwilling to repeat the painful experiences of the past».

10. — Before closing, let us refer to the distribution of bank credits among the several branches of economic activity. Table X gives data on credits to clients classified in eighteen groups. In Table D of the Statistical Appendix

more analytical data are given (56 items and their respective sub-items). As can be seen, all through 1948 no marked shifts occurred, in the majority of cases, in the percentage ratios of the several productive groups as referred to the total. But the tendency continued, even if in a modified degree, that had made itself felt in previous years, that of the relative shrinkage of credits granted to activities not strictly commercial, industrial, or agricultural.

The loans made to the activities included under the first four items of Table D of the Statistical Appendix (Personal, Public Institutions, Banks, Insurance Companies) which still accounted at the end of 1947 for 17.83 per cent of total outstanding credits (at the end of 1938 they accounted for no less than 36.25% of the total) had fallen at the end of 1948 to 16.41%, having increased only 13 fold during the decade. So also the quota assigned to the group «public works and services», fell from 12% to 10%, the coefficient of increase over 1938 being 20.14 fold. In this group there has been a marked reduction in the case of building and land reclamation enterprises, which have fallen from 12% in 1938 to some 6% in 1948; a decline due to the falling off in the activity

of these two items until 1948 as compared to pre-war years.

Credits extended to the other groups (industrial, commercial, and agricultural loans) rose on the other hand from 1938 to 1948 from 17 to 774 milliard lire, thus increasing some 44-fold. The growth has been particularly marked in the case of food industries and trade (63 times that of 1948). This is accounted for by the more rapid recovery noted in this branch; by the rise in the prices of farm products which has been greater, generally speaking, than that of the average prices of most other products; by the financing of the wheat pools.

Industrial and commercial credits, other than those granted in the case of foodstuffs, are seen to have increased 42 times, but in most cases the coefficient has been a higher one. The average is reduced to the level mentioned by the limited growth of credits to the steel and engineering trades which have increased 33 times over the 1938 figures. Those industries had been working largely for munitions of war and have had to be reconverted on a large scale and adjusted to the needs of peace production, the task being facilitated by direct financial assistance from the Government.