

BANK FOR INTERNATIONAL SETTLEMENTS

FIFTH ANNUAL REPORT

APRIL 1, 1934 — MARCH 31, 1935

BASLE

May 13, 1935

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FIFTH ANNUAL REPORT
TO THE GENERAL MEETING OF THE
BANK FOR INTERNATIONAL SETTLEMENTS

Basle, May 13, 1935.

Gentlemen:

I have the honor to submit to you the Annual Report of the Bank for International Settlements for the fifth financial year, beginning April 1, 1934 and ending March 31, 1935. The results of the year's business operations — approximately the same as those of the preceding fiscal period — are set forth in detail in Chapter VII below, with a recommendation to this General Meeting to vote the usual annual dividend of 6 per cent., after making substantial increases in the statutory reserves.

Soon, four years will have passed since the financial crisis broke out, and still the world suffers without relief from the unrest and the uncertainties caused by moving currencies. The consequent difficulty encountered by the world's trade is reflected everywhere in the large percentage of unemployment in those branches of national industry which are largely producing for foreign demand. In many countries, national endeavor has given an impetus to domestic affairs, with visible results, but this whole stimulated development threatens to become top-heavy as long as an expansionist policy at home is limited by restrictive policies, internationally. The daily conduct of every business and of every financial transaction which touches more than one currency area is rendered difficult or impossible by the varying exchange values of so many of the world's currencies, particularly of some of the leading ones. An indication of the surprising extent of these inhibiting variations is contained in Chapter II. Tariff changes, quotas, clearings, exchange restrictions, compensation agreements and the like, all of which tend to throttle the international exchange of goods, of services and of capital, are the inevitable concomitants of the chaotic monetary conditions which prevail. During the past twelve months, the disorder has become intensified through, among other factors, the further fall, measured in gold, of sterling and the currencies responsive thereto, the devaluation of the belga, the silver policy of the United States, and the continuous abnormal attraction of gold to the American market.

With the passage of time, it becomes more and more clear that no fundamental, durable recovery can be hoped for unless and until a general stabilization at least of the leading currencies has been brought about. When the internal improvement that has been made in some countries with depreciated currencies has been summed up, it will be found that the number of unemployed is still twice as high as it was in the years 1927 to 1928, when these countries, under the régime of the gold standard, enjoyed the advantage of stable foreign exchange rates. It is slowly beginning to be realized in ever wider circles that an enduring economic progress presupposes more possibilities for international trade and for sound international financial relationships, which, in turn, require stability of exchange rates. In the sphere of practical politics, this means stabilization on the basis of gold. The fear has sometimes been expressed that the relinking of a currency to gold may cause a fall in prices and necessitate the taking of deflationary measures.

In present circumstances, a development in the opposite direction is rather to be anticipated. The large current gold production, each year setting a new record, the mass of hoarded gold to be released when confidence is restored, the huge nominal increase in monetary gold stocks serving as the credit base which has resulted from revaluation, and the present low level of world gold prices, all justify the expectation that an increase, instead of a decline, in gold prices would probably be consequent upon a general stabilization of the principal world currencies not already stabilized. When — as it ought quickly to do — the world decides to return to stability of exchanges in the interest of general recovery, and to desist from international monetary warfare, it will then be possible for constructive cooperation in the real sense of the word to take place between central banks to maintain that stability and to collaborate freely together along the lines, for example, set forth in Chapter V below; it will also be possible for the Bank for International Settlements — which stands prepared, should it be desired, to endeavor to assist in a stabilization program and in the improved working of a restored international monetary system based on gold — to realize the aims and aspirations that attended its creation.

The pages which follow set forth some of the leading developments of the past year, looked at from the international monetary and financial point of view, with particular reference to those elements which bear on the resumption of an international gold standard, the stabilization of the exchanges, changes affecting central banks, the situation as regards international short-term credits, the reduction or conversion of long-term debts, and the trend of interest rates, as well as with certain other factors of an important financial character that have occurred during the year under review. The financial elements of the Saar Settlement, with which the Bank is intimately connected, are summarized in Chapter VI, which deals also with the developments concerning the international loans for which the Bank is Trustee, or Fiscal Agent.

II. EXCHANGE RATES, PRICE MOVEMENTS AND FOREIGN TRADE.

When Great Britain suspended gold payments in September 1931 and was followed by a number of other countries, the exchange rates of the currencies thus subject to depreciation were generally allowed to fluctuate on the respective exchange markets without interference on the part of the monetary authorities. This inaction was soon found to be attended with many disadvantages as fluctuations in the rates tended to become relatively wide, to the great concern of trade and industry. Those forces which bring about a correction of the exchange position within the gold points when a country is on the gold standard, no longer operated. Where the maximum deviation from par is limited by the mechanism of the gold points, funds will be attracted from abroad at or near the lowest gold point, but such an attraction presupposes a fundamental stability of the currency so that an investor can expect to quit the market at a favorable rate within the gold points. If there be no such assurance of permanent currency value, the machinery does not function; at best some speculator, banking on a turn in the trend, may risk the temporary transfer of funds to a weak market, but to do so he will have to be tempted by a large margin, that is to say, a pronounced decline will have to be registered in the exchange rates before funds are attracted. Such a decline, however, is in itself likely to frighten nervous holders of balances and securities into leaving the market; forces are thus set in motion which, far from counteracting the fluctuations in the exchange rates, tend to intensify them. It is, indeed, a vulnerable point of uncontrolled currencies that every movement, seasonal or otherwise, gathers momentum by itself. These are the reasons why in countries which suspended the gold standard the central bank or some specially instituted exchange fund was soon charged with the task of trying to smooth out temporary fluctuations of the exchange.

In the daily management of the exchange position practically all countries have adopted some definite principle of control, which makes it possible to distinguish between two main groups. In the first place there is a group of countries whose exchange rates are kept stable in relation to gold, either directly through the sale and purchase of gold by the central bank, or indirectly through exchange stability in relation to some gold currency. This group is much larger than the so-called gold bloc. The Yugoslavian dinar, for instance, has depreciated according to the Zurich quotation by about 23 per cent., but for over two years this rate has been kept stable within very close limits not greater than the normal margin between gold points. Likewise the depreciated rate of the Greek drachma has been maintained stable for more than two years in relation to gold through control of the exchange rates in terms of the French franc. Where exchange regulations have been introduced it may happen that several rates are quoted and the official rate may not always be the most effective. There are, therefore, some doubtful cases, but subject to this reservation the following list, which may not be exhaustive, gives countries in which the most representative exchange quotation is kept directly or indirectly in a stable relation to gold: besides France, where the free delivery of gold has been fully maintained, and the remaining members of the gold bloc—Holland, Italy, Poland and Switzerland—there are Albania, Belgium, Bulgaria, Cuba, Czechoslovakia, Danzig, Germany, Greece, Iran, Latvia, Lithuania, Mexico, Rumania, Spain, Turkey, United States of America, Uruguay and Yugoslavia. In certain of these countries the exchange position has been maintained only with difficulty and at times moderate deviations have occurred.

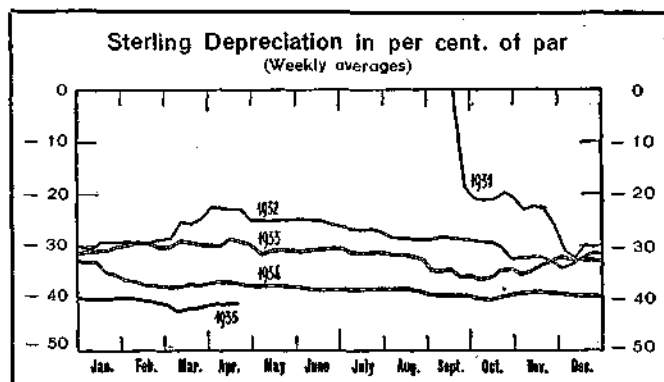
The other large group comprises Great Britain and the countries which in their exchange policy follow more or less the movements of sterling. To this group

belong: the Argentine, Australia, Bolivia, Brazil, Colombia, Denmark, Egypt, Estonia, Finland, Great Britain, India, the Irish Free State, Japan, Norway, New Zealand, Paraguay, Portugal, Siam, Straits Settlements, Sweden, the Union of South Africa, and the British Crown Colonies. Apart from Great Britain herself, the only members of the sterling group in Europe are Estonia, Finland, Portugal and the three Scandinavian countries.

There are relatively few nations not included in one or other of these two groups: there are the three silver territories — China, Hong Kong and Manchukuo, following their own destiny; Hungary which officially maintains the gold pengö but allows most of her trade to be paid for under clearing arrangements at depreciated rates; Canada, striking a rather individual line, linked rigidly neither to gold nor sterling; and certain South American countries difficult to classify, especially as during the past year exchange restrictions have been at least partially lifted, leading in some instances to a technical rather than a real alteration of the quoted exchange rates.

For practical purposes the main problem of bringing about further exchange stability in the world has reduced itself to a question of achieving a stable relation between sterling, on the one hand, and the dollar and French franc linked to gold on the other.

The following graph shows the fluctuations in the exchange value of sterling since September 1931.



September 1931.

It will be seen that the exchange value of sterling has declined in each successive year. The maximum spread between the highest and the lowest value of the currency during the year from March 1934 to March 1935 was about 10 per cent. Fluctuations of that magnitude are, necessarily, greatly disturbing not only

because sterling is the currency in the world principally employed for the settlement of international payments, but also because the countries comprised in the sterling group together cover about 35 per cent. of the world's foreign trade.

It is known that in the course of the year the British Exchange Equalization Account has employed a substantial amount of gold to steady the sterling rate of exchange. The rate reached its lowest level not in the autumn, when the seasonal pressure is usually most pronounced, but in the first half of March 1935. Large foreign holdings of securities had then been sold on the London stock exchange and the proceeds converted into foreign currencies. Fears of a further fall in the rate induced a marked concentration of commercial purchases of exchange into the space of a few days when these would normally have been spread over as many weeks. On the other hand, there appears to have been no noteworthy decline in the aggregate of short-term sterling balances held by foreigners.

Variations that have taken place in exchange rates since the beginning of the present crisis in 1929 range from zero to 75 per cent.

The following countries have substantially retained their currencies at the same gold value as in 1929: Albania, Bulgaria, France, Holland, Italy, Latvia, Lithuania, Poland, Rumania, Switzerland and Turkey. In the case of Germany, marks can be bought on foreign markets at a discount for special purposes as, for instance, tourist

expenditure, but as far as merchandise trade and current financial transactions are concerned by far the major part of the payments are made on the basis of full-value marks.

The currencies of the following countries have from 1929 to March 1935 depreciated less than 30 per cent. in relation to par:

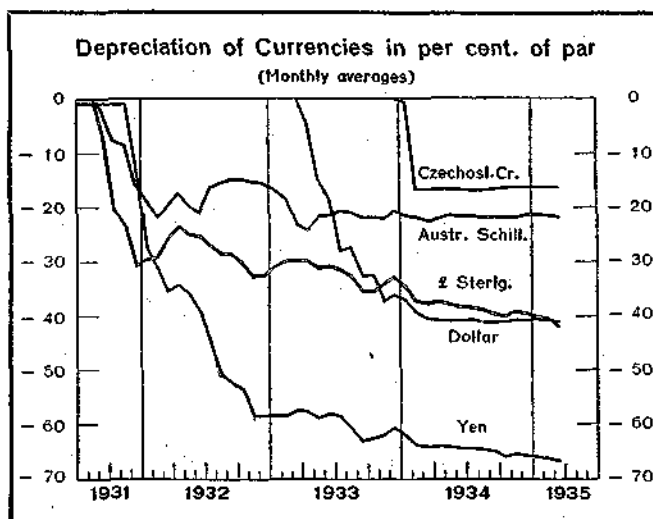
Czechoslovakia	16 per cent.	Yugoslavia	23 per cent.
Venezuela	19	Belgium	28
Austria	22		

The following countries have currencies depreciated at least 40 per cent. in relation to gold, or, where no post-war parity exists, from 1929 to March 1935:

Canada	41 per cent.	Finland	50 per cent.
Cuba	41	Denmark	52
Egypt	41	Uruguay	52
Great Britain	41	Iran	53
Irish Free State	41	Australia	54
Siam	41	New-Zealand	54
United States of America	41	Greece	57
Estonia	42	Bolivia	59
Danzig	42	Argentina	65
India (Calcutta)	42	Japan	66
Portugal	42	Columbia	67
South Africa	43	Mexico	67
Spain	44	Brazil	68
Sweden	45	Ecuador	73
Norway	46	Chile	75
Peru	48		

In the spring of 1935 changes were made in the gold value of two currencies; the belga was devalued by 28 per cent. from April 1, 1935, and the Danzig guilder by 42.4 per cent. from May 2, 1935.

The actual movements of certain representative exchange rates from 1931 onwards are shown in the following graph:

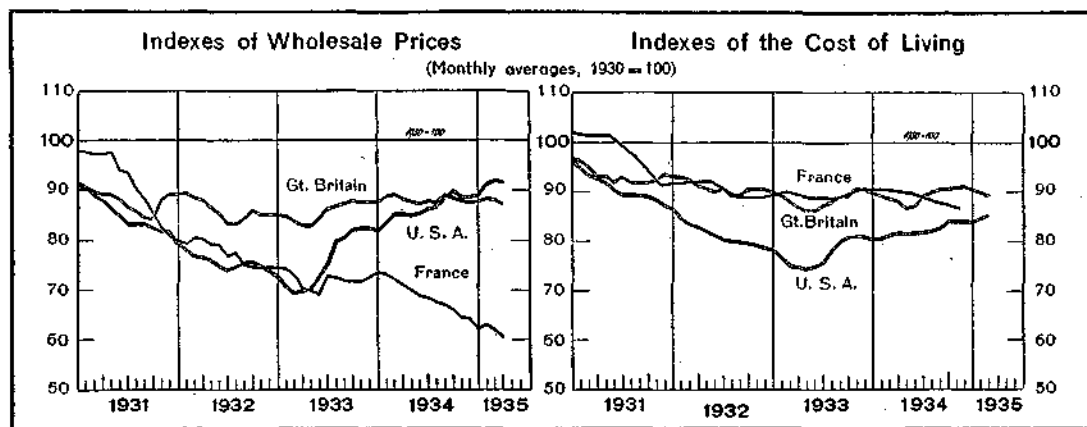


The variations that have occurred in exchange rates have radically altered the gold value of notes in circulation and sight liabilities of central banks in countries with depreciated currencies. The Gold Delegation of the League of Nations calculated that at the end of 1929 the aggregate value of notes in circulation and other sight liabilities of central banks and other monetary authorities in all countries except Russia amounted to about 22,450 million gold dollars, against aggregate gold reserves of 10,780 million.

As a result of currency depreciation the total gold value of notes and sight liabilities at the end of 1934, on the basis of the rates of exchange then ruling, was approximately 19,000 million old gold dollars, while the gold holdings had risen to about 13,000 million. Thus while the "world gold cover ratio" at the end of 1929 was about 48 per cent., it would be nearly 70 per cent. at the end of 1934, were reserves re-valued on the basis of current exchange rates.

The decline in the exchange values of so many currencies, super-imposed upon a severe economic depression, has naturally affected movements of commodity prices in terms of gold as well as in terms of the individual currencies. However, it is by no means easy to get a clear idea of causation in these matters: to what extent prices have determined exchange rates or exchange rates prices, or to what extent some third factor as, for instance, credit policy and programs of government subsidies and spending have influenced both exchange rates and price movements. Exchange value is the product of a complex relationship involving all the elements in the balances of payments: the interchange of goods and services (influenced by relative costs and prices, changes in tariffs etc.), the amounts payable as interest and dividends, and the currents of capital as determined by the attitude towards foreign lending and by credit policies generally.

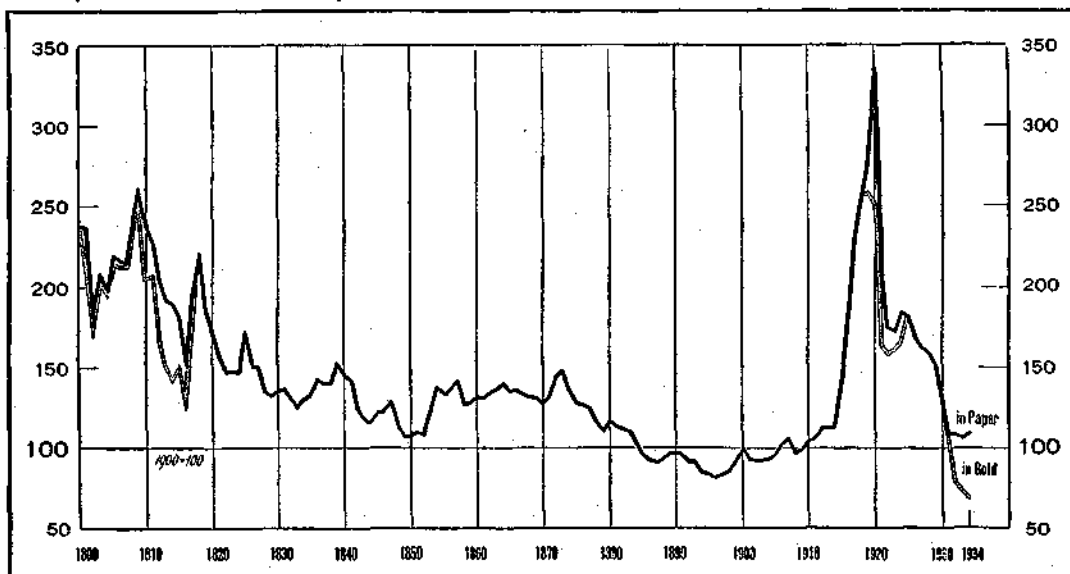
The following graph shows the development of wholesale prices and cost of living in France, Great Britain and the United States from 1931 to the beginning of 1935 as computed in national currencies.



The downward adjustment of prices and costs continued in France more or less uninterrupted throughout the period. In Great Britain wholesale prices and cost of living remained practically unchanged in spite of the depreciation of the pound and the pursuit of a policy of cheap and plentiful credits. In the United States, on the other hand, a marked recovery in prices and an advance in the cost of living set in after depreciation. These diverse movements have had an influence on the "economic rates of exchange" between the three countries. It is obvious, for instance, that at the beginning of 1935 the position of relative costs and prices as between Great Britain and the United States indicated an "economic rate" much closer to the old par of \$ 4.86 = £ 1 than at the time of the Monetary and Economic Conference in the summer of 1933; for American costs and prices have risen, while the British have remained stationary.

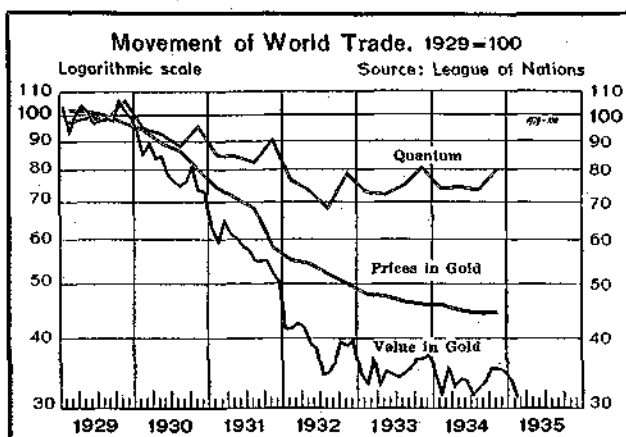
With regard to the general level of prices, monetary declarations by the governments in the sterling area and by the President of the United States testify that these authorities are in favor of a rise in prices that would be more in conformity with existing costs and

indebtedness. It may thus be of interest to reproduce the following graph showing the development of wholesale prices in Great Britain from 1800 onwards*.



It will be seen that, on a gold basis, the present British price level is about 15 per cent. below the previous lowest point ever recorded since 1800. In view of the large current gold production, the magnitude of the monetary reserves (particularly as revalued at present rates of exchange) and the amount of gold that may come out of hoards consequent upon stabilization, it would indeed be strange if prices did not show a rising tendency after a general return to gold. Such a price recovery would render internal adjustment in the national economy of individual countries easier and also help to eliminate disequilibria in the economic relationship between different countries. One of the main reasons why the gold standard worked so comparatively well before the war was that costs and prices in individual countries were then adapted to the requirements of the standard so that trade relations were not disturbed by the serious under or over valuation of the currency of any important country.

The following table shows the movement of world trade in gold value and in volume from 1929 to the beginning of 1935.



from 1929 to the beginning of 1935.

The year 1934 brought no increase in merchandise trade when measured in gold values but there was a slight improvement in terms of national currencies and of volume, due to an increased exchange of goods between countries with depreciated currencies. Of the two main creditor nations Great Britain had a larger import and the United States a larger export surplus on merchandise account than in 1933.

* The graph of sterling prices is reproduced from "An introduction to the study of prices" by Sir Walter T. Layton and Geoffrey Crowther. London 1935.

An important development has been the conclusion of a number of clearing agreements between the German Government and the governments of various creditor countries. The immediate effect was a reduction in so-called "triangular trade" in that German purchases abroad tended to become concentrated on the markets of the countries with which clearings had been instituted; as a result, the German active balance of trade to these countries not only declined but in some instances became passive. It may be true that in certain circumstances clearing arrangements have made the maintenance of at least a certain volume of trade possible, particularly where severe exchange restrictions would otherwise present an almost insuperable obstacle. When, however, the system is extended to govern the commercial relations of some of the most important countries there is necessarily a violent dislocation of trade currents, a limitation of the total quantum of world trade, and a reduction in the aggregate capacity to meet financial obligations abroad.

World trade to-day is hampered by tariffs, quotas, fluctuating currencies, exchange restrictions, clearing arrangements and other hindrances; nevertheless, international commerce continues and the resistance shown to the forces of disintegration should not be underrated. It is true that the aggregate value of world trade when measured in gold values has fallen by more than 60 per cent. since 1929, and this tremendous decline within a few years gives the impression of an extreme economic isolation. Quantum figures, which rather than value are the measure of human activity devoted to international trade, show however that the volume of goods exported and imported has been reduced by only 25 per cent. from the peak year of 1929 and that it is fully up to the level of 1913, a condition confirmed by the statistics of shipping tonnage actually employed. At a time when international financial obligations are so interwoven, this reduction in volume, especially when it coincides with so great a fall in prices, can be borne only with difficulty, but there is still an extensive interchange of goods in the world and this large volume of trade requires a proper mechanism for international payments.

Restoration of international monetary stability would in all probability lead to a distinct increase in the volume of trade. The multiplication of tariffs, quotas and prohibitions in recent years has largely been a result of sudden currency changes. There can be very little hope of a return to freer trade so long as the present monetary uncertainty prevails. The cause of the evil must be removed before the evil itself can be overcome. After the war when the fall in prices had been arrested and the principal currencies stabilized, a general movement of economic demobilization set in: import and export prohibitions were practically abolished within a few years and tariff rates lowered through the conclusion of commercial treaties.

If in the world of to-day exchange stability were achieved through a return to gold, it is likely that instead of a fall there would be a rise in prices, which would create conditions favorable to a reduction in trade barriers. Such a rise would mean that the value of international trade, whether measured in gold or national currencies, would attain a higher total and thus facilitate the payment of foreign debts. Indeed, questions of exchange policy, prices, foreign trade and international indebtedness are all intimately connected.

Moreover, the problem of unemployment is aggravated by the low level of activity in export industries particularly as the sale abroad of manufactured articles has been obstructed by more hindrances than the foreign sale of raw materials. How far can home trade

be safely stimulated when no expansion takes place in foreign trade? Must a number of the unemployed be slowly and painfully transferred from the export industries to catering for the home market? Great relief would obviously be obtained if there were a genuine recovery in the international interchange of goods. Consideration given to this question by the competent authorities cannot fail to convince them that in present circumstances the re-establishment of exchange stability would be of prime importance as a stimulus to world trade and may provide the clue to the solution of internal problems which in isolation remain intractable.

III. (a) THE SUPPLY AND MOVEMENTS OF GOLD.

In the year under review the production of gold reached a new record figure and the extraordinary shipments from India and China were well maintained, factors which have helped to ease the situation; moreover, the private hoarding of gold, while still on the increase, made less inroad into available supplies than in previous years of the depression. Large amounts of gold have moved into and out of monetary reserves, the main recipients being the stocks of the United States and the reserves of the Bank of France. The new gold has thus gone to swell the holdings of those countries which already had the largest stocks.

(1) THE SUPPLY OF GOLD.

In 1934, for the third year in succession, the production of gold created a new record, attaining an amount estimated at 27,100 million fine ounces, an increase of nearly 7 per cent. over the previous year. The following table shows the world's gold production in 1915, the record year before 1932; and each year from 1923 onwards. The estimates are based on statistical information obtained from the various producing centers:

Year	South Africa	U. S. A. **	Canada	Russia	Other countries	Total for the world	
	in thousands of ounces of fine gold						in millions of Swiss francs
1915*	9,096	4,888	918	1,546	6,146	22,594	2,420
1923	9,149	2,503	1,233	438	4,463	17,786	1,905
1924	9,575	2,529	1,525	594	4,827	19,050	2,041
1925	9,598	2,412	1,736	693	4,592	19,031	2,039
1926	9,955	2,335	1,754	895	4,430	19,369	2,075
1927	10,122	2,197	1,853	810	4,464	19,446	2,083
1928	10,354	2,233	1,891	899	4,206	19,583	2,098
1929	10,412	2,208	1,928	1,085	3,952	19,585	2,098
1930	10,716	2,286	2,102	1,434	4,184	20,722	2,220
1931	10,878	2,396	2,694	1,701	4,701	22,370	2,396
1932	11,559	2,449	3,044	1,990	5,185	24,227	2,595
1933	11,014	2,537	2,949	2,816	6,062	25,378	2,719
1934	10,480	2,916	2,964	4,224	6,523	27,107	2,904

* Record year before the years 1932—1934.

** Including the Philippines.

The output of gold in the Union of South Africa during 1934 was subject to the same tendency as in the previous year and thus again declined, in spite of the opening of new mines and extended activities in general. Indeed, a larger quantity of ore has been milled than ever before; and gross receipts have also risen in terms of pounds as a result of the higher price paid by the South African Reserve Bank to producers for the newly-mined gold, the price being fixed monthly in relation to the quotations on the London market. The higher price has made it profitable for the mining companies to exploit ore of low grade — a policy that has reduced the current output by half-a-million ounces, but should prolong the life of the mines and consequently tend to make the supply of gold more secure for the future.

A great upward bound has occurred in Russian production, which increased by 50 per cent. from 1933 to 1934 and is now fully five times as great as in 1927. Thanks to this rapid advance, Russia has taken second place among the gold-producing countries. In a period of depression, when merchandise trade has been hampered by numerous restrictions, the possibility of producing and exporting an increasing amount of gold — internationally the most liquid of all assets — has naturally been of immense advantage to Russia. During the past four years Russian gold exports as measured by deliveries in Berlin are valued at nearly 1,000 million Swiss francs. During the same period the short-term foreign indebtedness of the Union of Socialist Soviet Republics has been reduced from 2,300 million Swiss francs to an almost negligible amount (after having risen to 3,750 millions at the end of 1931).

Gold production in Canada remained practically unchanged, but a notable advance took place in the production of the United States, under the stimulus of a 69 per cent. increase in the price of gold (from the old statutory price of \$ 20.67 per fine ounce to the new price of \$ 35). In most of the other countries an increase was recorded. The higher output has meant a strengthening of the producing countries' purchasing power on foreign markets and thus helped to maintain the volume of world trade generally.

Gold exports from the East in 1934 slightly exceeded those of the previous year though still remaining well below the high amount attained in 1932. In the following table, which sets out the exports for the past four years, gold coming from Hong Kong is shown separately; it should be observed, however, that this gold is almost wholly of Chinese origin, having been smuggled out of China against the provisions of the 1931 gold embargo.

Net Gold Exports	India	China	Hong Kong	Total
	in millions of Swiss francs			
1931	477	54	63	594
1932	1,014	118	59	1,191
1933	653	74	100	827
1934	703	54	68	825
Totals	2,847	300	290	3,437

The aggregate amount of gold available from current production and the East (including an allowance for smuggling) rose in 1934 to 3,779 million Swiss francs, which is 230 millions more than in the previous year and practically the same as in 1932 when production was smaller but shipments from India and China were on a larger scale.

The importance of this record supply is enhanced by the fact that during 1934 industrial requirements of gold were probably no greater than the amount of old gold surrendered by the public. The statistical information so far available for that year would seem to indicate a picture similar to that for 1933 when the amount of reclaimed gold was estimated at the countervalue of 130 million Swiss francs in the United States; 170 millions in Italy and 30 to 40 millions in Great Britain. As far as these three countries are concerned, the amounts thus forthcoming were sufficient to meet their industrial requirements, considerably reduced during the depression, and to leave a surplus available for other countries. Consequently, no deduction from the total supply as given above need be made for the use of gold in the arts.

Attention has been attracted to the fact that the East, instead of absorbing a substantial proportion of the current gold production (an estimated average of 18½ per cent. over the period 1890-1929), has been an abundant source of supply. In comparison with this swing-over, the satisfaction of the industrial requirements by the recovery of old gold is necessarily of less importance; but the extent to which conditions have been reversed is not generally realised: according to the most reliable estimates the industrial requirements of gold absorbed on an average 36 per cent. of the current production in the period 1835-1889 and 24 per cent. in the period 1890-1929.

(2) THE FLOW OF GOLD TO MONETARY STOCKS.

The following table shows for each quarter of the year the gold obtained from current production and the East, the changes that have occurred in the reserves of fifty countries — including all with gold reserves of any consequence — and the difference between the increase in the gold reserves and the total new gold available.

1934	Gold production	Gold from India, China and Hong Kong	Total new gold available	Net increase in the gold reserves of 50 countries	Amount by which the increase in gold reserves exceeds (+) or falls short of (-) total new gold available
	in millions of Swiss francs				
First quarter	698	326	1,024	1,629	+ 605
Second „	722	223	945	1,353	+ 408
Third „	735	121	856	1,114	+ 258
Fourth „	749	205	954	738	- 216
Total for 1934	2,904	875	3,779	4,834	+ 1,055

The increase in the reported total gold reserves of banks of issue and governments amounted in 1934 to 4,834 million Swiss francs, which is the largest increase ever recorded in any one year. In contrast to what happened during the earlier years of the depression, there were in 1934 no sudden alterations of the tendency, the aggregate gold reserves at the end of each month showing an uninterrupted advance. It must be noted, however, that the figures in the table only refer to gold reserves as given in official returns. They do not include, for instance, the holdings of the British Exchange Equalization Account, gold belonging to the American Exchange Stabilization Fund when held abroad or certain unreported amounts which central banks hold outside their statutory reserves.

The increase over the year in the reported (or "visible") gold reserves exceeds the total amount of gold available from current production and the East by more than 1,000 million Swiss francs. What was the origin of this excess? There is no evidence of any net outflow of gold from private hoards, for even if some dehoarding occurred, particularly on American account, during February and March 1934, this gain was more than counterbalanced by increased hoarding on the part of the continent of Europe. Gold has been released, however, from the stocks of the British Exchange Equalization Account, which in the course of the year disposed of important amounts for the purpose of steadying the sterling rate of exchange. The visible gold reserves were also increased by gold that had originally been purchased by the United States Government

Gold reserves of banks of issue and governments	Dec. 31, 1933	Dec. 31, 1934	Loss (-) Gain (+)	March 31, 1935	Loss or gain in the first quarter of 1935
	in millions of Swiss francs				
Group 1:					
Germany	567	188	- 379	190	+ 2
Italy	1,934	1,585	- 349	1,589	+ 4
Netherlands	1,921	1,754	- 167	1,624	- 130
Belgium	1,970	1,805	- 165	1,628	- 177
Switzerland	1,998	1,910	- 88	1,713	- 197
New Zealand	125	76	- 49	76	0
Sweden	514	488	- 26	489	+ 1
Colombia	72	59	- 13	44*	- 15
Norway	199	187	- 12	187	0
Uruguay	260	249	- 11	249*	0
Danzig	30	24	- 6	20	- 4
Egypt	171	165	- 6	165*	0
Argentina	1,240	1,235	- 5	1,235	0
Yugoslavia	164	163	- 1	116	- 47
Total	11,165	9,888	- 1,277	9,325	- 563
Group 2:					
Albania	7	7	0	7	0
Algeria	43	43	0	43*	0
Australia	13	13	0	13	0
Belgian Congo	9	9	0	9*	0
Bulgaria	58	58	0	58	0
Denmark	185	185	0	185	0
Finland	42	42	0	42	0
Hungary	71	71	0	71	0
India	840	840	0	840	0
Latvia	46	46	0	46	0
Lithuania	27	27	0	24	- 3
Peru	60	60	0	60	0
Total	1,401	1,401	0	1,398	- 3
Group 3:					
Austria	138	139	+ 1	139	0
Ecuador	15	16	+ 1	16*	0
Morocco	22	23	+ 1	23*	0
Estonia	28	34	+ 6	35	+ 1
Turkey	61	67	+ 6	68	+ 1
Spain	2,261	2,268	+ 7	2,269	+ 1
Dutch East Indies	226	236	+ 10	245	+ 9
Canada	658	669	+ 11	679*	+ 10
Rumania	307	319	+ 12	324	+ 5
Poland	276	293	+ 17	295	+ 2
Mexico	46	70	+ 24	70	0
Chile	54	80	+ 26	87	+ 7
Portugal	177	208	+ 31	208	0
United Kingdom	4,810	4,849	+ 39	4,856	+ 7
Czechoslovakia	262	343	+ 81	343	0
Japan	1,098	1,205	+ 107	1,219	+ 14
Russia	2,155	2,277	+ 122	2,277*	0
South Africa	432	562	+ 130	722	+ 160
France	15,655	16,675	+ 1,020	16,779	+ 104
U. S. A.	20,793	25,216	+ 4,423	26,211	+ 995
Total	49,474	55,549	+ 6,075	56,865	+ 1,316
Other countries**	260	412	+ 152	412	0
Grand total**	62,300	67,250	+ 4,950	68,000	+ 750

* Latest date available.

** Partly estimated. The total change is rather larger than that given in the table on the previous page, as more than fifty countries are included.

during the last quarter of 1933 and the first month of 1934 in execution of its policy of gradually lowering the gold content of the dollar. In all, 185 million dollars (new par) were bought and this amount, equal to 566 million Swiss francs, was incorporated in the country's gold stock after devaluation, appearing in the returns for the first time at the end of February 1934. It is now known that during 1933 the United States Government and the British Exchange Equalization Account acquired considerable amounts of gold. These acquisitions were comprised in the 3,012 million Swiss francs given on page 20 of last year's annual report as representing hoarding, i. e. the difference between the increase in the gold reserves of 50 countries and the net total of new gold available. Hoarding on private account during 1933 was substantially below 3,000 million Swiss francs.

To indicate the changes that have taken place in monetary reserves, the preceding table (page 17) sets out the reported stocks in each country at the end of 1933 and 1934 respectively and at the end of March 1935, the countries being divided into three groups: those in which the gold reserves fell during 1934 (Group 1); those in which there was no change in the magnitude of the reserves (Group 2); and those in which an increase occurred (Group 3).

During 1934 the United States and France took the lion's share of the gold moving in the year, and only three other countries, the Union of South Africa, Russia and Japan, increased their holdings to any appreciable extent.

U. S. A. Exports and Imports of Gold and Silver	GOLD			SILVER		
	Exports	Imports	Excess of exports (-) imports (+)	Exports	Imports	Excess of exports (-) imports (+)
in thousands of dollars (new par)						
1934:						
January	7,983	3,296	- 4,687	1,454	6,083	+ 4,629
February	51	452,622	+ 452,571	734	2,128	+ 1,394
March	44	237,380	+ 237,336	665	1,823	+ 1,158
April	37	54,785	+ 54,748	1,425	1,955	+ 530
May	1,780	35,362	+ 33,582	1,638	4,435	+ 2,797
June	6,586	70,291	+ 63,705	2,404	5,431	+ 3,027
July	114	52,460	+ 52,346	1,789	2,458	+ 669
August	14,556	51,781	+ 37,225	1,741	21,926	+ 20,185
September	22,255	3,585	- 18,670	1,424	20,831	+ 19,407
October	2,173	13,010	+ 10,837	1,162	14,425	+ 13,263
November	310	121,199	+ 120,889	1,698	15,011	+ 13,313
December	140	92,249	+ 92,109	1,014	8,711	+ 7,697
1935:						
January	363	149,755	+ 149,392	1,248	19,085	+ 17,837
February	46	122,817	+ 122,771	1,661	16,351	+ 14,690
6-month totals, 1934:						
January-June	16,481	853,736	+ 837,255	8,320	21,855	+ 13,535
July-December	39,548	334,284	+ 294,736	8,828	83,362	+ 74,534
Calendar year total, 1934:						
January-December	56,029	1,188,020	+ 1,131,991	17,148	105,217	+ 88,069

The increase in the reported gold stock of the United States stood in a class of its own, attaining the equivalent of 4,423 million Swiss francs in 1934, which, to the extent of 3,465 millions (\$ 1,132 million), was a result of net imports. How these imports were distributed over different months is shown in the preceding table (page 18), which also shows the imports and exports of silver.

The exceptionally large gold imports in February and March 1934, consequent upon the devaluation of the dollar, in the main represented the return to the States of funds which had been sent out during previous months, accompanied by the closing of the heavy bear position in dollars which had been built up. The only break in the inflow of gold occurred in the latter half of August and in September, when, for a short time, funds moved to Europe. This movement was in part a reflection of a certain uneasiness when the Administration put its silver purchase program into effect on August 9, 1934, and partly a direct consequence of the silver purchases abroad, through which foreign markets were provided with dollar balances. The last two months of the year again showed heavy gold imports, due mainly to a growing demand for dollars to meet the payment of the American export surplus of commodities.

For the whole of 1934 the excess of United States commodity exports amounted to \$ 478 million; as, however, the income from foreign investments was more than offset by such debit items as expenditure of American tourists, immigrants' remittances to their families abroad, etc., there was a net surplus on current account, which, according to the preliminary official estimate of the country's balance of payments, amounted to approximately \$ 375 million. That being the case, only one third of the year's gold shipments to the States were required for meeting payments on current account. Moreover, the figures for the first two months of 1935 show an export surplus of commodities to the value of only \$ 20 million, simultaneous with net silver imports of \$ 32 million and net gold imports of \$ 272 million. Evidently movements on capital account continue to overshadow the transactions on account of merchandise trade, interest payments and similar items.

In the first two months of 1935 the exchange markets were in a state of nervousness pending the announcement of the Supreme Court's decision on the gold-clause case. A strong demand for dollars set in, but in view of the insecurity private dealers were hesitant in shipping gold to the United States. To ease the situation the American Exchange Stabilization Fund proceeded to sell dollars in Paris and London and afterwards converted the amounts obtained in French francs or sterling into gold and silver.

The large gold imports had an influence on the excess reserves of member banks which rose from \$ 768 million at the end of 1933 to 2,200 million at the end of January 1935. The Federal Reserve Bulletin for February 1935 explained that the increase in member banks' reserve balances during 1934 was principally due to gold imports in contrast to developments in the previous two years, when the increases "reflected principally large purchases of United States Government securities in the open market by the Federal Reserve banks, which enabled member banks both to reduce their borrowings at the Federal Reserve banks and to increase their reserve balances".

During 1934 the net increase in the gold holdings of the Bank of France, reaching a total of 5,026 million French francs (equal to 1,020 million Swiss francs), resulted from a number of different movements mainly on capital account. Although the commercial deficit was brought down from 9,950 million French francs in 1933 to 5,240 million in 1934, income from tourists and from foreign investments was also reduced and probably

left no surplus on the current account of the balance of payments sufficient to explain the accretion to the gold reserves.

In the opening months of the year 1934 the Paris market sustained a heavy outflow of funds, caused by the political tension which led to the formation of M. Doumergue's National Government; and from December 29, 1933, to March 2, 1934, the Bank of France lost gold to the value of 3,170 million French francs. The month of March, however, saw a reversal of the current: the French public began to repatriate funds held abroad, and this repatriation was at times on a very large scale. Under the influence of the decline in the exchange value of the pound, French holders realised British securities and purchased French francs. French depositors also withdrew balances from Swiss banks; and there was probably on balance an inflow of funds also from other members of the gold bloc. The transfers of gold between the various members of the gold bloc are not fully reflected in the changes in the respective central banks' gold reserves nor in the customs statistics. For instance, in addition to the losses shown in the reserves of the Swiss National Bank, there have been substantial reductions in the gold holdings of Swiss commercial banks employed to meet withdrawals. Customs statistics, on the other hand, do not take into account changes in the amount of gold earmarked in Paris by central banks or held there by private banks.

In its annual report for 1934 the Bank of France emphasizes that it has made no attempt to counteract the movements of gold and that these movements have automatically exerted their natural influence on short-term money rates. It could be observed, however, that "the imports of gold in 1934, just as the exports of the metal in 1933, had an influence almost exclusively on the money market and none on the movement of prices, expansion of credit, or the development of economic activity".

While the increase in the gold stock of the United States Government and in the holdings of the Bank of France has been the result of general movements of trade and capital, the increase that has taken place in the amount of gold held by the South African Reserve Bank has been due, on the contrary, to a deliberate change in the character of the assets of the Bank, as can be seen from the following comparison:

Gold and sterling held by the South African Reserve Bank.

At end of:	December 1932	December 1933	December 1934	March 1935
	in millions of £ S. A.			
Gold holding* — at home	6.6	8.1	18.3	22.6
abroad	0.6	9.0	4.0	6.0
Sterling holding	7.2	17.1	22.3	28.6
.	0.0	18.9	10.5	6.6
Total	7.2	36.0	32.8	35.2
Ratio per cent. of gold to sight liabilities	56.5	40.1	53.5	58.5

* In gold pounds.

The gold holdings of the Bank were thus increased in the course of the year 1934 by £ 5.2 million gold, or about £ 8½ million sterling, corresponding to the reduction of £ 8½ million in the holdings of British Treasury bills. The Bank has retained a larger proportion than previously of gold bought from the producers; and to be able to do this it has

drawn on its sterling holding to meet foreign commitments and payments for rising imports. Indeed, imports rose from £ 47.5 million in 1933 to £ 64.4 million in 1934, while the export of commodities (including gold) fell from £ 92.6 million to £ 79.5 million. Before the depression the South African Reserve Bank habitually maintained a cash ratio against liabilities of about 60 per cent. In 1933 the ratio was allowed to fall to 40 per cent. and action was taken through the Currency and Exchanges Act of 1933 to reduce the statutory cover provision from 40 per cent. to 30 per cent. and to increase the amount of this reserve that might be held abroad from one-quarter to one-half.

During 1934 the gold holdings of the Bank of Japan increased by 107 million Swiss francs, but the total attained at the end of the year was still less than half of what the Bank's holdings were in the period 1926-1929. In other countries with currencies which more or less follow sterling the reported gold holdings show only minor changes.

In 1934 the balance of payments of Great Britain had to carry an increase of £ 31.5 million in the import surplus of merchandise as compared with the previous year. This increase, however, was practically offset by a higher income from shipping, overseas investments and Government receipts from abroad, so that the current account would seem to have been almost in equilibrium. With regard to transactions on capital account, the only statistics published refer to new foreign issues on the London market; these amounted to £ 42 million in 1934 and were presumably more than covered by sums available from the sinking funds on, and maturity payments of, existing foreign loans, which for the year 1933 are estimated to have given about £ 55 million. As far as the statistics of the British balance of payments go, virtual equilibrium has thus been reached. The London exchange market, nevertheless, was subject to pressure during the greater part of the year, and this pressure would seem to have been caused mainly by the sale at certain periods of British securities by foreign holders and an outflow of foreign owned funds, and to some extent also by a deficit in the balance of current payments of the sterling area as a whole in relation to the rest of the world. In response to the demand for foreign currencies, the Exchange Equalization Account drew heavily on its own resources. Compared with the reduction in the British gold holdings produced by these operations, the slight increase of £ 1.6 million in the gold reserves of the Bank of England is mainly of interest as indicating the continued adherence to gold as the reserve basis of the country's monetary system.

Among the members of the gold bloc, the Italian gold reserves have been most heavily employed in the protection of the currency, declining from 1,934 to 1,585 million Swiss francs in the course of the year 1934. To reduce the strain on the reserve position the Italian Government introduced exchange regulations in May 1934. In November the discount rate of the Banca d'Italia was increased from 3 to 4 per cent., and in December more comprehensive restrictions were imposed. (The discount rate was, however, reduced to 3½ per cent. in March 1935.)

The Belgian market was exposed to a heavy outflow of funds during the first months of 1935, and in March 1935 control on foreign exchange transactions was introduced; from the 23rd of that month the exchange rate of the belga was no longer supported; on April 1, 1935, the belga was devalued by 28 per cent.; shortly after the restrictions were appreciably relaxed and by the end of April practically suspended.

At the beginning of 1934 the Reichsbank had the lowest cover percentage of any central bank in the world; nevertheless, during the year it drew on its gold reserves both relatively and absolutely more than any other central bank. The lowest point was reached

on June 23, when the total gold reserves were only RM 76.5 million; by the end of the year they had risen to RM 83.7 million, representing a cover percentage of 2.1, after a net loss over the year of RM 312 million. The greater activity on the home market was naturally accompanied by increased requirements of foreign exchange for the payment of larger imports; the reversal of the trade balance in comparison with the previous years was, however, mainly caused by a further decline in exports:

German foreign trade balance	1933	1934	Increase (+) or decrease (-) over the year
	in millions of RM		
Exports	4,871	4,167	- 704
Imports	4,203	4,451	+ 248
Balance	+ 668	- 284	

The most important "invisible" credit item in the balance of payments, the income from tourists, is, moreover, practically all earmarked for repayment of short-term debts under the Standstill Agreement. To cope with the situation the German authorities instituted on September 4, 1934, what has become known as "the New Plan", submitting imports to an exceedingly strict control. In addition, payment of interest on Germany's foreign long-term debt was largely made in scrip, when not charged to credit balances under clearing and other agreements made with governments in the various creditor countries.

Dealings in the official mark, which forms the basis of the clearing arrangements, have been carefully controlled by the Reichsbank, and quotations are kept within the gold points. The Reichsbank states in its last annual report that "in the end the security of a currency depends not on the magnitude of the gold stock, but on the pursuit of a sound economic and banking policy sustained by a feeling of responsibility and capable of inspiring confidence". It emphasises that it has carried out its many important tasks without any notable increase in the circulation of means of payment and adds that the leading principle of its credit policy has been to keep the granting of assistance within proper limits and to avoid anything that might endanger the currency. In the pursuit of this policy, the Reichsbank affirms, it has been fully supported by the Reich Government.

* * *

The net effect of the gold movements during the year has been to increase the stocks of those two countries — United States and France — which already had a superabundance of gold. Such a result was surely not desired by either of these recipients of the metal: it may be noted, for instance, that in a statement on March 21, 1935, Mr. Morgenthau, Secretary of the Treasury, declared that the United States Government would not make any undue efforts in future to accumulate gold, and that, on the contrary, the Government was prepared to sell gold to any foreign country that could offer an attractive proposition. Valuable as such arrangements would be, they could influence the movements of gold only in a limited way, for the direction in which gold flows depends on much more fundamental conditions, such as relative costs and prices, the height of tariffs, and other encumbrances reacting on the currents of world trade, the extent of foreign lending, and the amounts employed in the repayment of foreign liabilities.

(3) THE HOARDING OF GOLD.

During the twenty years preceding the outbreak of the World War 17 per cent. of newly-mined gold was absorbed by hoarding in India, China and Egypt; about 25 per cent. was bought for use in the arts, and the rest either went to increase the reserves of central banks or was minted into coins for use among the public. It has been estimated that at the end of 1913 gold in monetary reserves and other gold stocks (coins in circulation and holdings of commercial banks) were as follows:

Monetary gold stock in 1913	in millions of Swiss francs	Per cent.
Gold in monetary reserves	25,628	56
Other gold stocks	19,839	44
Total	45,467	100

Among the countries which returned to gold in the post-war period were a few that provided for convertibility of notes into coins according to the pre-war system; they were, however, in a small minority, as most countries either adopted the gold exchange standard or, like Great Britain, provided for convertibility of notes into bullion only. This latter system having been adopted by the United States in 1934, and the gold standard being suspended in so many countries, there is at present no central bank in the world that is bound to deliver gold coins in exchange for its notes; neither are gold certificates any longer issued.

It was, however, announced on April 2, 1935, that the French Government would begin the minting of new 100-franc coins. As soon as a sufficient supply was available, the coins would be put into circulation and this, in the opinion of the Government, would tend to increase the public's confidence in the currency and particularly in the maintenance of the gold value of the monetary unit. It is probable that in regard to the advisability of a gold coin circulation there is a very real difference in the psychology of the various nations, so that what is found to be of value in one center may not seem required in another. Moreover, it has been argued that, given the magnitude of the present gold production and the increased holdings of so many central banks, the putting of gold into circulation would no longer cause any scarcity of the metal.

Although in the past the East has given up gold from its hoards, the present movements are on an unprecedented scale. It is now no longer a question of gold being sold only by those who in distress have to draw on their savings; gold is also sold by people wishing to take advantage of the higher price paid for it in terms of, for instance, the Indian rupee. An organized trade has grown up: dealers in gold are, for example, touring the countryside in India, facilitating the disposal of gold for those who may decide to sell.

Any estimate of the magnitude of the hoards amassed by the countries in the East must necessarily be somewhat vague, as in addition to imperfect statistics it is difficult to account for amounts lost or destroyed. The movements in the past hundred years, which can be fairly well ascertained, are, however, more important than those in earlier periods. It has been tentatively estimated that the gold hoarded in India by the public from 1493 to 1930 would amount to a minimum figure of 16,500 million Swiss francs, or about 14

per cent. of the world production during the same period. From 1931 to the end of 1934 about 2,850 million Swiss francs in gold were shipped from India, being roughly one-sixth of the amount hoarded when the shipments began.

Movements of gold to China have never been on a scale commensurate with those to India. It has been estimated that the total amount of gold hoarded in China during the period 1493 to 1919 attained perhaps 1,200 million Swiss francs, corresponding to 1.8 per cent. of the world production. Gold to the value of 564 million Swiss francs was exported from China during the years 1919 to 1934. This should be increased by 300 millions to allow for smuggling via Hong Kong. Nearly three-quarters of China's accumulated hoards thus appear to have been disposed of.

The population in Egypt has from time immemorial been in the habit of hoarding gold, but for centuries the relatively small number of inhabitants and still more their poverty kept the amounts taken within very narrow limits. It is only during the past sixty or seventy years that the Egyptian absorption of gold has become a factor of any importance. The total hoards are now estimated at 1,800 million Swiss francs. In contrast to India and China, no net export of gold has occurred during the present depression, but certain limited amounts — not exceeding 100 million Swiss francs — were absorbed during the years 1931—1934.

In the East the hoarding of gold is a form of saving responding to the instincts of the people, confirmed by custom and even by law. In western countries hoarding of a not very different character can be found in places where for generations it has been the habit to hold some gold. In the post-war period, with its experience of monetary calamities, the hoarding of gold has become more widely spread; gold coins such as American eagles, French louis or napoleons or English sovereigns have been particularly favoured.

On the basis of legislation requisitioning the gold held by the public, the United States Government was able in 1933 and the following year to recover gold to the value of more than 1,800 million Swiss francs. There is still in the world (apart from India, China and Egypt) a substantial amount of gold that was already hoarded when the crisis broke out in 1931. Any estimate of the amounts involved must naturally be very wide, but the total would seem to be at least 2,500 million Swiss francs, perhaps 3,000 million. A part of it is probably hidden away beyond recovery; but in the West as in the East, some part of this gold would probably be surrendered if the price that could be obtained for it were attractive enough.

The intensification of private holding of gold in the West from 1931 onwards is a product of the increased monetary insecurity. Many put part of what they own into gold; others operate more for speculative purposes, trying to take advantage of fluctuations in the price of gold. Commercial banks which cannot earn interest on a large part of their liquid resources are able to hold gold without loss of yield. Large companies that have payments to make in different currencies may, as a matter of commercial prudence, keep a substantial portion of their "cash" in actual gold. Finally, many firms may buy or sell gold, particularly forward, as a counterpart to some other operation; for instance, it may be found that the only means an inhabitant of a gold bloc country has of securing himself against losses from fluctuating currencies when dealing in such commodities as cotton, wool or sugar is to contract for forward delivery of gold. Transactions of this kind have in recent years been facilitated by the desire of gold producers

to secure current rates, or better, for future output. It would be a misconstruction of facts to regard such forward transactions as speculation; on the contrary, they are often entered into with a view to avoiding speculative positions. This shows to what expedients the ordinary business world is forced in order to overcome hindrances arising from fluctuating exchange rates.

From the end of 1930 to the end of 1934 the total of gold obtained from current production, the East and similar sources amounted to nearly 15,000 million Swiss francs. During the same period the reported gold holdings of banks of issue and governments rose by about 10,000 million Swiss francs or 5,000 million less than the total amount thus available. Taking the period as a whole, some gold was probably absorbed for industrial requirements, over and above the recoveries from scrap. Of the remainder, part is held in the unreported stocks of exchange funds or as unrevealed extra reserves — outside the gold cover proper — among the assets of certain central banks which may find it easier to employ the gold they possess when the results do not immediately appear in the published statements. The amounts thus held by exchange funds and central banks are apt to vary considerably in the course of the year. Having regard to the many factors which influence the intensity of hoarding, and including hoards outside India, China and Egypt dating from before 1931, it may be estimated that at the end of 1934 the amount of gold hoarded on private account was of an order of magnitude of 7,000 million Swiss francs.

An interesting feature of the gold movements of the year had been the continued transfer of large amounts of the metal to London.

Gold Imports and Exports of the United Kingdom	Import of gold to Great Britain	Export of gold from Great Britain	Import surplus
	in millions of Swiss francs		
1932	2,802	2,505	297
1933	4,419	1,072	3,347
1934	4,152	2,063	2,089
Total 1932—1934	11,373	5,640	5,733

Out of the import surplus the Bank of England increased its gold reserves from the end of 1931 to the end of 1934 by an amount equal to 1,800 million Swiss francs. A further part of the import surplus has gone into the unreported holdings of the Exchange Equalization Account, and gold has also been earmarked in London by central banks either directly or through the Bank for International Settlements. By far the major portion of the excess imports, however, represents gold held for private account. In the last few years a large number of continental and other holders have transferred their hoards to London in the belief that the British authorities are unlikely to interfere with the gold holdings of foreigners as any such step would be prejudicial to the maintenance of a free gold market. The result is that close on half the gold hoarded in the world outside India, China and Egypt at the end of 1934 was to be found in vaults in London.

Hoarding, while it takes place, adds to the strain on monetary reserves and also tends to increase the market price of gold and in that way to depress the exchange value of sterling and the currencies linked to it. When, however, the period of dehoarding

arrives, a certain relief should be felt. This may prove to be of singular importance in at least one respect. There are a number of central banks in the world, particularly on the continent of Europe, with insufficient gold reserves. Past experience — particularly in the '70s and '80s of last century — has shown that an attempt to build up or reconstitute gold reserves of central banks within a short period of time may cause a one-sided demand for gold liable to have a depressing influence on prices.

With regard to conditions in a coming period of monetary reconstruction, it is probably safe to say that any situation in which continental central banks would be able to attract substantial amounts of gold presupposes the re-establishment of a large measure of general confidence; in these circumstances it is likely not only that the hoarding of gold would cease but that considerable sales would take place. An extra supply would thus be provided from which the gold required to strengthen reserves could be met, apart from the flow of current production. This would facilitate a better distribution of gold in the world; it would also reduce the danger of a decline in prices as a consequence of monetary stabilisation and, together with other influences, make it possible to look forward to an improvement in the price level once monetary confidence has returned.

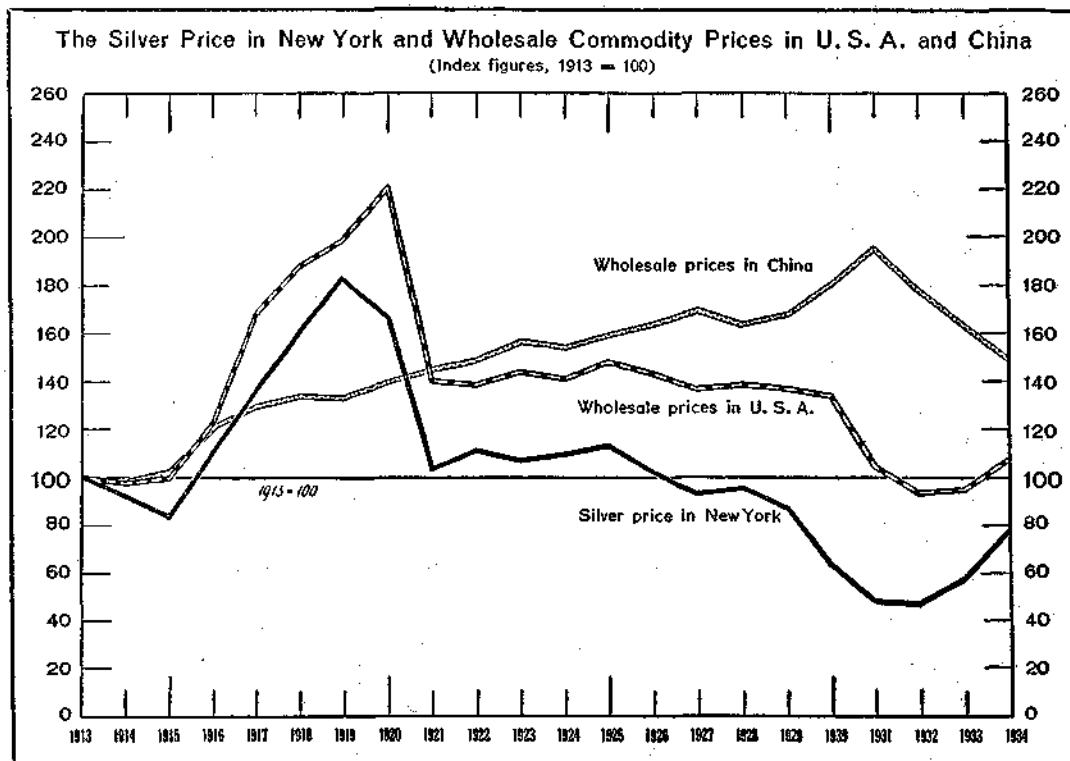
III. (b) ASPECTS OF RECENT SILVER POLICY.

The Preparatory Commission for the World Monetary and Economic Conference devoted a section of its report to silver; and at the London Conference of 1933 an agreement on government sales and purchases of silver was reached between the representatives of eight countries. Since then new legislation in the United States has given increased importance to the question of silver as part of the country's monetary reserve. The practical application of this policy has resulted in a rapid advance in the price of the metal, with immediate injurious effects on the currencies of the silver standard countries and disturbing repercussions on the general exchange position.

To appreciate the position of silver as affecting the largest producing countries, notably Mexico, the United States and Canada, the important silver standard country China, and the great silver holding country India, it is useful to recall how the value of silver has developed during the war and post-war period, both in terms of gold and commodities.

The price of silver in New York and American wholesale prices have both been subject to the same predominant influence of general business activity. Practically all through the period up to 1933 the price of silver lost, however, in value relative to other commodities; under this influence commodity prices in silver standard countries like China moved slowly but steadily upwards. From 1929 to 1931 the price of silver in New York went down more rapidly than the general American price level and in these years commodity prices in China continued to rise notwithstanding the world depression; in the following years China herself became affected by the depression and particularly subject to the repercussions of currency depreciation — later also to the new departure in the silver policy of the United States.

In 1932 the silver price on the New York market had fallen to the lowest level ever recorded; for two years the price had fluctuated round this low level when the World Monetary and Economic Conference met in London in June 1933, and an



agreement was signed, according to which the five important silver producing countries undertook for a period of four years from January 1, 1934, to buy or otherwise withdraw from the market out of their mine production an aggregate amount of 35 million ounces annually, distributed approximately as follows: United States 24,420,000 ounces; Mexico 7,160,000 ounces; Canada 1,670,000 ounces; Peru 1,100,000 ounces; Australia 650,000 ounces. Further, the Indian and Spanish Governments undertook to limit their sales of silver to 140 million and 20 million ounces respectively for the same period of four years; in addition, the former government undertook not to sell in any one year more than 50 million ounces and the latter not more than 7 million ounces. Finally, China undertook not to sell silver derived from demonetized coins during the same four years.

It is difficult to estimate the extent to which these agreements affected the silver market, for price developments in the autumn of 1933 became subject to the influence of the gold-buying policy of the United States administration, under which the exchange value of the dollar was gradually lowered. The price of silver increased in terms of dollars, but hardly in terms of gold; from time to time the market showed signs of weakness even during this period. The last months of 1933 saw President Roosevelt's first measure in support of silver: a Proclamation dated December 21, providing for purchase by the Mints of all silver from natural deposits in the country at the price of 64.6 cents per ounce. The market price of silver showed an immediate response, followed however by a setback in April 1934 and still more in the following month. Then on May 22, 1934, the President submitted his message on silver, which resulted in the Silver Purchase Act of June 19, 1934. This Act declares it to be the policy of the United States to increase the proportion of silver to gold in the monetary stocks of the country with the ultimate objective of having and maintaining one quarter of the monetary value of such stocks in silver.

The amount of silver which the United States Government would have to buy to attain this proportion would depend upon (i) the amount of gold held, (ii) the monetary value of the gold, this value being open, under the Gold Reserve Act of 1934, to variation within the limits of 50 to 60 per cent. of the weight, and (iii) the monetary value of silver which may also be subject to variation by the same percentage as the weight of the gold dollar is altered (no use so far being made of this authorization). Taking as basis the gold held on March 29, 1935 (8,565 million dollars), the devaluation of the gold dollar at 59.06 per cent., and a monetary value of silver of \$ 1.29 per ounce, the United States Government would have ultimately to possess about 2,200 million ounces of silver.

On January 1, 1934 the total monetary stocks of silver of the United States Government were 686 million ounces; in the course of the year the Government purchased 21.4 million ounces from domestic production at the price of 64.6 cents per ounce. Further, it obtained 111 million ounces through the nationalization of silver, the price paid being 50.01 cents per ounce. Finally, it bought silver in the open market, both at home and abroad, at prevailing prices; the amount so acquired in 1934 has not been reported but is believed to be in the neighborhood of 185 million ounces*. The total acquisitions during 1934 would thus amount to 317 million ounces, and the monetary stocks on the last day of that year would be around 1,003 million ounces. Further purchases increased the total monetary stock of silver to 1,120 million ounces on March 29, 1935; in order to bring the silver stock up to a quarter of the total monetary stock of the country, the Government would still have to acquire nearly 1,100 million ounces.

The world production of silver has been estimated at about 180 million ounces for 1934, an increase of over 10 per cent. as compared with the previous year. About half the amount produced would seem to have been absorbed by consumption in the arts, the minting of coins and hoarding by the public of India (as distinct from the Indian Government). The other half, or 90 million ounces, has been available as the first offset against Government purchases. As shown above, the United States Government purchased about 317 million ounces and other governments about 10 million ounces according to the London Agreement of 1933. In addition to the amount available from current production, 30 million ounces were sold by the Indian Government on the open market and about 25 million by the Russian Government; but the largest source of supply was China which, as far as can be estimated, exported a net amount of 200 million ounces (including an allowance for smuggling). The total thus available was 345 million ounces, which would leave an excess of 18 million ounces above Government purchases to swell the commercial stocks in the West.

Under the influence of the silver purchases made by the United States Government and in response to successive increases in the price paid for domestic silver to 77.57 cents an ounce, the open market price rose in sympathy. In comparison with the low average price of 27.9 cents that prevailed in 1932, the level at the end of April 1935 represented an increase of around 150 per cent. in dollars and about 50 per cent. in terms of gold. For those who produce silver or, like the people and Government of India, are the owners of substantial amounts of the metal, this advance in price may prove profitable. When, on the other hand, the currency of a country is linked to silver (as in the case of China, Hong Kong and Manchukuo) the situation becomes complicated by the fact that in such a case not only the rate of exchange, but indirectly

* As estimated by Handy & Harman in their 19th annual review of the silver market 1934.

also domestic prices, the balance of payments and the general trend of affairs are all more or less influenced by the alteration in the price of silver: an increase in the price means an appreciation in the national currency, which constitutes a harmful development at a time when in most of the remainder of the world depreciation is widespread. Further, for countries where the token coinage contains a high percentage of silver (as in Mexico) the rise in bullion value may create disturbances not only in the supply of fractional currency but also on the exchange market.

Already in 1931 China had been adversely affected by the depreciation of sterling, the rupee and the yen, and in 1933 by that of the dollar, these four currencies being the most important for Chinese trade and for earnings of Chinese workers abroad, who, as the world depression became accentuated, were unable to remit the same amounts to the home country. There was a net export of silver from China in 1933 indicative of a deficit in the balance of payments and accompanied internally by a decline in prices. Chinese economy was thus already in a state of disequilibrium when in the course of 1934 and in 1935 to date the price of silver was greatly increased by the purchases of the United States Government.

On the Shanghai market the rates of exchange of the Chinese silver dollar were determined, within a narrow margin, by the silver price in London and New York, the seignorage charge of the Chinese silver dollar being limited to $2\frac{1}{2}$ per cent. Faced with the disturbance which the rise in the price of silver produced on its foreign exchange markets and with the repercussions of a deflationary character on its domestic price structure, the Chinese Government took two steps in October 1934: (i) it communicated with Washington in order to seek a modification in the United States silver buying program, on the ground that the execution of this program was proving harmful to Chinese internal economy, and further intimated that it would favor an exchange of Chinese silver for American gold; (ii) the Chinese Government also imposed a sliding-scale duty on exports of silver from China to provide a margin of freedom in its exchange management. After some rather wide initial variations, this duty has been maintained within the limits of $13\frac{1}{2}$ — $14\frac{1}{2}$ per cent. and has undoubtedly kept the Chinese exchange at least 13 per cent. lower than it would otherwise have been. The arrangement must not be interpreted to mean that the Chinese currency has been divorced from silver for the duty has not eliminated fluctuations consequent on changes in the price of silver. No attempt seems to have been made to manage the exchange rate in sympathy with sterling or any other foreign currency. It is feared that if the duty were increased beyond say 15 per cent. too great an inducement would be given to smuggling.

Notwithstanding the moderate alleviation obtained through the export duty, conditions in China remain in a depressed state. In this connection it should be remembered that the fall of prices which began in China in the autumn of 1931 was the first real price decline experienced for generations; under the influence of a long-drawn-out fall in the price of silver, reversed only during the war years, commodity prices in China have steadily advanced, the whole national economy becoming adjusted to such a state of affairs. Chinese interest rates, for example, have normally stood around 12 to 20 per cent., partly to compensate for the constant fall in the purchasing power of the currency in which credits were expressed. The reversal of the price trend in China, consequently, will have to be followed by far-reaching readjustments in many fields before equilibrium can be achieved.

During 1934 silver imports of the United States exceeded exports by \$ 86 million, an amount which corresponds to about 10 per cent. of the value of the current gold production in the same year. The fact that a large amount of silver has been acquired abroad by the monetary authorities in the United States has somewhat reduced the American demand for gold; and the issue of silver certificates at a rate of \$ 1.29 per ounce goes to increase the volume of potential monetary purchasing power.

It is unlikely that silver will be generally used as an element in the monetary reserves of central banks. A cardinal purpose of such reserves is to provide assets of high liquidity which can be used in meeting foreign payments. Experience has shown that gold fully serves this purpose, because it is in universal demand and is particularly sought after whenever any emergency occurs. Silver, however, is accepted only by the monetary authorities in a small number of countries in limited amounts, and for that reason, among others, is not suitable as an efficient means of making international payments. Had there been any genuine demand for silver internationally, as there is for gold, there would have been no need for the adoption of special action in the United States to help silver. The policy pursued may somewhat reduce the demand on the gold market and may supplement the already high gold reserve cover for the purpose of internal expansion, but there is no evidence to justify the conclusion that such a policy would produce a fundamental change in the monetary position of silver, looked at from an international point of view.

IV. (a) INTERNATIONAL SHORT-TERM INDEBTEDNESS.

It was shown in last year's report that the gross amount of international short-term indebtedness of European countries and the United States had declined during each of the three years 1931 to 1933 and that the global total had fallen from approximately 70,000 million Swiss francs at the end of 1930 to about 32,000 million at the end of 1933. During the year 1934 there was a further decline in the amount outstanding of some 2-3,000 million Swiss francs, a reduction in gold value due largely to the further depreciation of sterling and the dollar. The relative steadiness thus shown in the total figure hides, however, considerable changes in the constituent classes of debt as well as important movements between different centers. To grasp the significance of the changes which have occurred, it is necessary to consider the different categories into which foreign short-term funds may broadly be divided according to the nature of the underlying operations.

- (i) Funds employed in the financing of foreign trade. This class includes credits for the financing of merchandise in transit and warehouse, usually self-liquidating on the sale of the goods, and also the balances held in foreign centers by large industrial and commercial concerns employed in the settlement of commercial transactions. The total of foreign trade financing naturally fluctuates with the value of international trade; but in a period of monetary insecurity conflicting currents disturb the normal even flow of credit — importers attempt to obtain increased accommodation in a currency which they anticipate may be subject to a relative decline in value, while exporters hesitate to accept the future delivery of a suspect currency in payment. Trade is reduced and forced into unnatural channels and the way is prepared for barter agreements and trade clearings. The financing of foreign trade has therefore declined in volume since 1929 more rapidly than trade itself, but the credits employed for this purpose still represent by far the largest category in the total of international short-term indebtedness.
- (ii) Central bank and other monetary and banking reserves held in foreign currencies. These reserves which form the cushion to amortize seasonal or other demands for foreign funds are as a rule employed in the short-term market and maintained in a highly liquid form. While the amount held abroad by a given country naturally varies according to circumstances, the total funds maintained in a monetary center may show a certain stability and be subject only to broad movements over a period of years. These natural movements have been obscured in recent years by the hasty liquidation of the overgrown gold exchange standard, prompted by the monetary disorders from 1931 onwards. Reserves of European central banks held in foreign currencies have fallen from the equivalent of some 11,000 million Swiss francs in the years 1929-1930 to about a tenth of that figure at the present time; of the amount remaining the major part is held by the Scandinavian countries and other European members of the sterling area. The aggregate monetary and banking reserves of all the countries of this area held in London increased by an amount estimated around £ 150 million over the years 1932 to 1934, reflecting partly the improved balances of payments of these countries, partly the disposal of securities and, in the case of India, the sale of gold previously hoarded.

- (iii) Funds held to meet interest, dividend and amortization payments on long-term loans and other foreign liabilities. These funds, which may somewhat overlap those of the previous class, are normally accumulated some weeks or even months ahead of the due dates, but as they are allocated to a definite maturing liability they do not give much room for speculative movements.
- (iv) A miscellaneous class of mostly "financial" short-term money. This class includes balances resulting from security and arbitrage dealings, current accounts between companies and their branches or subsidiaries abroad, credits raised in anticipation of long-term loans, "short-term savings", money seeking "security" and vagabond funds in general. While the first three classes relate broadly to current items in the balance of payments, the disparate elements in this fourth class largely reflect movements on capital account and, being more mobile in character, are more open to violent speculative movements. Short-term funds not held to meet an immediate maturing liability may constitute a very real danger to the monetary mechanism, particularly on account of their tendency to move en masse; and though speculative influences may enter in differing degrees also into the movements of funds of the other classes, it is the flow of "financial" short-term money which represents the greatest problem for the central banks.

It is evident that changes in the global total of short-term indebtedness may give a very inadequate impression of the real position at any particular moment. Detailed information is required as to the development of the various classes of credits (and debts), the class or nature often being of more importance than the aggregate quantity; it is, for instance, obvious that a reduction due to a shrinkage in the financing of trade is by no means to be interpreted as a favorable factor.

During the year 1934 the total amount of purely financial indebtedness further decreased but the volume of trade financing and monetary reserves in foreign currencies increased, especially within the sterling area. For example, a fairly reliable division of Finnish short-term foreign debt has been made into "commercial and business" and "financial". Financial indebtedness, from about 25 per cent. of the total at the end of 1932, fell to 15 per cent. in the middle of 1934 and to the lowest absolute figure since 1927. The increase in gross short-term indebtedness which occurred in the 18 months to June 1934 was wholly due to commercial needs reflecting the improvement in the turnover of foreign trade. (The net short-term position became active for the first time at the end of 1933 and by the end of 1934 Finnish net short-term assets abroad reached the equivalent of 60 million Swiss francs.)

On the subject of foreign short-term borrowing Dr. Kienböck, President of the National Bank of Austria, recently stated:

"The taking up of new loans from abroad has been made subject to the consent of the Austrian National Bank... In no circumstances would we tolerate the entry into Austria of short-term funds apart from the usual credits for the payment of imported goods. We have come to understand what harm has been caused by the system, or rather the lack of system, of short-term funds, which have multiplied so greatly since the war..."

Financial short-term indebtedness is believed in only a few cases to have grown somewhat during the year 1934 and in the case of Denmark, for instance, appears largely

to represent a counterpart to the repatriation of bonds previously issued abroad and is reflected in a fall of the foreign long-term debt. In this connection it may be observed that the line of demarcation between long and short-term is a narrow one and the position is in a continual state of flux. By the mechanism of the stock exchange holdings of bonds and shares may be rapidly converted into balances and vice versa; thus holdings of British Government securities against the note issue of a country in the sterling area must be considered as short "by intention" though such reserves may as a matter of fact be maintained unchanged over a considerable period. Further, some account must be taken of foreign assets which by employment and probably by original intention are considered as long-term but which may be rapidly converted into short-term either to meet an unforeseen liability or for some other reason. For example, in Czechoslovakia notification of foreign balances and foreign securities held by nationals has been prescribed by law and some mobilization of these assets has taken place with the object of strengthening the central monetary reserves: from the point of view of the markets on which these securities have been sold there results an increase of short-term assets held by foreigners which may be sold for other currencies or used to buy gold.

In the year under review a noticeable change occurred in the foreign short-term debt position of the United States market. There was a continuous and considerable net outflow of banking funds during the four years 1930-1933, amounting to 486, 709, 409 and 412 million dollars respectively. In 1934 the trend was reversed, it being estimated, that in that year there was a net inflow of banking funds of about \$ 200 million. The inward movement of funds was however very much larger than the movement shown by the banking accounts. During the year the net inflow of gold, silver and paper currency amounted to \$ 1,350 million and of this it is estimated that nearly \$ 1,000 million reflects various short and long-term capital transactions. To a very large extent the movement was a return flow of funds accumulated abroad during the previous year, but it was also due to the continued withdrawal of assets from foreign countries, including a reduction in the standstill credits to Germany.

During 1934 the London market was subject to an important outward movement of capital on American account, being essentially the return of funds which had left the United States during the previous year. These funds had been largely invested on the London stock exchange; while their withdrawal exerted pressure on the exchange rate and materially reduced the "potential" of withdrawable funds, it is believed only partially to have affected the total of short-term funds held in the London market for American account. The sterling balances of the continental gold bloc would seem by the end of 1934 to have been reduced to the bare minimum consistent with current business relations. On the other hand, during the year there has been a further net rise of sterling area funds held in London of nearly £ 20 million, or only one-fifth of the increase in 1933. India and Sweden account for the main increases, while certain other countries, such as Norway, Finland, Portugal and Siam, strengthened their sterling reserve position; the excess sterling holding of Irish banks has fallen somewhat during the year, part of the sterling holding of the South African Reserve Bank has been indirectly replaced by gold, while the London overdraft of Denmark has increased. These indications take account only of sterling currency holdings and exclude gold held in London, as, for example, by the Argentine. To the extent that world trade is financed in London, the short-term liabilities are covered by corresponding sterling obligations of foreigners.

The excess of London's short-term liabilities over its short-term foreign assets (omitting the gold reserves of the Bank of England and the unreported holdings of the Exchange Equalization Account) very largely represents the monetary and banking reserves of the Empire and other parts of the sterling area. It is these liabilities of London (and those resulting from a certain expansion of trade financing) that have increased notably in the past three years. When these reserves get unusually high an important safety valve is provided by the area's long-term indebtedness to London: thus in 1932 India redeemed a £ 15 million loan from sterling balances, and in 1934 South Africa repaid its £ 7½ million war debt from the sterling holding of the Reserve Bank. On the other hand, the Chancellor of the Exchequer in July last announced a modification of the government's policy as regards long-term foreign lending and indicated that consideration would be given to sterling issues by a country within the sterling bloc, where the loan was required to increase the sterling assets of that country, and so to minimize fluctuations in the exchanges (in addition to issues calculated to be of direct benefit to British industry). In this way two Norwegian loans, amounting together to around £ 2 million were floated, the proceeds going to strengthen the sterling reserves of the Norges Bank.

Both Belgium and Italy steadily refused to accept short-term foreign credits in the years preceding 1931 and the short-term debts of these countries are at present negligible. The short-term balances held by foreigners in France, which last spring appeared to be reduced to the incompressible minimum, have increased somewhat over the year with the return of confidence. In Switzerland the net short-term position was hardly changed during 1934, both assets and liabilities declining somewhat. In January 1935 the National Bank of Yugoslavia repaid the foreign revolving credit then outstanding to the Bank of France, while the Monopolies Administration repaid credits previously granted by private French banks; to facilitate these operations, which reduced the reserve of the central bank by the equivalent of 642 million dinars, a Royal Ordinance decreed the legal minimum proportion be cut from 35 to 25 per cent.

A landmark of particular importance was reached during the past year with the lapsing of the Austrian Standstill Agreement, the small amounts remaining now being carried as free credits. Austria was the first country in which a "Standstill" was imposed and is also the first to dispense with it. Outside the Standstill, the foreign debts of the Credit-Anstalt were consolidated in May 1933, and in August of the same year the credits of the Bank of England and those made through the Bank for International Settlements were repaid from the proceeds of the international loan. In Hungary there is little to report, new amounts blocked largely compensating withdrawals.

German short-term indebtedness has again been reduced when measured on a gold basis by the depreciation of sterling and the dollar; it has also been affected by further repayments under the Standstill Agreements of somewhat more than 500 million Reichsmarks. On the other hand there has been an important increase of German debit balances under some of the clearing arrangements. It has been estimated that in the middle of 1930 the total short-term indebtedness of Germany was around RM 16,000 million, of which about half was of the character later subject to the Standstill Agreements. When the first of these agreements was concluded in July 1931 it covered RM 6,300 million of the total short-term debt of RM 13,100 million at the time. Through successive reductions the total Standstill debt had been brought down to RM 2,007 million by December 1934, of which RM 1,734 million only was utilised.

The heavy withdrawals of American banks which characterized previous years were again in evidence in 1934 as shown in the following table which gives the position of the main creditor countries:

Utilized credit lines only	February 1934	December 1934	reduction
	in millions of Reichsmarks		
England	615	517	— 98
Switzerland	528	459	— 69
U. S. A.	639	430	— 209
Holland	328	224	— 104
France	104	68	— 36
Others	47	36	— 11
Totals	2,261	1,734	— 527

The reduction during the year in the German Standstill debts to all countries was chiefly effected by the sale of registered marks for travelling purposes at a substantial discount representing a loss sustained by the creditors.

The amount of short-term indebtedness which has been blocked through currency regulations, Standstill agreements and similar measures has in the past year been subject to conflicting tendencies. On the one hand, Austria has been able to allow her Standstill agreement to lapse and at least a partial lifting of exchange control has been effected in a number of South American and other countries; in addition, private commitments have continued to be liquidated, thanks to steady individual effort. On the other hand, the extension of clearings which has occurred during the year has been accompanied by a certain accumulation of commercial claims in arrears. The great publicity given to these matters and particularly to the negotiations for the unblocking of frozen claims may have given the impression that the volume of blocked accounts has recently increased. Unfortunately, this is so in some cases; but for the greater part the negotiations applied to monies blocked in previous years and it would appear as if on balance there had been a certain clearing up of blocked positions even in the past year. Such a process is satisfactory from the point of view of the commercial firms receiving the payments due to them, but in so far as the development is based on coercive measures it necessarily leads to a further contraction in the active volume of credit, notwithstanding the creation of trade debts behind the façade of clearing arrangements. It is being increasingly realised that a restoration of healthy conditions, can only be achieved by a fundamental change back to freedom, when a livelier interchange of goods would also allow an improved fulfilment of financial obligations. Just as trade financing tends to contract more quickly than actual trade in a period of uncertainty, so when currency stability has again been attained should an extension of legitimate trade be followed by a more than proportionate increase in the volume of genuine commercial credits.

IV. (b) TREND OF INTEREST RATES; CONVERSION AND REPAYMENT OF DOMESTIC AND FOREIGN LOANS.

The different phases of the downward trend of business since 1929 are well illustrated by the fluctuations of money rates and light is thrown particularly on the international character of the forces simultaneously affecting central banking policy by the broad movements to be observed in official rates of discount. The following table sets out in five classes the official discount rates of the twenty-six European central banks at the end of the years 1929 to 1934 and at the end of March 1935:

End of	1929	1930	1931	1932	1933	1934	March 1935
8% and over	7	4	8	3	1	nil	nil
6-7½%	9	7	13	9	6	5	4
4½-5½%	8	6	1	4	7	8	8
3-4%	2	6	1	6	6	6	7
under 3%	nil	3	3	4	6	7	7

The decline in interest rates which naturally takes place in a depression is illustrated by the reductions from 1929 to 1930, but this downward adjustment was brusquely interrupted by the rude shock of the liquidity crisis of 1931; at the end of that year twenty-one out of the twenty-six European central banks had rates of 6 per cent. and over. From the beginning of the following year there was a decisive turn in the trend and since then the downward movement has continued almost without interruption to the present time. Since January 2, 1934, no central bank in Europe has had a rate as high as 8 per cent. and at the end of March 1935 only four banks had rates of 6-7½ per cent. Twenty-two central banks had rates under 6 per cent.

The National Bank of Switzerland with the lowest rate in Europe at the present time* (2 per cent.) has also the rate that has remained longest unchanged (since January 1931). The Bank of England, the only other European central bank with a 2 per cent. rate, has maintained this figure unaltered since June 1932, this being a record for an unchanged rate in the history of the Bank. Besides these two banks with 2 per cent. rates, five others now have rates of 2½ per cent. (one of which, the Sveriges Riksbank, has a rediscount rate for banks of ½ per cent. below).

During the year 1934 three increases of bank rate are to be recorded, undertaken in each case as a defensive measure against an outflow of gold. The Banca d'Italia and the Bank of Danzig both increased their rates from 3 to 4 per cent. and the Bank of France raised its rate to 3 per cent. in February 1934, returning after four months to the previous level of 2½ per cent. Ten central banks reduced their rates and thirteen made no change. In the first three months of 1935 three further reductions took place (including the Banca d'Italia to 3½ per cent.), while in the first half of April the rate of the Nederlandsche Bank was raised in two stages from 2½ to 4½ per cent. At the end of February 1935 the Bank of France made an innovation by quoting a rate of 2⅝ per cent. (⅛ per cent. above

* raised to 2½ per cent. on May 3, 1935. Also the Bank of Danzig increased its rate from 4 to 6 per cent. on May 2, 1935, when the currency devaluation took place.

bank rate) for advances up to thirty days on public securities with maturity not exceeding two years, as compared with the usual rate for advances against securities of $4\frac{1}{2}$ per cent.

The downward movement in the price of central bank credit is also making itself felt in other continents than Europe. During 1934 the official discount rate in Australia was reduced to $4\frac{1}{4}$ per cent., in the Dutch East Indies to $3\frac{1}{2}$ per cent. and by the Federal Reserve Bank of New York to $1\frac{1}{2}$ per cent. In the United States an interesting example of the spreading of lower rates through a large country is given by the rediscount rates quoted by the Federal Reserve System. The following table shows the rates of the eleven other Federal Reserve Banks on February 2, 1934, when the New York bank lowered its discount rate to $1\frac{1}{2}$ per cent., and at the end of February 1935.

Rate per cent.	Number of banks	
	February 2, 1934	End February 1935
$3\frac{1}{2}$	5	none
3	1	none
$2\frac{1}{2}$	5	4
2	none	7

The influences felt on the central money market have thus penetrated gradually throughout the whole country.

The characteristic feature of the past year is not so much that new low records have been reached in a few creditor countries, but that these low rates have now been maintained for a considerable period and, more important, that they are spreading within the creditor countries and also to the debtor countries. In the London and New York markets short-term rates are now below the 1913 level and have even fallen below the exceptionally low rates quoted in the '90s of last century. It may be interesting to recall that the gradual rise of rates (and of prices) towards the close of the latter period coincided with a marked increase in the supply of gold.

Linked with the fall of market rates and the glut of available funds are the reductions made by commercial banks in almost all countries of interest rates on deposits both at sight and time. With excess cash reserves at extraordinarily high levels and short-term employments producing insignificant yields, commercial banks have reduced sight deposit rates or entirely abolished interest payments almost in self-defence. But obstacles have stood in the way of reduction of time deposit rates; these obstacles have been chiefly the rates paid by competing institutions such as savings banks. During the past year determined efforts have been made by the monetary authorities of a number of countries to obtain reductions in the deposit rates of these institutions.

The Federal Reserve Board reduced from 3 to $2\frac{1}{2}$ per cent. the maximum rate of interest payable on time and savings deposits by member banks, and the Federal Deposit Insurance Corporation ordered a corresponding reduction in the maximum rate payable by State banks and trust companies insured by the Corporation, in both cases effective from February 1, 1935. In Sweden the Post Office Savings Bank reduced its deposit rate from $2\frac{1}{2}$ to 2 per cent. as from January 1, 1935 and other savings banks have conformed. Following the public loan conversion operation in Germany, the Central Credit Committee of the banks reduced the interest rate for savings deposits from $3\frac{1}{2}$ to 3 per cent. as from March 1, 1935, with corresponding changes for other time deposits. In recent

months reductions of savings and time deposit rates have been made also in Austria, Finland, Italy, Yugoslavia, etc. In England reductions have recently been made in the rates paid by building societies and on National Savings Certificates, while the Post Office Savings Bank rate has remained unchanged at $2\frac{1}{2}$ per cent. since 1861.

Commenting upon the reductions in the United States, the Federal Reserve Bulletin for December 1934 said that "the decrease in rates on time deposits should have a tendency to bring about a decline in the cost to borrowers and to encourage depositors to seek investment for their idle funds. A more favorable capital market may be expected to create a more favorable mortgage market as well as encourage refunding operations and the undertaking of new capital projects generally, a development essential to recovery."

Important progress has been made in the conversions of Liberty Loans in the United States. Altogether \$ 17,000 million was raised in 1917 and 1918 by the four Liberty Loans; various operations from 1927 onwards dealt with substantial blocks of these loans so that the total was reduced by the beginning of 1934 to around \$ 8,000 million, being the outstanding portions of the 1st and 4th Loans. The whole of this \$ 8,000 million has now been called; \$ 5,000 million bearing interest at $4\frac{1}{4}$ per cent. has already been definitely dealt with, while of the balance which matures in June and October next, conversion offers have been made for the June portion. Of the \$ 5,000 million dealt with, over \$ 4,000 million has been converted into new bonds — over \$ 2,000 million into $3\frac{3}{4}$ per cent. 10-12 year bonds, \$ 600 million into $2\frac{1}{2}$ per cent. 4-year notes and the balance, by the most recent operation, into $2\frac{7}{8}$ per cent. 20-25 year bonds — a great improvement, from the point of view of the Treasury, on the terms of the first conversions and the lowest rate for such securities in modern times. It is estimated that the program, when completed, will enable a saving of \$ 100 million annually to be made in the Budget, in addition to its beneficial effects from a more general point of view.

Conversion operations of first-rate importance have also been carried out in Germany. In January 1935 a Government Decree authorised all credit institutions which had issued mortgage and communal bonds bearing interest at or above 6 per cent. to offer holders the opportunity of conversion into new $4\frac{1}{2}$ per cent. issues as from April 1, 1935, with a cash payment of 2 per cent., the reduction of interest (in all estimated at some RM 120 million) to be passed on by the credit institutions to the original debtors as from October 1, 1935. The total amount thus converted amounted to about RM 8,300 million. In addition, in February 1935 the conversion of RM 2,100 million obligations of the States, municipalities and public enterprises, bearing interest of 6 per cent. and over, into $4\frac{1}{2}$ per cent. bonds was undertaken. Only an insignificant percentage of bonds out of the RM 10,000 million odd affected by these two operations was not converted.

Foreign issues on the large capital markets are still at very low ebb, repayments and repurchases of old loans greatly exceeding new lending.

During 1934 the conversion of the Austrian Government Guaranteed Loan of 1923, of which the equivalent of about Sch. 580 million remained outstanding, was undertaken. The 1923 loan was the first international reconstruction loan issued under the auspices of the League of Nations and, although carrying the guarantee of the creditor governments, bore interest at 6 to 7 per cent.; the new conversion loan retains the governments' guarantees and the terms of issue reflect conditions on the long-term markets:

	Nominal rate of interest	Issue price	Flat yield to purchaser
Belgium	5	92	5.4
Czechoslovakia	5	87	5.7
France	5	87	5.7
Great Britain	4½	98½	4.6
Italy	4½	95	4.7
Netherlands	4½	89	5.1
Sweden	4½	95	4.7
Switzerland (public issue)	5	94½	5.3
Austria	5	87	5.7

The outstanding portion of the dollar tranche, \$ 14½ million, was repaid and half of this amount added to the new Austrian and British issues respectively.

In London the virtual embargo on all foreign issues (as distinct from Empire) was somewhat relaxed during the past year. On July 19, 1934, the Chancellor of the Exchequer stated that consideration would be given to particular cases, especially those falling under the following heads:

(a) Sterling issues by a country within the sterling bloc where the loan was required to increase the sterling assets of that country and so to minimize fluctuations in the exchanges.

(b) Sterling issues on behalf of any borrower where the proceeds were calculated mainly to produce direct benefit to British industry.

Coming under the first category were two Norwegian issues made in August 1934 and January 1935, amounting to about £ 2 million in all. The total foreign loans (omitting British countries) during 1934 amounted, however, to only £ 8½ million, against a yearly average of over £ 50 million for 1927-1930.

In Stockholm certain public issues and private placing of loans in favour of Iceland, Finland and Denmark have taken place during the year, the total of foreign issues amounting to Sw. Kr. 46.8 million.

The Government of Finland issued a \$ 10 million 4-year loan in New York in November 1934, the proceeds being utilised to meet part of the total of \$ 22 million 7 and 5½ per cent. bonds called for February and March 1935. This was the first foreign issue made under the new Securities Act and the first foreign Government loan on Wall Street since 1931. Two million dollars of the issue were taken up by the Bank of Finland, and a further \$ 12 million was supplied from the foreign short-term assets of the country, so that altogether \$ 14 million of the maturing bonds were met from Finnish resources.

The repayment of long-term foreign indebtedness in excess of contractual obligations, either directly in this way or by repurchases of bonds on the stock markets, has assumed remarkable proportions since the depreciation of the currencies of the two principal creditor countries and is particularly important as regards European dollar bonds, in certain cases exposing the reserves of the debtor central bank to considerable pressure. In the annual report of the Banca d'Italia for 1934 it is shown that the drain on the bank's reserves was largely due to the outflow of capital for the purchase of foreign securities and Italian securities issued abroad. Again the provisional results of the mobilization of foreign securities in Czechoslovakia showed that 70 per cent. of the dollar and 50 per cent. of the

sterling tranches of the 8 per cent. Czechoslovakian and 7½ per cent. Prague loans were in the hands of Czech nationals. Many of the foreign loans issued since the war bear appreciably higher rates of interest than similar loans issued on the domestic market in the debtor countries and the attraction of the higher rate of interest is enhanced by the low levels to which the quotations of these bonds have in many cases fallen and the possibilities of capital profits thus offered. The balance sheet profits which could be shown for example by German concerns thus provided possibilities of additional exports at remunerative prices. The German Ministry of Economic Affairs issued a statement in February 1934, showing that in the two years ended November 1933 RM 780 million (nominal) German foreign bonds had been rebought, of which RM 550 million in exchange for additional exports. The recent report of the Rentenbank-Kreditanstalt shows that of its four American loans, amounting in all to \$ 131 million, \$ 13½ million has been amortized in accordance with the contracts, while a further \$ 63 million of extra-contractual repayments has been made in the years 1930-1934 (of which \$ 14 million was covered by Reichsmark issues). Extensive bond repurchases have also been made by Japan, Sweden and other countries where statistics are available. In November 1934 an internal Government Loan of 50 million pesos was raised in the Argentine, the object being to convert outstanding Credito Argentino pre-war issues held abroad — this being the first time in the history of the country that an internal loan has been raised to repay an external issue.

Figures given earlier in this report show that international short-term indebtedness has been reduced by nearly 60 per cent. of its gold value at the end of 1930. The reduction of long-term foreign indebtedness cannot easily be estimated in the absence of sufficiently complete statistics, but through the depreciation of important creditor currencies, the repurchase of securities and various other operations this indebtedness also has been lessened in a very substantial degree.

The amount of new foreign lending is still very small but the first signs of renewed activity can be seen. Lines of useful development are indicated by the conversion operations of the Finnish and Austrian governments, by which these governments have been able to take advantage of the decline in interest rates and thus achieve a reduction in foreign debt charges without infringement of the contractual rights of the creditor. There is a common desire that resumed activity in international financing should be carried out in conditions more solidly established than in the immediate post-war era and that more care should be taken by borrowers and lenders in scrutinizing the purposes for which financing is sought. But it would be vain to think that a complete elimination of risks can be achieved; in financing as in other human activities, no development can take place without some venture.

V. (a) THE COOPERATION OF CENTRAL BANKS.

The first object of the Bank for International Settlements, as defined by its statutes, is "to promote the cooperation of central banks...". When giving their reasons for recommending the creation of a new bank, the authors of the Experts' Plan of 1929 wrote, "Especially is it to be hoped that it will become an increasingly close and valuable link in the cooperation of central banking institutions generally—a cooperation essential to the continuing stability of the world's credit structure." By expressing their faith in the necessity of central bank collaboration, the Experts were but reinforcing an opinion voiced again and again at gatherings of financial leaders since the close of the War, and which has been repeated with renewed emphasis since the world crisis began upon every occasion when meetings of qualified experts have taken place. Thus the recommendations to cooperate made by the Genoa Conference in 1922 recur in the Macmillan Report of 1931, in the successive studies of the Gold Delegation of the Financial Committee of the League of Nations, in the Resolutions of the London Monetary and Economic Conference of 1933, and in the declarations on monetary policy issued by the governments of the sterling area and of the gold bloc. This unanimity in the appeal to collaborate is not limited to the exhortations of economists or to the utterances of political leaders; its reality and practical necessity are attested by the fact that central bankers, upon the basis of experience in the daily practice of their difficult science and delicate art, have themselves reached the conclusion that mutual cooperation is pre-requisite to the successful discharge of their functions within their home markets, that it is indispensable in ameliorating their relations with external markets, and that it is an absolute condition precedent to the maintenance and smooth working of a stable international monetary standard, when restored.

Yet there exists no full description of what central bank collaboration is, the reasons therefor, its history, efficacy and aims*. The time has come to attempt to state what is comprised in the abstract term "central bank cooperation", to reduce this abstraction to concrete definition, and to outline the scope of its practical application. Why central bank collaboration? Collaboration about what? With what objectives in view? How? For many, central bank cooperation means only financial assistance. It brings to mind the extensive series of credits granted by banks of issue to other central banks at the time of the post-war resumption of the gold standard, including the stabilization credits given in connection with the reconstruction work of the Financial Committee of the League of Nations. It recalls the large advances extended at the time of the international credit break-down of 1931 to the National Banks of Austria and Hungary, the Reichsbank, and later, among others, to the Bank of England also. The history of inter-bank aid of this character is an old one; instances occurred at the time of the Baring crisis, for example, and as early as 1839, when acceptance credits were extended by Paris to the London market. While, however, this type of financial aid is a spectacular evidence of central bank inter-relationship, nevertheless these exceptional measures, though useful, do not constitute the real kernel of central bank collaboration, which is or should be evident in continuous and daily practice rather than as an emergency manifestation.

* One of the most suggestive contributions to the subject is a pamphlet by R. N. Kershaw, Esq., entitled "Some Observations on Co-operation", privately printed by the Bank of England. The Bank of England has, of course, been a pioneer in the movement for greater central bank collaboration.

Why central bank collaboration? The essential task of every central bank is substantially the same, namely, to regulate the volume of credit and currency with a view to lessening pronounced fluctuations in business activity, and to follow a policy designed to maintain fundamental equilibrium in the balance of payments in order to preserve some pre-agreed degree of stability in the international value of its national money, thereby facilitating trade and desirable capital movements from and to the country concerned. In other words, central banks (like national public health services) have a community of similar technical interests — often amounting to an identity of interests — and it is manifest that these may best be maintained by working in recognized but independent unison rather than in ignorant isolation or unconscious antagonism. A central bank, if for no other reason than that its currency has and must have an international valuation and because its domestic policy is subject to counter-influences from abroad, necessarily operates in a world larger than the merely domestic sphere; its viewpoint must face outward as well as inward if it is adequately to discharge its essential functions. Because the financial fabric in one country quickly responds to events in another, and since economic booms and depressions tend to be international in character, the efforts of a central bank in trying, through its credit policy, to help maintain more stable business conditions at home and to protect the external value of its money may be rendered difficult, or thwarted, by the policy and action of a neighboring central bank. Far-seeing self-interest demands that banks of issue endeavor to work along parallel lines in the fulfillment of their independent duties, although measures taken to attain the common purpose need not be identical in different markets. But if there be no concert at all, then by inadvertence or ignorance one central bank may neutralize the efforts of another and, through acting in isolation instead of in harmony, may disturb the monetary peace of the world, thereby setting in motion forces which will return to plague the originator. Long range national advantage and international well-being usually coincide in the desideratum that the credit and currency policy of the world's central banks be, as far as possible, uniform and through cooperation avoid being haphazard or mutually adverse. And upon those occasions when national policy and international interest conflict, it is most important to confer together in the endeavor to minimize the possibly injurious effects, internationally, of some national program, or to secure reasonable agreement between the parties as to the best course to pursue.

Collaboration about what? The subjects for collaboration are manifold; they increase in number and change in character with the progressive development of monetary and economic events; new incidents in the world's financial history open up fresh occasions for cooperation in dealing with the world-wide problems which directly affect every market. Among the matters about which central banks can most helpfully collaborate are the following:—

(a) To evolve a common body of monetary doctrine and assure the widest possible measure of common agreement on monetary theory, problems and practice, including agreement upon what the international standard is to be and how to maintain it. This is sometimes called "the rules of the game" and agreeing how to work and how to amend them in accordance with the lessons of applied experience. No complete formulation of the rules of the game exists, largely because by their very nature they must have some degree of flexibility in order to be adaptable to the changing conditions for which they are designed. Certain of the "rules", representing the greatest degree of agreement yet publicly arrived at by central bankers in stating their creed, close the present chapter.

(b) To comprehend by interchange of information and counsel the difficulties which confront one's neighbor as well as oneself, and thus to perceive the true motives and necessities for the lines of conduct respectively followed. The beginning of understanding in international affairs, whether in the political arena or in the economic and financial field, is the knowledge based on patient examination and sympathetic consideration of why the other nation adopts the measures which it does; many of the difficulties which impede international rapprochement have their origin in inadequate acquaintance with all the facts of the situation, and in the lack of objective appreciation of the problems and reasoning of the other side. Even when the differences are irreconcilable, it is at least helpful to have them accurately defined.

(c) To learn how to avoid doing harm to one another, especially when one central bank is operating in the market of a neighbor. One aim of each central bank should be to endeavor not to render more difficult the control by another central bank of its own market. A practical method of reaching this mutually desirable end is the establishment of reciprocal banking, business and personal relations with one another, either directly, or through the Bank for International Settlements as the common agency.

(d) To gather and exchange data and information of a monetary and economic character, domestic and foreign, thus helping to form a basis of judgment in guiding credit policy and deciding the proper course of conduct. The satisfactory discharge of a central bank's functions demands a sound estimation of business developments which can be had only as the result of continuous study of the widest available financial and economic statistics and material. A judgment as to the proper volume of currency and credit in any given circumstances involves powers almost of economic prophecy. To read "the obscure premonitory signs of financial weather" — in the language of the Macmillan Report — and to secure the concerted action of several independent authorities "each of whom is likely to have its own ideas based on its local information and to maintain them with tenacity" is indeed a "high enterprise". This enterprise must have as its basis ample data carefully collected and accurate facts thoroughly digested in order to form a doctrine, to draw conclusions, and to take a line of action. Each bank of issue requires information about the world economic and monetary situation and about the credit developments in neighboring centers, because of the repercussion of both on the home market for whose welfare it is responsible.

Beyond the routine exchange of information regarding money rates and exchange quotations, changes in monetary laws and central bank statutes, central banks in general are doing much to make known and place the correct interpretation upon developments in their own countries. The increasing number and improved quality of the monthly and quarterly bulletins issued by the Statistical Departments of the banks reflects this movement, which is also expressed by the more frequent interchange of confidential information, either directly between the banks themselves or through the Bank for International Settlements. The perfection of this branch of cooperative effort is of the highest importance. In one vital particular, among many, is such information indispensable, i. e., with respect to the volume, movement and location of short-term balances and short-term foreign credits in general. It is highly desirable that the Bank for International Settlements should develop as an international center for the collection and interpretation of information about the movements of international short-term credits and indebtedness supplied to it by individual central banks, giving, as far as possible, the amount and source of foreign short-term investments held on their markets and the amount and geographic

distribution of the foreign short-term investments made by their markets. Some progress has already been made in this direction.

(e) To improve inter-central bank practice in such technical matters as agreement upon the standard of gold bars to be universally accepted, arrangements for earmarking, cross-earmarking and handling gold operations, including proper facilities for advances against gold on deposit or in transit, the organization, as far as practicable, of clearings of inter-central bank payments and swaps of gold through the Bank for International Settlements, and the creation of facilities for the secure investment and the rapid mobilization of funds of one central bank held by another.

(f) To be prepared to exchange technical counsel when needed with respect to the creation of new central banks or with regard to alteration in the statutes of existing central banks, including a readiness to supply experienced technicians to assist central banks at the time of their organization or in their studies, by the proposal of qualified advisers or by the mutual exchange for a period of members of the respective statistical and economic departments.

(g) To assist smaller and newer central banks in their efforts to follow a sound credit and financial policy and to maintain the international value of their local currency, by encouragement, contact, and counsel on the part of the larger or longer established banks of issue. Moral assistance of this character should also be given material expression, where requisite, by extending seasonal rediscount facilities to such banks, and other special advances, preferably through the Bank for International Settlements, and, in addition, by providing safe methods for the remunerative investment of a portion of their reserves with other central banks or with the Bank for International Settlements. It is to be borne in mind that the newer and smaller banks of issue, not having acquired great resources, face a genuine need for enlarging the volume of their earning assets in order to carry their charges and to reduce to a minimum the necessity of a profit motive in determining their operations.

(h) To concert together in eliminating the demonstrated defects of what was erroneously called "the gold exchange standard", and to improve the future working on a restricted, controlled and centralized basis of the system of foreign currency reserves of central banks, — a system especially suitable to certain types of national economies. The gross abuses of this standard in the past were largely due to the fact that certain economies which did not require the system employed it on an excessively large scale, and they were due, further, to the failure of central banks employing the system to cooperate with the central banks of the markets where the foreign exchange was held, as well as the failure on the part of the central banks in those markets to have a coordinated policy between one another or with the depositing central banks. The London Conference requested the Bank for International Settlements to study the necessary modifications in the future operation of the system of foreign exchange reserves, with a view to the correction of its revealed shortcomings. Only when effective progress is made in the international reinstatement of the gold standard itself, will it be possible to deal definitely with the subordinate but important topic of an improvement in the handling and control of supplemental foreign exchange reserves — a question upon which preliminary studies have already been undertaken.

What are the principal objectives of central bank collaboration?
The eight headings above enumerated as constituting the essential subject matter about

which banks of issue collaborate are in large measure the means of attaining the principal objectives of central bank cooperation. These aims are twofold:

The first is the restoration and the maintenance of a stable international monetary system based on gold. The continuance of a restored and improved system involves uninterrupted contact in applying a revised technique of operating the standard. "We are convinced, as were the Gold Delegation", unanimously stated the Experts who drafted the Annotated Agenda for the London Conference, "that action must be based on international understanding and cooperation. The prospects of the general restoration of the gold standard and of its successful working in the future appear to depend in large measure on progress in this field". Central banks perceive the defects of the gold standard as disclosed by the past, as well as they realize the infinitely greater weaknesses of managed currencies without metallic base. They recognize that an international gold standard is a living, not a static, thing and that the lessons of continuing experience are capable of improving it. They appreciate that in the future more conscious (and preferably joint) direction is requisite to enable the system to function in a more satisfactory and human manner. The strictly automatic working of the gold standard is possible only in a world where the play of other economic and financial phenomena is permitted to be automatic also. Deliberate efforts, governmental, corporate, or from organized groups, to affect these phenomena through measures of design entails also the employment of a degree of design in the working of the monetary standard to keep it from breaking down from causes due to these very interferences with the normal workings of natural economic laws. "... The forces making for disequilibrium are very powerful..." said the Macmillan Report, "the working of the gold standard must be adjusted to these striking changes in world conditions, and the task of adjustment must be entrusted to the central banks".

The second object of collaboration is to attempt, as far as is possible by monetary and credit measures, to smooth out the business cycle, and to contribute toward a greater equilibrium in the general level of economic activity. Put otherwise, the second objective implies a recognition that, within the limits of their specific powers, it is an appropriate goal of central bank policy to attempt to reduce undue fluctuations in the purchasing power of gold, and thus to contribute towards bringing about a greater measure of stability in the value of money. Many factors of a political and economic character outside the control of central banks affect the purchasing power of money. But the credit and monetary mechanism also has a marked influence upon the value of money. It is primarily by wise and prescient contraction or expansion of credit, as sound business conditions demand, that central banks acting in collaboration can do most to avoid undue fluctuations in the purchasing power of gold. Central banks have often underestimated even the limited extent of their capacity to act upon price levels over the credit medium, not only because this is but one of the forces affecting the price structure, which may be offset by others, but more especially because any popular illusion that central banks alone have adequate powers to govern prices in general would constitute a fallacy most dangerous to foster. Yet by credit policy, including the use of the discount rate, control of short-term funds and exercise of influence in connection with long-term lending, central banks can contribute notably toward lessening sharp movements in the purchasing power of national and international monetary systems based on gold, the one metal which all the world seeks and wants.

How collaborate? By frequent meetings, visits, incessant exchange of information, common consultation and joint discussion, all to the end that at least mutual understanding may ensue, if not indeed harmonious action. In monetary matters, the psychological attitudes prevailing on the various markets are often factors of very great importance; to convey a correct impression of elusive psychological influences is always difficult, but it can certainly be done most easily by word of mouth. It is not generally realized how much progress has already been made to promote greater contact between banks of issue. In addition to the exchange of personnel, repeated visits and direct liaison between central banks,

- (i) The central banks of the gold bloc countries have conducted special meetings;
- (ii) The Governors of the Scandinavian central banks hold regular quarterly sessions;
- (iii) The Little Entente central banks have arranged for consultative gatherings, of which the first took place towards the end of 1934;
- (iv) The South American central banks have reunions, which at present appear to be only annual;
- (v) The members of the Board of the Bank for International Settlements meet regularly ten times a year; the Annual General Meeting provides an occasion for representatives of twenty-five Central Banks to gather.

As long, however, as the monetary authorities of the United States of America do not participate in the Bank for International Settlements, a cardinal hiatus exists in the principle and sufficiency of central bank collaboration. In this connection the Macmillan Report expressed itself as follows:—

"The immense growth of the financial and economic power of the United States has altered the scale, if not the terms, of the problem of American-European economic relations, and thrown upon the European central banks — in the absence of any definite guarantee that the Federal Reserve Banks will be permitted by public opinion to cooperate at all times whole-heartedly with other central banks — a task of great difficulty, which can only be solved by common understanding and action."

Too much should not be expected from the cooperation of the central banks. It is not a panacea for economic ills, although its realization would greatly contribute toward their prevention in some instances, or toward their alleviation in many others. The difficulties surrounding effective collaboration are many, and not the least is that those efforts at reconstruction, and the maintenance of stability, which lie within the powers of central banks are unfortunately subject to being offset or destroyed by developments in the political and economic fields. Central bank collaboration is but one phase of international collaboration in general, and if that is wholly lacking or if international relations are antagonistic, then central banks, whose tasks are primarily of a technical order, have means inadequate to withstand the contrary tides.

Even in the proper area of possible action by central banks, there are many curbs upon success. There is the tradition and habit of secrecy, which flows principally from the inherently confidential nature of the relations between banker and client; and even the greatly to be desired independence of the central institutions has too often been construed as meaning an insistence on the right to proceed alone. Questions of prestige and

unsettled problems of policy also tend to separate the centers; while the spirit of nationalism, though not so strong as in political agencies, frequently influences banks of issue to proceed as if the national sovereignty were at stake in questions affecting the national currency and credit policy; whereas the best way to protect the home policy from adverse external influences may well be to work in harmony with sister institutions. Furthermore, cooperation to secure the fundamental objectives above mentioned is subject to the inherent difficulty which pertains to reaching common agreement on the proper interpretation of the world economic and financial situation and to arriving at an accord as to what is to be done about the apparent position, and when and where the concerted action is to be undertaken. This is not so much a criticism of cooperation as a principle or as an ideal, but rather of the lack of perfection in its working, because it involves delicate human judgments; and human interpretation and prognosis are subject to error. Whether or not errors have been committed in the past, it remains true that decisions based on the judgment of central bankers will have to be taken in the future. Absolute certainty cannot be achieved; and whilst the fallibility of human kind is not likely suddenly to be translated into unerring exactitude, nevertheless the best assurance of a balanced, intelligent judgment must come from the continuous study and interpretation of an increasing quantity of available statistics and of financial and economic material, which central banks should exchange with one another directly and through the Bank for International Settlements. Whereas criticisms of the adequacy of the accomplishments of central bank collaboration to date are facile and the degree of its efficacy in the past can be brought in question, at least the contrary efforts to be self-sustained can hardly be said to have been crowned with success. While too much must not be expected from central bank cooperation, if it be wholly absent too much cannot be feared.

This survey of the essential elements contained in the abstract concept "central bank cooperation" may well be closed by quoting the statement of principles concerning the operation of an international monetary standard based on gold and the endeavor to contribute to the maintenance of a more constant level of business activity, which was agreed by central bank representatives, submitted to the London Conference of 1933, and there unanimously adopted, subject to a reservation by the American representatives to the effect that the Federal Reserve authorities would deal with the subject matter at a later date:—

"(1) The proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining central bank policy.

(2) Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

(3) While gold should be allowed freely to flow out of and into the countries concerned, central banks should always be prepared to buy gold at a publicly announced fixed price expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.

(4) Central banks should obtain from their markets the fullest possible information concerning the demands that might be made upon their reserves.

(5) Since as already stated under (1) the proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country, the discretion of each central bank in regulating the working of the gold standard in its own country should remain unimpaired. Central banks should, however, recognise that in addition to their national task they have also to fulfil a task of international character. Their aim should be to coordinate the policy pursued in the various centers in order to contribute towards the satisfactory working of the international gold standard system.

Moreover, they should endeavour to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead central banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

In pursuing such a policy the central banks will have done what is in their power to reduce fluctuations in business activity and thereby also undue fluctuations in the purchasing power of gold.

(6) With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and an agreed policy, central banks should consult together continuously, each central bank in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for central bank action designed to harmonise conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realisation of the principles set forth in the present note. It should continuously examine the application of the principles of the working of the gold standard and study such modifications thereof as experience may prove desirable."

V. (b) RECENT DEVELOPMENTS IN CENTRAL AND COMMERCIAL BANKING.

Further progress was made during the year in the creation of central banks in countries which have not hitherto had an adequate central banking organization.

The Reserve Bank of New Zealand opened on August 1, 1934. It has a fully paid-up share capital of £ 500,000 divided into 100,000 shares issued to the public. Reserves of gold and foreign exchange were obtained by the taking over of about £ 4½ million gold from the trading banks, which no longer retain the right of note issue, and £ 24 million from the accumulated sterling reserves of the Government. About two weeks before the Reserve Bank opened for business it announced that "in order to dispel existing uncer-

tainty" it would buy sterling at £N.Z. 124 for £ 100 sterling and sell at £N.Z. 125 telegraphic transfers and would maintain these rates "unchanged for a long period unless there should be a marked alteration in existing conditions".

The Bank of Canada, the Dominion's new central bank created by Act of Parliament in the spring of 1934, began operations on March 11, 1935. The share capital of \$ 5 million is divided into 100,000 fully paid-up shares, which have been taken up by more than 12,000 subscribers. The initial reserves of the Bank were built up by \$ 68 million in gold taken over from the Department of Finance and \$ 35 million from the chartered banks. The reserve ratio shown in the first statement of the Bank was 42.7 per cent. (with gold valued at the old price of \$ 20.67 per ounce) against note circulation and deposits, as compared with minimum statutory requirements of only 25 per cent. Notes of the new bank were immediately put into circulation and are intended, in the first instance, to replace the old notes of the Dominion Government. Not until the end of the first year of the Bank's operations will any notes of the chartered banks be withdrawn; then 5 per cent. will be taken out of circulation, and through subsequent withdrawals the note issue of the chartered banks will be reduced by 75 per cent. at the end of 10 years. Under present statutory arrangements the chartered banks will thus retain from 1946 a certain right of note issue. The Bank of Canada is, however, responsible for the control of the currency and credit volume of the country, being able to increase or reduce the amount through ordinary central banking measures.

The organization of the new Reserve Bank of India has made further progress in the course of the year. The Governor and the two Deputy-Governors have been appointed and during the latter half of March 1935 the shares of the new bank were issued to the public. It is expected to have the bank functioning fully from July 1, 1935.

In March 1935, a series of new financial laws was enacted in the Argentine, providing for the creation of a central bank as part of a far-reaching reorganization of the country's credit system, the reform following on the whole the recommendations made by Sir Otto Niemeyer during his visit to the Argentine in 1933. The authorized capital of the Bank will be 30 million pesos (equal to approximately 30 million Swiss francs), but only two-thirds of this amount will be subscribed at the outset: half by the Government, whose share will have no voting power, and the other half divided among the private banks operating in the country with a capital of not less than a million pesos. The Bank will be governed by a board of 12 directors, mainly representing banking interests but counting among its members representatives of agriculture, cattle breeding and industry, one for each of these occupations. The Government will have one representative and in addition will appoint the President and Vice-President of the Bank from among candidates proposed by the board in pleno.

The majority of existing bank-notes will be replaced by new notes issued by the central bank, which will also take over the gold now held by the government institution, the Caja de Conversion. A Commission, presided over by the Finance Minister, has been appointed to draw up statutes for the new bank and generally to make proposals for its organization. This Commission will also deal with questions arising out of another of the new laws adopted: the creation of a liquidation institute to take over from the private banks assets which are not quickly saleable. Furthermore, the new financial legislation comprises a new banking law which, inter alia, provides for inspection of private banks.

During 1934 the Banco Agrícola Comercial in Salvador was transformed into an orthodox central bank on modern lines, taking over the note issue from the commercial banks. The capital of the new bank is 1,650,000 colones (equivalent to about 1 million Swiss francs).

In the past two years steps have been taken in Germany towards the concentration at the Reichsbank of the total note issue of the country. When Germany's monetary system was reorganized in 1924, four local banks, situated in Munich, Dresden, Stuttgart and Karlsruhe respectively, were allowed to continue the issue of notes up to certain specified amounts. Their aggregate note issue has kept between 170 and 180 million Reichsmarks, representing about 4 per cent. of the total note circulation of the country; at the beginning of 1934 the banks held in reserve gold amounting to RM 73 million. At the end of 1935 the note issue of these banks will be taken over by the Reichsbank. Special provisions have been made to regulate the transitional period and to make it possible for the four banks to transform themselves into ordinary banking institutions.

Recent changes of more general interest which have been made in regulations and practices of central banks have been designed principally to achieve two purposes: (i) to introduce greater elasticity in the employment of primary reserves through a lowering of the legal cover ratio, or through revaluation of existing gold holdings or both these measures; and (ii) to enable central banks to influence the domestic credit position more effectively by open-market policy.

The Monetary and Economic Conference of 1933 unanimously recommended that, in order to improve the working of a future gold standard, greater elasticity should be given to central bank legal-cover provisions and that, for instance, a minimum ratio of not more than 25 per cent. should be considered as sufficient. This recommendation gave concrete expression to a principle which had already begun to gain ground before the Conference met. Earlier reports of this bank mentioned that in 1932 an alleviation was made in the cover regulations of the Austrian National Bank, in 1933 in those of the Bank Polski, the Sveriges Riksbank and Nationalbanken i Kjøbenhavn and in 1934 in those of the National Bank of Czechoslovakia and the National Bank of Hungary. By a decree of January 15, 1935, the National Bank of Yugoslavia was authorized to limit its total cover of gold and foreign devisa temporarily to 25 per cent., instead of 30 per cent. as previously, and its cover in gold alone to 20 per cent., against 25 per cent. The same decree authorised the central bank to revalue its cover in gold and foreign exchange by a premium of 28½ per cent., corresponding to the depreciation of the dinar in Zurich, solely for the purpose of calculating the cover percentage.

In an increasing number of countries whose currencies have depreciated since 1931 revaluation of the central gold holdings has been permitted. The United States was the first country to revalue, the total increment being \$ 2,812 million, of which \$ 2,000 million was earmarked for the Stabilization Fund. \$ 170 million was appropriated to loans for industry, to the Philippines Currency Fund and for other purposes; and, according to an announcement made by the Treasury on March 10, 1935, the remainder, or \$ 642 million, will be used to retire bonds carrying the national bank note circulation privilege. In Austria the direct occasion for the revaluation of the gold reserves in April 1934 was provided by the collaboration of the National Bank in the reorganization of the country's banking system; over two-thirds of the book profit was, however, applied to the revaluation of various items of the balance sheet, including the capital, on the new basis.

When the Czechoslovakian crown was devalued in February 1934 the profits resulting from the revaluation of the National Bank's reserve were utilised to reduce the debt of the State to the bank. It has been mentioned above that in Yugoslavia the gold and foreign exchange of the National Bank may be revalued at the rate of $28\frac{1}{2}$ per cent. for the purpose of calculating the reduced cover requirements; gold and foreign exchange thus released were used for the repayment of the Bank's foreign credits. In connection with the monetary changes in Belgium in March and April 1935 revaluation of the National Bank's reserves was made at a rate corresponding to 25 per cent. depreciation of the currency, the upper limit laid down for the exchange value of the belga.

The possibilities for central banks to intervene more freely on their markets have been enlarged in an increasing number of countries. New powers were granted to the Federal Reserve banks in 1932 and to the Reichsbank in 1933, as mentioned in earlier reports of this bank. In 1934 the Federal Reserve banks were further empowered to grant loans up to five years' maturity, either directly or in co-operation with the commercial banks, for the purpose of supplying working capital to established commercial and industrial concerns. By an amendment to its statutes dated February 6, 1935, the Bank Polski was authorized to buy for its own account public securities and mortgage bonds quoted on the Warsaw stock exchange up to Zl. 150 million, as compared with the previous limit of only 10 per cent. of the Bank's own capital of Zl. 150 million. In Lithuania an amendment dated March 15, 1935 to the law governing the Lietuvos Bankas raised from one-third to two-thirds of the bank's capital stock the amount up to which the bank is permitted to acquire bonds, other securities guaranteed by the State and shares of the Bank for International Settlements. In 1934 the Nederlandsche Bank was given authority to invest the whole of its capital instead of one-fifth, as hitherto; this measure, it was explained was to assist the bank in finding a new equilibrium between income and expenditure, the bank's earning power being considerably diminished since the liquidation of its foreign bill holdings.

The whole question of the relations between the Bank of France and the French markets for short and long-term securities was closely examined at the beginning of 1935, and it was decided to grant certain new credit facilities compatible with the provisions of existing statutes. In a communiqué dated February 21, 1935, it was announced that advances would be granted for a maximum period of 30 days on Government securities maturing within two years at $2\frac{5}{8}$ per cent., as compared with the official discount rate of $2\frac{1}{2}$ per cent. and $4\frac{1}{2}$ per cent. for ordinary advances on securities. It was hoped that this new possibility of obtaining liquid funds in case of a temporary stringency might assist the market in taking up more easily short and middle-term issues.

In defining the principles governing the open-market operations of a central bank a balance must naturally be struck between the need for adequate powers and facilities to influence the volume and price of credit, and the need for safeguarding against the building-up of an unduly large superstructure of notes and credit. It has in particular been emphasised by central banks in different countries that they must always be in a position to reverse the operations on the open market if the trend of business were to change. They must, in other words, be able not only to expand but also to contract the credit volume, and this consideration must largely govern the kind of securities which they should acquire.

Parallel with the developments in central banking described above, there have been important changes in recent years in the structure of, and the laws governing, the private banking organization in a large number of countries. The structural changes have, as a rule, been the result of weaknesses revealed in the course of the present depression and rescue work performed by interested parties and public authorities; the new legislation has, to a large extent, been adopted with the object of guarding against the unsound practices of the past and ensuring in the future greater publicity and control for the central bank or some special authority.

Experience has shown that nowhere has the state been able to remain unconcerned when faced with serious difficulties in the domestic banking system. Apart from the question of protecting depositors against losses, it has been found important from a general point of view to keep the credit machinery working without a breakdown at vital points. The Austrian Government came to the assistance of the Credit-Anstalt in the spring of 1931; in the same year substantial aid was given to commercial banks in Germany and in the following year government assistance was provided in Sweden consequent upon the Krøger crisis. In a number of countries new institutions have been created to take over from commercial banks more or less frozen assets or to increase the possibility of borrowing on such assets with a view to the maintenance of a sufficient degree of liquidity. In Germany the Golddiskontbank and certain special institutions have largely served the purpose of dealing with the liquidity problems of the market. In Italy the Istituto per la Ricostruzione Industriale has been established to take over and administer certain assets of private banks. In Czechoslovakia a new rediscount corporation was created in the spring of 1934 after the currency was devalued; and in Switzerland the Darlehenskasse was formed to facilitate the mobilization of certain bank assets. In the United States the Reconstruction Finance Corporation has been empowered to grant loans to, or to acquire preferred stock in, commercial banks which are fundamentally sound but wish to strengthen their capital structure, and also to give loans to receivers, conservators and liquidating agents of closed banks and to mortgage loan companies for the purpose of assisting in the reorganization or liquidation of these banks and companies. Towards the end of 1934 a convention was concluded between the Belgian Government and the Société Nationale de Crédit à l'Industrie (an institution founded in 1919) whereby the latter was empowered to take over frozen assets from the banks for a period of not more than 20 years in exchange for 3 per cent. 20 year bonds issued by the Société and guaranteed by the Government. Further, the financial legislation which was adopted in the Argentine in the latter half of March 1935 provides for the creation of an institute to take over from private banks assets which are not quickly saleable.

These new institutions generally work in close contact with the central banks, which is natural in view of the influence their action may exert upon the general credit position. Many of them may disappear when the emergency which gave rise to their formation has passed, but the remodelling which has been effected through their activity or otherwise in the course of the present financial crisis may for years to come put its stamp on the banking systems of the countries concerned. An outstanding example is Austria, where under the leadership of the National Bank and with the aid of this bank and the government a thorough reorganization of all the larger banks has been effected on lines adapted to the requirements of the present Austrian economy.

The new bank laws or the changes in existing laws which have been adopted in recent years in the United States, Germany, Sweden, Switzerland, Rumania and some other countries have largely been inspired by a desire to prevent a repetition of past mistakes in the management of the banks and to provide for the formation of a secure and liquid private credit organization. Consequently, the new laws lay down certain rules governing the establishment and current business of private banks, while recognizing the need for sufficient freedom to allow for the variety of individual cases and not to deaden the spirit of enterprise. In an attempt to combine proper safeguards with an adequate degree of elasticity the tendency has been to limit the mandatory provisions to a minimum but, on the other hand, to secure fuller information and to entrust some official institution with the task of following the development of banking, to obtain all the information required and to take the necessary decisions either to supplement the banking legislation or to arrest an unsatisfactory movement.

The legislation adopted in the various countries pursues in the first place the twin purposes of ensuring improved liquidity and separating more clearly the granting of commercial and similar short-term credits from other functions such as the investment of capital in industrial and commercial enterprises. As an example, the Swiss Bank Law of November 8, 1934, prescribes minimum relations between a bank's own funds (capital plus reserves) and its total liabilities, between cash and total short-term liabilities, and between cash and easily available assets on the one hand and total short-term liabilities on the other. While the Swiss law itself sets out the percentages required, the new German Bank Law leaves it to the *Aufsichtsamt für das Kreditwesen* (the institution supervising the banks) to fix the percentage relations between cash and liabilities etc. This institution also fixes the maximum amount of credit which a bank may grant to a single customer, by which it is intended to prevent the recurrence of certain errors in the distribution of credit which were revealed during the crisis of 1931.

With regard to investments in shares and similar assets, the Swedish Bank Law as amended in 1934 forbids the banks to acquire shares except when the acquisition is necessary to protect the bank from a loss or, very exceptionally, when special authorization is granted by the government. In Belgium a decree of 1934 prescribed a division into separate institutions of pure deposit banking and the holding of shares. In the United States the Banking Act of 1933 prohibits the possession of shares and, moreover, provides for separation from the banks of affiliated or holding companies which carry on business in shares or stocks. This is a more extreme attitude than that taken in most other countries where the relevant provisions are usually somewhat more elastic. For instance, the new German Bank Law stipulates that a bank's assets in fixed property and permanent participations may not exceed its capital and that assets in the form of shares, mining participations and bonds not quoted on German exchanges must have a certain relation to total liabilities. In some other countries again the regulations regarding liquidity are thought sufficient to limit indirectly the possibilities of the banks becoming too much involved in industry.

Many of the provisions contained in the banking legislation of recent years can be regarded primarily as embodying principles which have already been observed by the best managed banks in their liquidity and investment policy in the past.

A further feature of recent banking legislation is the provision for greater publicity by the issue of more frequent and detailed returns and balance-sheets. It should thus

be possible to follow more closely the development of an individual bank and the trend of banking in general; at the same time the very fact of publicity may exert a wholesome influence on those responsible for the management of the banks. In addition to the duty of supplying information for publication, the banks have to give more fully such material as is required either by the central bank or some other supervisory organ instituted in the respective countries. In Germany all credit institutions must send their balance-sheets to the Reichsbank; private bankers and smaller banks submit half-yearly statements and the larger institutions submit monthly statements. In Switzerland the National Bank has the right to ask for the annual balance-sheet from all banking institutions and to demand intermediary balance-sheets; the banks are further bound to furnish explanations of the balance-sheets and other relevant information required. Moreover, banks and similar institutions have to notify the National Bank before the conclusion of certain operations with customers abroad, and the National Bank has the right to veto such operations or to make its approval dependent upon the fulfilment of certain conditions, after taking into account the trend of the exchanges, rates on the domestic money and capital markets, and the general economic interests of the country.

In the United States, the Federal Reserve Board has in recent years been given several new tasks in relation to commercial banking. In the Banking Act of 1933 it was laid down that no member bank shall pay interest on any deposit which is payable on demand and that "the Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits". This provision of the law places on the Federal Reserve Board the responsibility of raising or lowering the maximum rate that may be paid by member banks on time and savings deposits from time to time in accordance with the prevailing economic conditions and the requirements of the public interest. No other country has given its central banking authority such wide powers over interest rates. In Switzerland however every bank with a total balance-sheet of 20 million Swiss francs or more has to notify the National Bank two weeks in advance of its intention to increase the rate of its outstanding middle-term obligations (Kassenscheine — a type of obligation peculiar to the Swiss banking system). The National Bank, if it thinks it advisable, may try to persuade the bank to abstain from increasing the rate; but the National Bank has no veto, the individual bank being in the end solely responsible.

When special institutions have been created to act as supervisory organs over private banking, a close contact has as a rule been established between these institutions and the central banks. The German Aufsichtsamt für das Kreditwesen is attached to the Reichsbank and its chairman and vice-chairman are the president and vice-president of the Reichsbank. The German organization further provides for a so-called Reichskommissar für das Kreditwesen, who is a state official and participates in an advisory capacity in the deliberations of the Aufsichtsamt. In Switzerland the special Federal Banking Commission, instituted by the law of 1934, is not connected in the same way with the National Bank, but the latter has a representative on the Commission. In Rumania also a Banking Commission, closely connected with the central bank, has been created.

The special institutions appointed to supervise the banking organizations deal normally with all questions relating to the carrying out of the bank laws, the correctness of published and other information, questions regarding accounting and audit etc. In a number of countries special authorization is required before a new bank may be founded, a new branch office opened or a fusion of two or more banks made.

Put shortly, the objectives of the legislation on private banking in the various countries are substantially the same — greater publicity, greater safeguards for liquidity, greater protection for depositors, an improved system of supervision of banking institutions and a strengthening of the influence of the monetary authorities, which should tend to secure uniformity in the national credit policy. Naturally the methods employed vary considerably according to the conditions in the particular country; and as far as the general monetary development is concerned, it should be remembered that even without any distinct legal powers central banks are in a position to exert considerable influence through their discount and open market policy and also through their daily contact with private banking organizations.

VI. TRUSTEE AND AGENCY FUNCTIONS OF THE BANK.

The Bank acts as trustee or agent in connection with the international loans, whose position is summarised below. The Bank is also trustee in respect of four inter-governmental financial settlements that provide for annuity payments, but as the execution of these payments is still reserved as a result of the provisions of the Lausanne Agreement of July 9, 1932, the Bank's duties during the year under review have been only of a formal character. In addition, in the month of February 1935, the Bank agreed to undertake certain banking and agency functions in connection with the adjustment of financial questions arising out of the transfer of the Saar Territory to Germany; these new functions are described at the end of this chapter.

(a) GOVERNMENT INTERNATIONAL LOANS.

(1) GERMAN EXTERNAL LOAN 1924*.

The Bank has acted as Fiscal Agent of the Trustees for the German External Loan 1924 since it commenced business in May 1930. This Loan was issued in a nominal amount equivalent, at the then parities of exchange, to approximately 1,194 million Swiss francs, the nominal amount outstanding as at March 31, 1935, taking the currencies of the various issues at the current rates of exchange, being the equivalent of 475.5 million Swiss francs. The full Loan service has been effected up to July 1, 1934, from which date the payment to the Trustees of the monthly instalments in the currencies of the respective issues was suspended by the German Government.

Throughout the month of May 1934, a Conference between representatives of long term and medium term foreign creditors of Germany and representatives of the Reichsbank was engaged in Berlin in discussing Germany's transfer problems and the extent to which the service of long and medium term loans could be effected. The representatives of the foreign creditors decided to exclude from the discussion the Reich Loans, which include the German External Loan 1924 and the German Government International 5½ per cent. Loan 1930.

On June 14, 1934, the German Finance Minister notified the Bank as Fiscal Agent of the Trustees that owing to the economic situation in Germany no further foreign exchange would be available for the service of the German External Loan 1924, from July 1, 1934, and until further notice. The Finance Minister added that the equivalent in reichsmarks of the service monies due in the currencies of the respective issues of the Loan would be deposited in a special account at the Reichsbank. The Trustees for the Loan, through their Fiscal Agent, immediately protested to the German Government against the announced breach of the obligations and engagements assumed by the Reich in the General Bond and confirmed in international treaties; they urged the German Government to reconsider its decision particularly in view of the privileges, priorities and rights attaching to this Loan and in view of the collateral guarantee afforded by the first charge upon five of the principal revenues of the Reich. The Trustees expressly and formally reserved all the rights and privileges of the bondholders and of the Trustees.

* Information as to the circumstances in which this Loan was raised, the currencies of the various issues, the special securities and priorities attaching to the Loan, and the application of the gold coin clause contained in the definitive bond of the American issue, is given on pages 37 and 38 of the Bank's fourth annual report.

The service of the German External Loan 1924 is due in monthly instalments on the fifteenth day, or next working day, of each month. The system for keeping effective the first charge by way of collateral security on the five pledged revenues and for remitting and administering such revenues is prescribed in Annex XI to the Hague Agreement of January 1930. It is provided that the whole of the proceeds of the pledged revenues shall be remitted by the tax collecting offices of the German Reich directly to the account of the Trustees for the Loan, or the account of their Fiscal Agent, at the Reichsbank. At the time of opening the account, in May 1930, the Trustees gave a revocable standing order to the Reichsbank to the effect that (a) as soon as on or after the first day of each month a sufficient number of reichsmarks has been received in the Trustees' account to cover the amount of foreign currency required for the monthly service instalment due on the fifteenth day of that month the Reichsbank is authorised to release to the German Government the whole of the remainder of the revenues entering the Trustees' account until the first day of the following month, when the foregoing procedure is to be repeated. (b) On the fifteenth day of each month, if and when the foreign currency service instalment then due has been paid, the reichsmark sum previously blocked as cover therefor is to be released to the German Government and (c) if prior to the fifteenth day of any month the German Government choose to anticipate the payment of the foreign currency instalment due on that date, then, as soon as such payment is made to the Trustees, the reichsmark sum blocked as cover therefor is to be released to the German Government.

Prior to the month of July 1934, it had been the practice of the German Government to anticipate, on the first day of each month, the payment of the foreign currency instalment due on the fifteenth day of that month so that it had never become necessary to block any part of the reichsmark proceeds of the pledged revenues as cover therefor. On July 2, 1934, however, (July 1 being a Sunday) the foreign currency service instalment due on July 16, 1934, not having been paid by anticipation, the sum of 4,300,000 reichsmarks, representing the approximate equivalent of the foreign currencies in question, was blocked in the Trustees' account, as required by the terms of their revocable standing order to the Reichsbank.

The German Government did not furnish the foreign currencies required for the service instalment due on July 16, 1934, whereupon the Trustees for the Loan notified the Reichsbank that they revoked their standing order given in May 1930 with the result that the sum of 4,300,000 reichsmarks, referred to in the preceding paragraph, remained blocked in the Trustees' account and the Reichsbank was no longer authorised to release to the German Government any of the proceeds of the pledged revenues which, pursuant to Annex XI to the Hague Agreement, were to be paid by the German tax collecting offices directly to that account. The German Government thereupon took steps to prevent the proceeds of the pledged revenues being paid to the Trustees' account at the Reichsbank and protested against the Trustees' action in endeavouring to block the whole of the proceeds of the revenues, stating that such a procedure, in the existing circumstances, could not be recognised as legally justifiable and was not in conformity with the spirit of the provisions of the Loan contract. The Trustees replied that they considered they had acted completely within their powers and had taken the only action open to them for the protection of the bondholders; they stated that in their opinion the German Government had committed a further breach of its obligations in preventing the proceeds of the pledged revenues from reaching the Trustees' account.

As a result of the German Government's declaration on June 14, 1934, of its inability to furnish foreign currencies for the service of the Loan after July 1, 1934, certain Governments threatened to obtain such foreign currency through a forced clearing of commercial transactions with Germany. Consequently, transfer or clearing agreements were concluded between the German Government and the Governments of all the countries in which the Loan was issued, except the United States of America, as a result of which certain groups of bondholders, as specified therein, obtained payment of the full nominal value of their October 15, 1934 coupons. The Trustees for the Loan were not parties to any of these agreements, have had nothing to do with their execution, and have considered them as incompatible with the General Bond and the international agreements relating thereto.

Prior to the suspension by the German Government of the payment to the Trustees of the regular monthly service instalments in the currencies of the respective issues of the Loan, the Trustees had received in those currencies sums enabling them to pay 50 per cent. of the nominal amounts due on all coupons of the Loan maturing on October 15, 1934. They applied the funds in their possession towards the service of the various issues of the Loan in that manner, in accordance with the provisions of the General Bond. In view, however, of the transfer or clearing agreements referred to in the preceding paragraph, holders entitled thereunder received payment of the nominal amount of the October 15, 1934 coupon in full. As regards bondholders who do not benefit under those agreements, the German Government offered to liquidate the outstanding 50 per cent. of the nominal value of October 15, 1934 coupons by a payment in registered marks calculated at the Reichsbank's official rate of exchange.

The funds received prior to July 1, 1934, in respect of the sinking fund were currently expended in the redemption of bonds through market purchases, except in the case of the Swedish and American issues. Bonds of the Swedish issue are not obtainable on the market, so the available sinking fund monies were applied to the redemption of bonds of that issue by drawings at par. In the case of the American issue, market purchases for sinking fund purposes were suspended when the German Government announced its intention to discontinue the service of the Loan as from July 1, 1934, and the balance of sinking fund monies then on hand is held in suspense.

Owing to the fact that the German Government has not permitted the proceeds of the pledged revenues to reach the Trustees' account, the Trustees have been unable to have recourse to those revenues, except to the extent of the sum of RM 4,300,000 which became blocked in their account at the Reichsbank on July 2, 1934. The Trustees requested the Reichsbank to sell this amount against foreign currencies but the Reichsbank, on behalf of the German Government, replied that owing to the German foreign currency position, the consent which, in accordance with German law, is necessary for the execution of the Trustees' request, could not be granted. The amount of RM 4,300,000 is, therefore, still on hand at the Reichsbank.

During the year now under review, April 1, 1934 – March 31, 1935, the Bank as Fiscal Agent of the Trustees for the German External Loan 1924, has received only the first three monthly service instalments, in the currencies of the respective issues of the Loan. A Statement of Receipts and Payments, as certified by the auditors, for the last completed Loan year to October 15, 1934, is appended as Annexes IVa and IVb. In addition, the funds relating to this Loan which were deposited in the name of the Trustees, as at March 31, 1935, are shown in Annex IX.

With respect to the coupons maturing April 15, 1935, the German Finance Minister informed the Trustees that, having regard to the existing circumstances, the coupons in question would be served on the same basis as the October 15, 1934 coupon, namely, by an offer of payment in registered marks in respect of all coupons not covered by the provisions of special agreements or clearing arrangements whereby holders may receive payment of the full nominal value of their coupons in their respective currencies. The Trustees advised the German Finance Minister that this procedure was contrary to the obligations undertaken in the General Bond, and they protested against the failure to make through the Trustees full payment in foreign currencies to all bondholders, in the required manner.

(2) GERMAN GOVERNMENT INTERNATIONAL 5½% LOAN 1930*.

The German Government International 5½% Loan 1930, for which the Bank for International Settlements is Trustee, was issued in a nominal amount equivalent, at the then parities of exchange, to approximately 1,819 million Swiss francs, the nominal amount of the Loan outstanding as at March 31, 1935, taking the currencies of the various issues at the current rates of exchange, being the equivalent of 1,320 million Swiss francs. During the year now under review, April 1, 1934 - March 31, 1935, the Bank, as Trustee has received only three monthly instalments in respect of interest and nothing at all in respect of the sinking fund.

The German Government had already suspended the payment of the monthly instalments in respect of the sinking fund for the German Government International 5½% Loan 1930, as from July 15, 1933. On June 14, 1934, the German Finance Minister notified the Bank, Trustee, that owing to the economic situation in Germany no further foreign exchange would be available for the service of the Loan, either for interest or sinking fund, from July 1, 1934, and until further notice. The Finance Minister added that the equivalent in reichsmarks of the service monies due in the currencies of the respective issues of the Loan would be deposited in a special account at the Reichsbank as had already been done in respect of the sinking fund instalments due on and after July 15, 1933. The Trustee immediately entered a protest against the proposed breach of the unconditional obligations contained in the General Bond and confirmed in various international treaties; and all the rights and privileges of the bondholders as well as of the Trustee were expressly and formally reserved. It was impracticable to have recourse, for the fulfilment of the German Government's obligations, to the collateral security in the form of the railway tax which is constituted in reichsmarks and relates to only two-thirds of the service of the Loan.

When the German Government declared its inability to furnish foreign currencies for the Reich Loans after July 1, 1934, certain Governments threatened to obtain such foreign currencies through a forced clearing of commercial transactions with Germany. As a consequence, transfer or clearing agreements were concluded between the German Government and the Governments of all the countries in which the Loan was issued, except the United States of America, as a result of which certain groups

* Information as to the circumstances in which this Loan was raised, the manner in which it is secured, the currencies of the various issues, and the extent to which the gold value clause contained in Article VI of the General Bond has been implemented, is given on pages 39 and 40 of the Bank's fourth annual report.

of bondholders specified therein obtained payment of the full nominal value of their December 1, 1934 coupons. The Trustee for the Loan was not a party to any of these agreements, has had nothing to do with their execution, and notified the Governments principally concerned that the agreements were incompatible with the General Bond and the international treaties pertaining thereto.

Prior to the suspension by the German Government, as from July 1, 1934, of the payment to the Trustee of the regular monthly service instalments in the currencies of the respective issues of the Loan, the Trustee had received in those currencies sums enabling it to pay one-sixth of the nominal amounts due on all coupons of the Loan maturing on December 1, 1934. The Trustee applied the funds in its possession towards the service of the various issues of the Loan in that manner, in accordance with the provisions of the General Bond and the respective definitive bonds and the coupons attached thereto. In view, however, of the transfer or clearing agreements above referred to, holders entitled thereunder received payment of the nominal amount of the December 1, 1934 coupon in full. As regards bondholders who do not benefit under those agreements, the German Government offered to liquidate the outstanding five-sixths of the nominal value of December 1, 1934 coupons by a payment in registered marks calculated at the Reichsbank's official rate of exchange.

It was stated in the report for the fourth fiscal year that, having regard to the gold value clause contained in Article VI of the General Bond and in view of the fact that the German Government had failed during the fourth fiscal year to provide sufficient funds, in the currencies of the respective issues of the Loan, to give effect to that clause, the paying agents for one of the issues had expressed dissatisfaction with the method adopted by the Trustee for the distribution among bondholders of the funds actually available. These paying agents took the position that instead of paying the coupons of all issues of the Loan on the basis of their respective nominal amounts, the Trustee should have pooled the available funds and divided them among bondholders pro rata on a gold value basis. A bondholder of the issue concerned has since sued the Bank, as Trustee, in a Swiss Court claiming damages for alleged improper distribution of those funds provided by the debtor Government. The Basle Civil Court of first instance has by its decision, dated April 20, 1935, found in favour of the Trustee and dismissed the case with costs.

As regards the American, British and Swedish issues, the three instalments of interest received during the current fiscal year were insufficient to give effect to the gold value clause contained in the General Bond. Two of the monthly interest instalments received were utilised to complete the payment, at the full respective nominal values, of the coupons due June 1, 1934, of all issues of the Loan and the third instalment was applied in the payment of one-sixth of the respective nominal values of all coupons due December 1, 1934. A Statement of Receipts and Payments in respect of the Loan, as certified by the auditors, for the last completed Loan year to June 1, 1934, is appended as Annexes Va and Vb. In order to show the position to the last interest coupon due date, there is also appended, as Annex VI, an Interim Statement of Receipts and Payments for the half-year to December 1, 1934. In addition, the funds relating to this Loan which were deposited in the name of the Trustee as at March 31, 1935, are shown in Annex IX.

(3) AUSTRIAN GOVERNMENT INTERNATIONAL LOAN 1930*.

The Austrian Government International Loan 1930, for which the Bank for International Settlements is Trustee, was issued in a nominal amount equivalent, at the then parities of exchange, to approximately 320 million Swiss francs and the nominal amount of the Loan outstanding as at March 31, 1935, computing the currencies of the respective issues at the current rates of exchange, was the equivalent of 199 million Swiss francs. During the period under review April 1, 1934 - March 31, 1935, the Bank has regularly and punctually received and distributed the monthly service instalments required pursuant to the terms of the General Bond.

The position of the Austrian Government International Loan 1930 has recently been improved as regards the charge which the Loan service has upon the gross receipts of the customs and of the tobacco monopoly of the Austrian Government. When the Loan was issued this charge ranked after the charge on the same revenues in favour of the Austrian Government Guaranteed Loan 1923-1943 and the Czecho-Slovakian Conversion Loan. With regard, however, to the Guaranteed Loan 1923-1943, the Austrian Government, with the approval of the Trustees for that Loan and the Committee of Control of the Guarantee Powers, had the right, on June 1, 1934, or on any subsequent coupon due date, to give six months' notice of its intention to redeem the whole of the Loan or any issue thereof. The Austrian Government has exercised this right and has called all issues of the Loan for redemption, the Spanish issue for December 1, 1935 and all the other issues for June 1, 1935. When this redemption has been completed, the service of the Austrian Government International Loan 1930 will enjoy a first charge on the pledged revenues, subject only to the charge in respect of the Czecho-Slovakian Conversion Loan. The redemption of the Guaranteed Loan 1923-1943 is being effected through the issue of the Guaranteed Conversion Loan 1934-1959 and for the purpose of the charge on the pledged revenues the latter loan ranks pari-passu with the International Guaranteed Loan 1933-1953, after the charge in favour of the Austrian Government International Loan 1930.

A Statement of Receipts and Payments, as certified by the auditors, for the last completed Loan year to June 30, 1934, is appended as Annexes VII a and VII b. In order to show the position to the last interest coupon due date, there is also appended as Annex VIII an Interim Statement of Receipts and Payments for the half-year to December 31, 1934. In addition, the funds relating to this Loan which were deposited in the name of the Trustee as at March 31, 1935, are shown in Annex IX.

(b) GOVERNMENT ANNUITY PAYMENTS.

(1) THE ANNUITY PAYMENTS OF THE GERMAN REICH.

The Lausanne Agreement signed July 9, 1932, (which was to modify Germany's obligations as set forth in the New Plan adopted at the Hague Conference of January 1930), has not been ratified by any of the parties. The interim period between the date of the signature and of the ratification of the Lausanne Agreement is governed by its

* Information as to the various currencies in which this Loan was issued and the application of the gold clause contained in the definitive bond of the American and Austrian issues, is given on pages 43 and 44 of the Bank's fourth annual report.

provisions for "Transitional Measures", pursuant to which the execution of Germany's obligations under the New Plan is reserved, on the understanding that the "service of market loans" would not be affected thereby.

As stated in the sections dealing with the German External Loan 1924 and the German Government International 5½ % Loan 1930 (the two market loans in question), the regular service of both loans was suspended by the German Government as from July 1, 1934, with the result that during the year under review, April 1, 1934 - March 31, 1935, the Bank in its capacity as Trustee for the German annuity payments, has received from the German Government only the amounts representing the three monthly instalments towards the service of the market loans falling due before July 1, 1934, namely

	Reichsmarks
(a) Towards the service of the German External Loan 1924	12,672,071.49
(b) Towards two-thirds* of the service of the German Government International 5½ % Loan 1930	10,069,788.13

The above amounts were transferred immediately upon receipt to the Trustees for the respective Loans. A summary of the receipts and payments of the Bank in respect of the German annuity during the period April 1, 1934 - March 31, 1935, including the small transactions which have taken place in connection with the liquidation of old contracts for deliveries in kind, is set forth in Annex X in the form approved and certified by the auditors.

(2) THE ANNUITY PAYMENTS OF HUNGARY, BULGARIA AND CZECHOSLOVAKIA.

The execution of the annuity payments of Hungary, Bulgaria and Czechoslovakia was reserved until December 15, 1932, pursuant to the terms of Part III of the Lausanne Agreement of July 1932. The parties to that Agreement recommended that a committee be set up to consider the group of questions known as "non-German reparations" and cognate topics, viewing them within the framework of a general settlement. The committee has not been constituted and the interested Governments have agreed that the reservation of the execution of the annuity payments of Hungary, Bulgaria and Czechoslovakia shall be extended until June 15, 1935.

During the year under review, therefore, the Bank has received nothing in respect of these annuity payments.

(c) THE SAAR SETTLEMENT.

The Bank for International Settlements has been associated with the final settlement of the financial questions raised by the transfer of the Saar Territory to Germany.

The Agreement signed in Rome on December 3, 1934, between the German and French Governments provided, in particular, for the payment by Germany, for the benefit of France, of a lump sum of 900 million French francs for the repurchase of the mines, railways etc. of the Saar Territory, it being agreed that from this sum should be deducted

* Only two-thirds of the service of the Loan were to have been provided out of the annuities payable by Germany under the New Plan; the remaining one-third is applicable to that part of the Loan proceeds which was allocated to the German Government.

the value of the French francs and other foreign means of payment collected in the said Territory in exchange for reichsmarks, and delivered to the Bank of France for the account of the French Government. As it was not to be anticipated that this amount would cover the lump sum, it had been provided that the balance should be covered by means of deliveries of coal. The Agreement contemplated the entrusting of certain financial functions to the Bank for International Settlements. The Board of Directors of the Bank, having officially received a copy of this Agreement through the intermediary of the Governor of the Bank of France and the President of the Reichsbank, accepted in principle the task which it was desired to entrust to the Bank.

At the beginning of January 1935 the representatives of the French and German Governments and of the Saar Governing Commission met in Basle at the Bank for International Settlements for the purpose of opening the negotiations necessary to give practical effect to the Rome Agreement; these meetings were attended by a member of the Financial Committee of the League of Nations on behalf of the Committee of Three.

The negotiations in question resulted in the conclusion of a series of agreements, certain of which were of interest to the Bank for International Settlements and were signed at the offices of the Bank on February 11, 1935.

The principal functions accepted by the Bank in a purely banking or accounting capacity are set forth in two documents signed by it on the same date:

(a) Agreement between the French and German Governments, the Bank of France and the Bank for International Settlements;

(b) Agreement between the Bank for International Settlements, the Reichsbank and the Bank of France.

Additional functions have been likewise accepted at the request of the parties concerned.

In virtue of all these various accords the Bank's task is as follows:

I. The French bank notes or foreign means of payment other than reichsmarks in circulation in the Saar Territory and exchanged against German currency by the Reichsbank are handed over to the branch of the Bank of France at Sarreguemines, to be placed to the credit of the Bank for International Settlements, which, in its turn, credits: (1) 95 per cent. of this amount to an account in the name of the Bank of France on behalf of the French Government and (2) 5 per cent. to another account in the name of the Reichsbank, destined to ensure the financial service of the foreign loans authorized by the former Government of the Saar Territory, in accordance with the instructions given by a person appointed by the League of Nations. The total sum credited by the Bank of France and derived from the withdrawal of French notes and other foreign means of payment amounted on April 23, 1935, to 287.4 million French francs, of which 95 per cent., or 273.0 million French francs, has been credited to the first mentioned account and 5 per cent., or 14.4 million French francs, to the second account.

II. The difference between the amounts thus collected and the lump sum due to France is to be covered by means of deliveries of coal. The sums owed by French importers of coal are collected by the Bank of France for account of the Bank for International Settlements, which, in its turn, places them to the aforesaid account of the Bank of France for the account of the French Government. Up to the present no credit has been entered on this score.

III. On the 15th of each month the Bank for International Settlements places the credit balance shown in the account "Banque de France (for account of the French Government)" at the disposal of the French Treasury through the intermediary of the Bank of France, it being understood that a minimum balance of 10 million French francs must be maintained with the Bank for International Settlements until the expiry of a period fixed at five years. In return the Bank has agreed that the last-mentioned amount shall receive interest at the highest rate paid by the Bank on French franc accounts and will participate in the distribution of the Bank's profits in accordance with the provisions of Art. 53, para. (e) (i) of the Statutes.

IV. The Bank for International Settlements also keeps a memorandum account for the purpose of showing all amounts finally paid in respect of the lump sum of 900 million French francs.

V. Further, the Franco-German Agreement provides for the surplus of caution money and reserves of French private insurance companies which have operated in the Saar Territory to be transferred to the Bank for International Settlements and to remain there for, at most, a year. Securities to a total nominal value of 740,000 French francs and 170,000 French francs in specie have been handed over to the Bank, which is administering them as deposits of seven French insurance companies. For the present the said deposits can be withdrawn only by agreement with the German Control Office for Private Insurance in Berlin.

VI. Finally, as a result of negotiations between the French and German Governments regarding the settlement of the pensions of Saar officials of French nationality, it was decided to deposit with the Bank for International Settlements the sums to be employed for the capitalization of the pensions of the said officials. In agreement with the Bank of France and the Reichsbank, the Bank for International Settlements accepted this mission and it has received, on this score, a deposit of 14.5 million French francs.

VII. The Franco-German Agreements on the procedure for the cession of the Saar Mines provide for recourse to a committee of arbitrators in the event of disputes with regard to the assessment of certain damage caused to railways, tramways and roads; provision is made for the appointment of a chairman, it being agreed that, should the arbitrators appointed by the parties to the dispute fail to concur in their choice of the said chairman, the appointment is to be made by the President of the Bank for International Settlements.

The President, duly authorized by the Board of Directors, has accepted this mission.

VII. DEPOSITS AND INVESTMENTS; NET PROFITS; RESERVES; DIVIDEND;
OTHER DISTRIBUTIONS; CHANGES IN BOARD OF DIRECTORS
AND EXECUTIVE OFFICERS.

DEPOSITS AND INVESTMENTS.

The balance sheet of the Bank as at March 31, 1935, is reproduced in Annex II. Its total at that date differs but slightly from that of the balance sheet at the end of the preceding financial year, namely 660 million Swiss francs as compared with 667.5 at the end of March 1934.

Out of this total, long-term commitments amount to 295 million Swiss francs, or an increase of 24 millions between the beginning and the end of the business year. This development is almost entirely due to the change in the amount of the French Guarantee Fund as a result of the Award made on January 30, 1935 by Mr. Marcus Wallenberg, of Stockholm, acting as Arbitrator designated by both parties. By the terms of this Award the amount of the Fund in question is fixed at the equivalent of 61.9 million Swiss francs as compared with 40.9 millions as it was carried on March 31, 1934. The difference between these two sums has been drawn from the reserve which had been set up under the heading "Miscellaneous" on the liabilities side of the balance sheet for the purpose of providing, if necessary, the maximum amount at which the Bank's obligation on account of the Fund might have been decided.

Among short-term deposits, those of central banks for their own account have fallen off. This decline, while less extensive than during the last business period, has brought the total down from 151 to 132 million Swiss francs, about the lowest figure for the year. At the beginning of the financial year the figure for these deposits showed a certain tendency to rise. The withdrawal of funds may be explained in part by the fact that several central banks have been under the necessity of defending their exchange in view of the movements of certain currencies, in particular those of the dollar; withdrawals took place usually at times of extensive fluctuation of the exchanges.

In this connection it is to be stressed that, pending the unconditional return of several of the major currencies to the gold standard, an increase is not to be expected in this category which, during the Bank's first financial years, represented a large part of its resources, namely the deposits by central banks of their monetary reserves in foreign currencies.

The deposits of central banks for the account of others and those of other depositors have risen from 10 million to a total of 30 million francs; the chief source of this increase is the execution of the so-called Saar Agreements, of which special mention is made in another part of the present Report.

As regards gold earmarked for the account of central banks, such funds do not figure in the monthly statements of the Bank's situation. Unlike the deposits expressed in a weight of gold, the amount of gold earmarked has increased continually. As at March 31, 1935, the total was about 272 million Swiss francs as against 217 million at the end of March 1934 and 176 million at the end of March 1933.

Thanks to the amount of these various deposits of gold kept on five different markets, it has been possible, to a greater extent than in the past, to avoid actual transfers of metal in opposite directions by the expedient of offsetting the orders in question in

our books. The various operations in very substantial amounts carried out in these conditions have been of special benefit at times of the year when the exchange rates of certain currencies reached the gold points and when lack of co-ordination, caused by speculation from various motives, entailed simultaneous movements of gold in opposite directions between two places.

In the course of the year the Bank, which had already been entrusted with the service of certain international loans, further agreed to undertake duties in connection with other external loans. The funds held as Trustee or Agent for loan service, which are not included in the balance sheet, amounted as at March 31, 1935, to some 8 million Swiss francs.

As regards liquidity, the reduction in deposits has mainly affected sight deposits. As at March 31, 1934, the latter amounted to 81 million Swiss francs; as at March 31, 1935, they did not exceed 60 million. On the other hand the figure for short-term deposits rose from 108 to 113 million Swiss francs during the same period.

Finally, as regards the currencies in which these various commitments are expressed, of the total of our sight and short-term deposits as at March 31, 1935, 75.5 per cent. were represented by deposits in French francs and 6.3 per cent. by bank deposits expressed in a weight of gold. The remainder was divided unequally between American and a number of European currencies.

* * *

During the year there has been no appreciable change in the distribution of assets among the various categories in which they appear on the balance sheet. Apart from our holdings of gold in bars, the equivalent of which exceeds that of our commitments of the same kind, our assets on demand represent 57.6 per cent. of the balance sheet total, whereas sight commitments represent only 7.4 per cent., and the whole of our commitments at sight and at short term do not amount to more than 24.5 per cent. of the balance sheet total.

Further, as at March 31, 1935, the distribution of our investments among the three classes: funds on demand, time funds at interest and sundry bills and investments, is largely the same as at March 31, 1934.

The policy has been continued whereby investments are effected only with or through the intermediary or upon the recommendation of the central banks of the various markets on which we operate. This method, in point of fact, eliminates for most of our investments a large part of the credit risk. Further, we have, more especially during the present financial year, avoided the creation in any currency of exchange positions other than those which are inevitable for the administration of international payments and which, moreover, are of small amount and short duration. In order to arrive at this result, which to an appreciable degree eliminates the other risk of loss on exchange, we have been led to balance to a large extent our assets and our liabilities in each currency and, in addition, to cover a large part of our investments by gold clauses. The amount of our assets enjoying this latter special guarantee totals about 259 million Swiss francs.

Lastly, several central banks which are shareholders in the Bank have in the course of the year availed themselves more extensively of the facilities offered by us especially in the matter of transfers between accounts in our books and exchange operations in foreign currencies.

In addition to the normal operations connected with the management of the various categories of funds entrusted to us, the Bank has had occasion, in the course of the year, to extend its activity to various other domains.

One of these new developments has been the inauguration of a system for the settlement of international postal transactions. By the end of the financial year the postal authorities of ten countries had joined in this new system and negotiations are at present in progress for the purpose of securing the adherence of the greatest possible number of postal administrations of other countries. Settlements are effected by means of accounts which the central banks have opened for this purpose in our books. The currency and conditions of these payments are fixed by various international postal agreements. The Bank is not a party to any of these agreements; up to the present, it has merely acted as banker in this connection, making payments in accordance with the instructions received. It is hoped, however, that the system will finally develop into a real international postal clearing through our intermediary.

Further, the Bank has been approached by various other international institutions, with a view to its acting as cashier for the said institutions which, by the very nature of their activities, are called upon to make and receive payments in various currencies.

Similarly a central bank, acting on behalf of its Government, asked us to accept, in the form of a deposit earmarked in our name at another central bank, gold intended to ensure the service of an External Loan of its Government. The Bank for International Settlements is further instructed to sell this gold in due course for the purpose of obtaining the foreign currency which the fiscal agents of the Loan require for its service.

NET PROFITS; RESERVES; DIVIDEND; OTHER DISTRIBUTIONS.

It is for the present General Meeting to consider the declaration of a dividend and to make appropriations to reserves. The net profit for the year, after making allowance for contingencies, is 13,046,008.66 Swiss francs (1934: 13,007,072.82 Swiss francs), the Swiss franc being taken at par. In the Balance Sheet as at March 31, 1935, all currencies are valued at or below the least favorable market rate prevailing on that date and all assets are valued at or below market quotations, if any, or at or below cost. In computing the above profits no account has been taken of exchange gains arising by reason of the Bank happening to be short in any depreciated currency; whereas exchange losses have been written off.

After providing for the Legal Reserve that is required by Article 53 of the Statutes, in an amount equal to 5 per cent. of the net profits, i. e. 652,300.43 Swiss francs (1934: 650,353.64 Swiss francs) it is recommended that the General Meeting declare a dividend at the rate of 6 per cent. per annum in respect of the fifth fiscal year. The payment of this dividend requires 7,500,000 Swiss francs (1934: 7,500,000 Swiss francs). The net profits still remaining after the declaration of dividend would amount to 4,893,708.23 Swiss francs, the appropriation of which is fixed by Article 53 of the Statutes.

Exercising the discretion vested in it by paragraph (c) of Article 53 of the Statutes, the Board of Directors has determined to place to the credit of the Special Dividend Reserve Fund, for use in maintaining the cumulative 6 per cent. dividend provided for by the Statutes, or for later distribution to the shareholders, the sum of 978,741.65 Swiss francs, which is the maximum amount which it is permissible, under the Statutes, to set aside for this purpose out of the net profits of the present year (1934: 971,343.84 Swiss francs).

After making provision for the foregoing items, you are requested, from the balance still remaining, to make an appropriation to the General Reserve Fund in the manner stipulated by paragraph (d) of Article 53, in the amount of 1,957,483.29 Swiss francs (1934: 1,942,687.67 Swiss francs). The aggregate of the Legal, Dividend and General Reserves at the end of the fifth year would then be 20,859,072.34 Swiss francs.

The same article of the Statutes lays down the distribution of the sum finally remaining, namely, 1,957,483.29 Swiss francs, between such of the Governments or central banks of Germany and the countries entitled to share in the annuities payable under the New Plan, defined in the Hague Agreement of January 1930, as shall have maintained time deposits at the Bank subject to withdrawal in not less than five years. No central bank has such time deposits at present but certain Governments have these deposits and are entitled, in view of this minimum duration of their deposits, to participate in the residual amount of 1,957,483.29 Swiss francs (1934: 1,942,687.67 Swiss francs).

It was stated in the fourth annual report that owing to uncertainty as to the extent of the Bank's liability in respect of the French Government Guarantee Fund it was not possible to allocate the whole of the residual profits of the fourth fiscal year among the interested Governments; a provisional distribution was, however, effected and a sum of 104,961.32 Swiss francs was held in suspense for distribution when the amount of the Bank's liability in respect of the Fund had been determined. The question has now been decided by an arbitrator and the sum of 104,961.32 Swiss francs has been distributed. The final distribution of the residual profits for the fourth fiscal year, 1933/1934, and the distribution for the fifth fiscal year, 1934/1935, are as follows:—

	Swiss francs at par	
	1934/35	1933/34
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement	413,429.34	412,771.51
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	514,321.24	509,972.05
Annuity Trust account deposits in accordance with Article IV (e) of the Trust Agreement:—		
France	559,890.11	555,155.58
Great Britain	218,792.26	216,942.11
Italy	114,282.18	113,315.79
Belgium	61,821.41	61,298.64
Rumania	10,800.75	10,709.42
Yugoslavia	44,951.68	44,571.56
Greece	3,703.11	3,671.80
Portugal	7,097.63	7,037.61
Japan	7,097.63	7,037.61
Poland	205.73	203.99
	<u>1,028,642.49</u>	<u>1,019,944.11</u>
French Government deposit (Saar)	1,090.22	—
	<u>1,957,483.29</u>	<u>1,942,687.67</u>

The accounts of the Bank and its fifth Annual Balance Sheet have been duly audited by Messrs. Price, Waterhouse & Co., Chartered Accountants, Paris. The Balance Sheet will be found in Annex II, as well as the certificate of the auditors to the effect that they have obtained all the information and explanations they have required and that in their opinion the Balance Sheet, together with the note thereon, is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according

to the best of their information and the explanations given to them and as shown by its books. The Profit and Loss Account and the Appropriation Account are reproduced in Annex III.

CHANGES IN BOARD OF DIRECTORS AND EXECUTIVE OFFICERS.

A number of changes has been made during the business year in the composition of the Board of Directors, which now contains 18 members of 9 nationalities. Governor Clément Moret, an ex officio director, one of the most esteemed and loyal supporters of the Bank since its inception, and a member of the Organizing Committee for the Bank in Baden-Baden, was succeeded, upon his retirement as Governor of the Bank of France, by M. Jean Tannery, the new Governor, who has had unusually varied experience in financial questions of a national and international character. M. Emile Francqui, Ministre d'Etat, who had also been an active member of the Board since the opening of the Bank, and who in the Experts' Committee of 1929 was one of the fathers of the conception of an international banking institution, retired in order to assume high office in his native land. He was replaced by M. Alexandre Galopin, now Governor of the Société Générale de Belgique, who has had an extended career in the private banking field. The identity of both of the directors of Japanese nationality was changed when Mr. Shozo Shimasuye, nominee of the Governor of the Bank of Japan, returned to his home to become Manager of the Moji Branch of the Bank of Japan, and Mr. H. Munakata, Manager of the Kobe Branch of the Bank of Japan and previously a representative of the Bank of Japan in Europe, replaced him as the nominee of the Governor of the Bank of Japan. Mr. D. Nohara also retired in order to direct the Kobe Office of the Yokohama Specie Bank Ltd., being replaced on the Board by Mr. H. Kano, whose participation in international banking in various parts of the world has been exceptionally wide and who is now Manager of the London Office of the Yokohama Specie Bank Ltd. The departing Japanese Directors carried with them the esteem and regret of their colleagues. The term of election of President Bachmann of the Swiss National Bank expired at the end of the fiscal year, whereupon he was re-elected for a further period of three years. At the March meeting of the Board, Dr. L. J. A. Trip of Amsterdam, President of De Nederlandsche Bank, long active in international financial matters and an outstanding supporter of collaboration among central banks, was unanimously chosen President of the Bank and Chairman of the Board to succeed the undersigned; and Dr. J. W. Beyen, a General Manager for many years of the Rotterdamsche Bankvereniging, who has served on many committees of an international character, was appointed among the executive officers to the post of Alternate of the President, both designations to become effective in May 1935. Another alteration in the executive staff consisted in the resignation as Assistant General Manager of Herr Ernst Hülse, whose devoted and constructive services to the institution have been of the highest quality and value. He is replaced, also effective in May, by Herr Paul Hechler, formerly a Manager of the Reichsbank, Berlin.

VIII. CONCLUSION.

The past year has been one of gradual adaptation to the prevailing conditions resulting from the economic and monetary crisis. Slowly, painfully, by differing and even by contradictory methods in the various national economies, the world is coming nearer to some degree of economic equilibrium, but it has not yet arrived. The year has witnessed no recovery in the volume or value of world trade, and no expansion in the use of credit internationally. Some domestic advance in a number of countries has been achieved, in large measure because of government stimulus in the form of special state expenditure financed by government borrowings. More genuine progress has occurred in a number of the raw material countries. In South America, for example, forward strides have been made and at least a partial lifting of foreign exchange restrictions has been effected. Other hopeful developments have been the volume of gold production, the general fall in interest rates, the many conversions of government debt to a basis conducive to a revival in the capital markets concerned, the further adaptation of relative costs and prices, internationally, and the adjustment of cost of production to economic levels in a number of enterprises in a number of lands. But no decisive lead has been given to coordinate the various efforts. Whereas one national economy has gained or seemed to gain, another has lost or seemed to lose, frequently as a consequence of the repercussion upon it of a nationalistic policy followed by a neighbor. The world is still waiting for a courageous move which, whatever risks it may appear to involve, holds out the hope of founding reconstruction on a firmer ground of monetary stability than the shifting currency values which have hampered economic revival to date.

That move means the return to an international monetary system based on gold, which remains the best available monetary mechanism, — and as a condition thereof, a stabilization of the world's leading currencies. As was said in the last Annual Report, "The gold standard is not an end in itself. It is a machinery and a medium for permitting, facilitating, and enhancing the exchange of goods, capital and services, internally and externally. Hence those who seek the reestablishment of a common standard are not seeking some fetish or intellectual abstraction, but are searching for the better economic welfare which inevitably flows from the increasing movement of goods, services and funds, which presupposes, in turn, some trustworthy measure and medium of value and exchange to enable them to move."

There is, of course, a general desire that improvements based on the lessons of past and continuing experience should be made in the working of the gold standard when reinstated, and in the relationships between the markets and the central banks having a common monetary system. The technique of the gold standard is capable of betterment in its operation, at home and abroad, principally through cooperation between the monetary authorities. In addition to the many opportunities for service which the Bank for International Settlements can render in other directions, it is clear that if the gold standard is to operate more successfully hereafter, a common center of contact, of counsel, and of collaboration is indispensable. The Bank for International Settlements is such a center, and it stands ready, in the period of financial reconstruction which lies ahead, to play its role in assisting in the resumption and maintenance of a sound monetary system between the nations, and in contributing to the restoration of more orderly financial conditions in the international realm.

Respectfully submitted,
LEON FRASER
President.

ANNEXES

CENTRAL BANKS OR OTHER BANKING INSTITUTIONS POSSESSING RIGHT OF REPRESENTATION AND OF VOTING AT THE GENERAL MEETING OF THE BANK

"The ownership of shares of the Bank carries no right of voting or representation at the General Meeting. The right of representation and of voting, in proportion to the number of shares subscribed in each country, may be exercised by the central bank of that country or by its nominee. Should the central bank of any country not desire to exercise these rights they may be exercised by a financial institution of widely recognized standing and of the same nationality, appointed by the Board, and not objected to by the central bank of the country in question. In cases where there is no central bank, these rights may be exercised, if the Board thinks fit, by an appropriate financial institution of the country in question appointed by the Board." (Article 15, Bank Statutes.)

Institutions	Number of votes	Date of acquisition of right of representation and of voting
Bank of England, London	16,000	20th May 1930
do. do.	3,772 (a)	31st May 1932
Banque Nationale de Belgique, Brussels	16,000	20th May 1930
do. do.	3,772 (a)	31st May 1932
Banque de France, Paris	16,000	20th May 1930
do. do.	3,772 (a)	31st May 1932
Banca d'Italia, Rome	16,000	20th May 1930
do. do.	3,772 (a)	31st May 1932
Reichsbank, Berlin	16,000	20th May 1930
do. do.	3,772 (a)	31st May 1932
The Industrial Bank of Japan, Tokyo	16,000	20th May 1930
do. do.	3,770 (a)	31st May 1932
The First National Bank of New York, New York	16,000	20th May 1930
do. do.	3,770 (a)	31st May 1932
De Nederlandsche Bank N. V., Amsterdam	4,000	20th May 1930
Schweizerische Nationalbank, Zurich	4,000	20th May 1930
Sveriges Riksbank, Stockholm	4,000	20th May 1930
Bank von Danzig, Danzig	4,000	25th June 1930
Finlands Bank, Helsingfors	4,000	25th June 1930
Banque de Grèce, Athens	4,000	25th June 1930
Oesterreichische Nationalbank, Vienna	4,000	25th June 1930
Banque Nationale de Bulgarie, Sofia	4,000	25th June 1930
Nationalbanken i Kjøbenhavn, Copenhagen	4,000	25th June 1930
Banque Nationale de Roumanie, Bucarest	4,000	25th June 1930
Bank Polski, Warsaw	4,000	25th June 1930
Magyar Nemzeti Bank, Budapest	4,000	25th June 1930
Narodni Banka Ceskoslovenská, Prague	4,000	25th June 1930
Eesti Pank, Tallinn	100	31st Oct. 1930
Latvijas Banka, Riga	500	30th Dec. 1930
Lietuvos Bankas, Kaunas	500	31st March 1931
Banca Nazionale d'Albania, Rome	500	30th April 1931
Norges Bank, Oslo	4,000	30th May 1931
Banque Nationale du Royaume de Yougoslavie, Belgrade	4,000	28th June 1931
	200,000 (b)	

(a) Representing shares reserved for possible subsequent transfer to central banks of other countries.

(b) "The authorised capital of the Bank . . . shall be divided into 200,000 shares of equal gold nominal value." (Article 5, Bank Statutes.)

BALANCE SHEET

(IN SWISS FRANCS)

ASSETS			
I—GOLD IN BARS.		11,007,565.58	1.7
II—CASH			
On hand and on current account with Banks		2,639,039.42	0.4
III—SIGHT FUNDS at interest. . .		15,464,969.74	2.3
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	148,450,941.27		22.5
2. Treasury Bills	213,975,626.61		32.4
		362,426,567.88	
V—TIME FUNDS at interest			
Not exceeding 3 months		37,482,147.68	5.7
VI—SUNDRY BILLS AND INVEST- MENTS			
1. Treasury Bills.	88,402,585.05		13.4
2. Railway and Postal Adminis- tration Bills and Sundry In- vestments	131,945,349.96		20.0
		220,347,935.01	
VII—OTHER ASSETS		10,460,572.89	1.6
		659,828,798.20	100.0

NOTE — Of the Long Term Commitments, the French Government Guarantee Fund (Item III. 4—Liabilities) is available, in accordance with Article XIII of the Trust Agreement, in currencies other than reichsmarks which are free and based upon the gold or gold exchange standard. Moreover, the whole of the short-term and sight deposits in various currencies (Item IV—Liabilities) are more than covered by immediately available assets either in the currency of the deposits or in currencies free from exchange restrictions. Of the remaining assets in currencies (which are held against the long-term obligations, capital, reserves and miscellaneous, Items I, II, III. 1 to 3 and VI—Liabilities) an important part is in countries where exchange restrictions now prevail and do not permit of a free conversion of currencies into gold or other currencies; a substantial proportion of these assets, however, offsets commitments expressed in the same currencies or is secured by special contracts guaranteeing their gold value. Moreover, under Article X of the Hague Agreement of January 1930, the signatories thereto declared the Bank to be immune from any "prohibition or restriction of export of gold or currency and other similar interferences, restrictions or prohibitions".

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE.

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts and explanations we have required and that in our opinion the above Balance Sheet, together with the affairs according to the best of our information and the explanations given to us and as shown by the

BASLE, May 3, 1935.

AS AT MARCH 31, 1935

AT PAR)

LIABILITIES			%
I—CAPITAL			
Authorised and issued 200,000 shares, each of 2,500 Swiss gold francs	500,000,000.—		
of which 25 % paid up		125,000,000.—	18.9
II—RESERVES			
1. Legal Reserve Fund	2,672,045.12		
2. Dividend Reserve Fund	4,866,167.29		
3. General Reserve Fund	9,732,334.56		
		17,270,546.97	2.6
III—LONG TERM COMMITMENTS			
1. Annuity Trust Account Deposits	154,293,750.—		23.4
2. German Government Deposit	77,146,875.—		11.7
3. French Government Deposit (Saar)	2,030,500.—		0.3
4. French Government Guarantee Fund	61,930,084.72		9.4
		295,401,209.72	
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	108,014,215.94		16.4
(b) Sight	23,710,868.30		3.6
2. Central Banks for the account of others:			
(a) Not exceeding 3 months	2,947,057.40		0.4
(b) Sight	22,750,655.80		3.5
3. Other depositors:			
(a) Between 3 and 6 months	2,036,394.73		0.3
(b) Sight	2,219,880.91		0.3
		25,697,713.20	
		4,256,275.64	
V—SIGHT DEPOSITS (Gold)		10,920,979.17	1.7
VI—MISCELLANEOUS		36,510,980.60	5.5
VII—SURPLUS			
Profit for the financial year ended March 31, 1935		13,046,008.66	2.0
		659,828,798.20	100.0

of the Bank for the financial year ending March 31, 1935, and we report that we have obtained all the information with the Note, is properly drawn up so as to exhibit a true and correct view of the state of the Bank's books of the Bank, as expressed in Swiss Franc (at par) equivalents of the currencies concerned.

PRICE, WATERHOUSE & Co.
Chartered Accountants.

PROFIT AND LOSS ACCOUNT

for the financial year ended March 31, 1935

	Swiss francs at par
Net Income from the use of the Bank's capital and the deposits entrusted to it, after necessary allowance for contingencies	15,842,836.24
 Commissions earned:—	
As Trustee (or Fiscal Agent to Trustees) for International Loans	275,188.67
In connection with special credits	25,381.24
Transfer fees	633.62
	16,144,039.77
 Costs of Administration:—	
Board of Directors — fees and travelling expenses	301,409.42
Executives and staff — salaries and travelling expenses	2,053,231.27
Rent, insurance, heating, light and water	183,214.46
Consumable office supplies, books, publications	89,252.50
Telephone, telegraph and postage	81,582.47
Experts' fees (Auditors, interpreters, etc.)	37,065.79
Cantonal taxation	49,838.25
Tax on French issue of Bank's shares	50,000.04
Miscellaneous	52,436.91
Provision for indemnities to and repatriation of staff	200,000.—
Expenditure	3,098,031.11
NET PROFIT:—	13,046,008.66

APPROPRIATION ACCOUNT

	<u>Swiss francs at par</u>
NET PROFIT FOR THE FINANCIAL YEAR ENDED MARCH 31, 1935	13,046,008.66
Applied in accordance with Article 53 (a) (b) (c) and (d) of the Statutes, as follows:—	
To the Legal Reserve Fund — 5 % of 13,046,008.66	<u>652,300.43</u>
	12,393,708.23
Dividend at the rate of 6 % per annum on paid-up capital	<u>7,500,000.—</u>
	4,893,708.23
To the Dividend Reserve Fund — 20 % of 4,893,708.23	<u>978,741.65</u>
	3,914,966.58
To the General Reserve Fund — 50 % of 3,914,966.58	<u>1,957,483.29</u>
Remainder	1,957,483.29

Distributed in accordance with Article 53 (e) (1) of the Statutes, as follows:—

	<u>Swiss francs at par</u>		
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement	413,429.34		
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	514,321.24		
Annuity Trust Account deposits in accordance with Article IV (e) of the Trust Agreement:—			
France	559,890.11		
Great Britain	218,792.26		
Italy	114,282.18		
Belgium	61,821.41		
Rumania	10,800.75		
Yugoslavia	44,951.68		
Greece	3,703.11		
Portugal	7,097.63		
Japan	7,097.63		
Poland	<u>205.73</u>	1,028,642.49	
French Government deposit (Saar)	<u>1,090.22</u>	<u>1,957,483.29</u>	

FISCAL AGENT OF THE TRUSTEES FOR

Statement of Receipts and Payments for the Tenth

Receipts

	American Issue \$	British Issue £	French Issue £
1. BANK BALANCES as at October 16, 1933	3,049,862.18	400,637. 8.10	104,277.16. 5
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—			
Interest coupons	2,805,240.81	431,600.18. 7	107,434.11.11
Bond redemption	3,080,000.—	232,535.17. 4	58,133.18. 8
Expenses	9,744.—	1,222.13. 4	304.15. 3
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	3,343.28	1,449.12. 1	231. 8. 6
	8,948,190.27	1,067,446.10. 2	270,382.10. 9

Payments

1. INTEREST			
Matured coupons paid and accrued interest paid on bonds purchased for redemption	4,376,145.69	659,513.14.10	179,810. 9. 8
2. REDEMPTION			
Drawn bonds reimbursed	2,100.—	—	—
Bonds purchased for redemption	3,102,479.63	232,554. 5.11	60,684. 3. 7
3. EXPENSES			
Commission and expenses of Paying Agents and Fiscal Agent and fees and expenses of Trustees	22,374.07	2,357. 5. 4	808. 4. 3
4. CURRENCIES TRANSFERRED from relative issues and converted to Swiss Francs to cover general expenses	8,000.—	700.—.—	150.—.—
5. BANK BALANCES as at October 15, 1934, held in respect of the items shown on Annex IVb	1,437,090.88	172,321. 4. 1	28,929.13. 3
	8,948,190.27	1,067,446.10. 2	270,382.10. 9

NOTE— During the tenth Loan Year ending on October 15, 1934 the German Government declared (on June 14, 1934) for the service of the bonds, and as a consequence the Trustees have been unable to satisfy fully the terms of the Receipts and Disbursements for the year, as shown in the above Accounts, are as follows:—

AS REGARDS RECEIPTS

- (1) The monthly instalments due on and after July 16, 1934 in respect of the tenth Loan Year have not been received.
- (2) On July 2, 1934, pursuant to the provisions of Annex XI of the Hague Agreement of January 1930 concerning the Pledged Revenues instalment was blocked in the Trustees' Account, and on the latter date, as the service instalment then due had not been received, Pledged Revenues paid to the Trustees' Account, whereupon the German Government ceased to pay the Revenues to that Account.
- (3) The Trustees requested the Reichsbank to sell against foreign currency the amount of the security which had been attached, viz: consent which, in accordance with German law, is necessary for the execution of the Trustees' request, could not be granted. The
- (4) Up to and including the instalment received in June 1934, the German Government continued the practice adopted in May 1933 quently the provision for the payment of gold coin (contained in the definitive bond of that issue) has not been implemented.

AS REGARDS DISBURSEMENTS

- (1) Sufficient funds have been distributed to meet the nominal values of the coupons due on April 15, 1934 in full, but the coupons due
- (2) The funds received on account of Redemption have been expended (concurrently with their receipt) in the purchase of bonds on the used to redeem bonds at par, there being no bonds on the market, and in the case of the American issue market purchases were upon the balance of the ninth Sinking Fund instalment then on hand was placed in suspense.

With regard to the coupons due on the 15th October 1934, the Trustees, as stated above, applied the funds Bond. In view, however, of certain transfer and clearing agreements to which the Trustees were not a party, con- except the United States of America, which were entered into subsequent to the German Government's Declaration

AUDITORS'

We have audited the Books and Accounts of the Fiscal Agent of the Trustees for the German of Receipts and Disbursements is correctly prepared therefrom and together with the Note properly sets the existence of the funds on hand at October 15, 1934 which are held for the purposes set forth in Annex IVb.

BASLE, February 19, 1935.

THE GERMAN EXTERNAL LOAN 1924

Loan Year (October 16, 1933 to October 15, 1934)

Belgian Issue £	Dutch Issue £	German Issue £	Swiss Issue £	Swiss Issue Sw. Fr.	Italian Issue Lire	Swedish Issue Sw. Cr.	General Expenses Sw. Fr.
53,865.17. 3	84,280. 2. 3	11,430. 4. 3	80,122.19. 9	522,683.20	3,586,742.95	1,608,843.81	—
54,073.17.10	89,811. 8. 1	11,477.17.10	85,842.11. 9	542,740.73	3,646,842.87	949,331.24	—
29,067. 1. 4	48,445.—.—	6,200.19. 4	45,732.—.—	290,670.—	1,937,666.70	488,000.—	—
153. 1. 4	254. 9.—	—	242. 1. 1	2,640.—	10,283.—	2,625.—	68,323.76
61.—. 3	97.10. 6	23.18. 8	184. 5.11	1,176.30	8,140.17	3,891.95	—
137,220.18.—	222,888. 9.10	29,133.—. 1	212,123.18. 6	1,359,910.23	9,189,675.69	3,052,692.—	68,323.76

87,862. 6. 1	141,171. 1. 2	19,206. 8. 6	131,217.13.10	829,740.75	5,564,365.65	1,811,425.—	—
—	—	—	—	—	1,000.—	1,234,000.—	—
32,732.13.11	48,523.10. 1	6,961.11. 8	45,778. 8. 3	290,930.—	2,047,562.—	—	—
350. 8.10	747.14.11	11. 4. 9	503. 5. 4	4,460.13	23,382.65	3,367.43	112,401.87
80.—.—	110.—.—	25.—.—	70.—.—	800.—	4,500.—	250.—	— 44,078.11
16,195. 9. 2	32,336. 3. 8	2,928.15. 2	34,554.11. 1	233,979.35	1,548,865.39	3,649.57	—
137,220.18.—	222,888. 9.10	29,133.—. 1	212,123.18. 6	1,359,910.23	9,189,675.69	3,052,692.—	68,323.76

that after July 1, 1934 it would be unable to furnish the Trustees with the amounts of foreign currencies required General Bond. The essential facts emerging from the action taken which, directly or indirectly, have affected the

securing the Loan, the approximate Reichsmark equivalent (RM 4,300,000.—) of the currencies due in respect of the July 16, 1934 service the Trustees revoked their standing order to the Reichsbank which had empowered it to release to the German Government the proceeds of the

RM 4,300,000.—, but the Reichsbank, on behalf of the German Government, replied that owing to the German foreign currency position the amount of RM 4,300,000.— is, therefore, still on hand at the Reichsbank.

of providing only sufficient funds to effect the service of the American issue of the Loan at its nominal value in current legal tender, and conse-

on October 15, 1934 could only be paid to the extent of 50 % of the nominal values.

market, except in the case of the funds assigned to the American and Swedish issues. In the case of the Swedish issue, the Funds received were suspended on June 14, 1934, following the German Government's announcement to suspend the service of the Loan as from July 1, 1934, where-

In their possession towards the service of the various issues of the Loan in the manner specified in the General cluded between the German Government and the Governments of the countries in which the Loan was issued, of June 14, 1934, holders entitled under the various agreements received payment of that coupon in full.

CERTIFICATE

External Loan 1924 for the tenth Loan Year ending October 15, 1934 and certify that the above Statement forth the transactions for this period. We have also verified, by means of certificates from the depositaries,

PRICE, WATERHOUSE & Co.
Chartered Accountants.

FISCAL AGENT OF THE TRUSTEES FOR

Statement of Funds in the hands of

	American Issue \$	British Issue £
The Bank Balances as at October 15, 1934 were held in respect of:—		
1. Unpresented matured interest coupons and drawn bonds:—		
Interest coupons	1,106,880.25	162,273.13.—
Drawn bonds, including detached unmatured coupons on cancelled bonds	591.50	—
2. Expenses accrued to October 15, 1934, but not claimed until thereafter	3,150.89	421.—.—
Funds on hand for the liquidation of accrued or accruing liabilities	1,110,622.64	162,694.13.—
3. Bond redemption account	208,246.87	32.16.11
4. Other funds on hand	118,221.37	9,593.14. 2
Total balances on hand as per Statement of Receipts and Payments — Annex IVa	1,437,090.88	172,321. 4. 1

Statement of Bonds outstanding

Nominal value of bonds issued	110,000,000	12,000,000
Less: Nominal value of bonds redeemed, drawn for redemption or cancelled during:—		
1. First nine Loan years	46,208,400	2,553,500
2. Tenth Loan year	4,158,200	287,900
Nominal value of bonds outstanding as at October 15, 1934 (see note below)	59,633,400	9,158,600

NOTE: When drawn for redemption, bonds

THE GERMAN EXTERNAL LOAN 1924

Depositaries as at October 15, 1934

French Issue £	Belgian Issue £	Dutch Issue £	German Issue £	Swiss Issue £	Swiss Issue Sw. Fr.	Italian Issue Lire	Swedish Issue Sw. Cr.
26,646.—.— 52.10.— 66. 7.11	15,036.—.— 3.10.— 58. 9. 6	30,607.10.— — 95. 3. 7	2,625.—.— — —	33,033.—.— 3.10.— 81.14. 4	220,797.50 1,105.— 554.16	1,476,413.75 2,445.— 4,295.50	— — —
26,764.17.11 1.12.10 2,163. 2. 6	15,097.19. 6 48.17.— 1,048.12. 8	30,702.13. 7 6. 1.11 1,627. 8. 2	2,625.—.— 62. 9. 9 241. 5. 5	33,118. 4. 4 47.17. 9 1,388. 9.—	222,456.66 644.85 10,877.84	1,483,154.25 1,614.05 64,097.09	— — 3,649.57
28,929.13. 3	16,195. 9. 2	32,336. 3. 8	2,928.15. 2	34,554.11. 1	233,979.35	1,548,865.39	3,649.57

as at October 15, 1934

3,000,000	1,500,000	2,500,000	360,000	2,360,000	15,000,000	100,000,000	25,200,000
643,900	312,000	535,100	107,600	486,500	3,114,000	20,218,500	4,772,000
77,600	39,400	60,800	8,700	53,100	341,000	2,233,000	549,000
2,278,500	1,148,600	1,904,100	243,700	1,820,400	11,545,000	77,548,500	19,879,000

of the American Issue are repayable at 105%.

TRUSTEE FOR THE GERMAN GOVERNMENT
Statement of Receipts and Payments for the Fourth
Receipts

	Reichsmarks	Dollars
1. BANK BALANCES as at June 2, 1933	532,072.35	1,389,458.35
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—		
Interest coupons	1,872,583.72	5,035,069.89
Adjustments effected between Paying Agents for the value of coupons paid in currencies other than the currency of issue	366,656.12	— 42,014.91
Bond redemption	38,388.80	111,928.91
Expenses	5,748.62	15,142.79
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	12,636.55	3,533.29
4. CURRENCY CONVERSIONS	—	— 1.64
	2,828,086.16	6,513,116.68

Payments

	German	American
1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,700,096.03	5,199,385.21
Adjustments required between Paying Agents for the value of coupons paid in currencies other than the currency of issue	366,676.22	— 49,595.23
2. REDEMPTION		
Bonds purchased for redemption	38,345.50	148,643.25
3. EXPENSES		
Commission and expenses of Paying Agents	5,259.47	14,196.21
Commission of Trustee	—	—
4. BANK BALANCES as at June 1, 1934, held in respect of the items shown on Annex Vb	717,708.94	1,200,487.24
	2,828,086.16	6,513,116.68

NOTE — The General Bond securing the Loan requires that the service of all issues shall be paid by the German only such amounts as were sufficient to meet the coupons of all issues of the Loan, including the American, fore, had to decide as to the manner in which the funds so provided should be distributed among the various the coupons attached thereto. After taking legal advice the Trustee decided to pay the coupons of all issues at distributed pari passu among all bondholders on a gold value basis and legal proceedings in this connection the respective issues; those due from July 15, 1933 to May 15, 1934 were not so paid but the Reichsbank has in in Reichsmark commercial bills. The amounts thus provided did not take account, in the case of the American, for the fulfilment of these obligations under the General Bond, to the collateral security, which is constituted

AUDITORS'

We have audited the Books and Accounts of the Trustee for the German Government International and Disbursements is correctly prepared therefrom and, read together with the Note thereon, properly by certificates obtained from the depositaries.

BASLE, October 10, 1934.

INTERNATIONAL 5½% LOAN 1930

Loan Year (June 2, 1933 to June 1, 1934)

CURRENCIES						
Belgas	French Francs	Sterling	Florins	Lire	Swedish Crowns	Swiss Francs
917,376.92	66,274,160.24	305,600. 4. 3	1,057,143.31	2,899,045.38	2,067,317.06	2,398,429.70
1,800,138.02	130,328,251.04	616,005.10.—	3,727,446.87	5,725,167.37	5,647,682.98	4,733,178.75
— 21,404.09	172,178.—	8,685.14. 6	— 374,235.05	— 23,622.75	— 680,680.—	928,291.90
39,479.80	2,732,419.90	13,641. 2. 9	84,385.80	118,478.50	124,560.60	103,667.40
6,362.51	561,149.79	1,750.15. 9	9,656.52	21,442.65	14,297.98	171,316.26
8.46	611,723.85	924.13. 4	14,402.44	7,321.42	60.78	14,479.21
—	— 35.51	—	—	—	15.63	—
2,741,961.62	200,679,847.31	946,608.—. 7	4,518,799.89	8,747,832.57	7,173,255.03	8,349,363.22

ISSUES AND RELATIVE CURRENCIES						
Belgian	French	British	Dutch	Italian	Swedish	Swiss
1,805,518.78	130,365,835.51	622,332. 4.11	3,653,139.02	5,726,580.45	3,930,600.10	4,723,166.70
— 24,507.61	147,414.53	2,943. 8. 8	— 314,640.51	— 23,622.75	— 682,082.50	928,400.45
39,897.82	2,732,426.49	13,638. 2.11	84,412.68	118,706.—	124,941.25	104,340.—
5,090.72	503,628.55	1,629. 2. 4	9,193.58	23,361.20	11,801.34	15,719.87
—	—	—	—	—	—	153,871.07
915,961.91	66,930,542.23	306,065. 1. 9	1,086,695.12	2,902,807.67	3,787,994.84	2,423,865.13
2,741,961.62	200,679,847.31	946,608.—. 7	4,518,799.89	8,747,832.57	7,173,255.03	8,349,363.22

Government on a gold basis. The German Government, however, has provided, in respect of the interest obligation, British and Swedish issues, maturing on and after June 1, 1933, at their respective nominal amounts. The Trustee, there-issues of the Loan, having regard to all the provisions of the General Bond and the respective definitive bonds and their respective nominal amounts. Certain bondholders claim that the aggregate funds available should have been are pending. The sinking fund instalments due on May 15, 1933 and June 15, 1933, were paid in the currencies of formed the Trustee that it holds in a special account in the name of the Trustee the equivalent of such currencies British and Swedish issues, of the requirements of the "gold value" clause. It was impracticable to have recourse, in Reichsmarks and covers only two-thirds of the service of the Loan.

CERTIFICATE

5½% Loan 1930 for the fourth fiscal year ending June 1, 1934 and certify that the above Statement of Receipts sets forth the transactions for that year. We have also verified the bank balances on hand at June 1, 1934

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE GERMAN GOVERNMENT

Statement of Funds in the hands of

	Currencies	
	German	American
The Bank Balances as at June 1, 1934 were held in respect of:—		
1. Unpresented matured coupons	699,459.75	1,164,083.25
2. Expenses accrued to June 1, 1934, but not claimed until thereafter	1,748.75	6,644.33
3. Adjustments not yet effected between Paying Agents in respect of the payment of coupons in currencies other than the currency of issue	813.28	7,902.53
Funds on hand for the liquidation of accrued or accruing liabilities	702,021.78	1,178,630.11
4. Bond redemption account	77.62	25.75
5. Other funds on hand	15,609.54	21,831.38
Total balances on hand as per Statement of Receipts and Payments — Annex Va	717,708.94	1,200,487.24

Statement of Bonds outstanding

Nominal value of bonds issued	36,000,000	98,250,000
Less: Nominal value of bonds redeemed during:—		
1. First three Loan years	1,846,700	6,602,000
2. Fourth Loan year	49,100	342,400
Nominal value of bonds outstanding as at June 1, 1934	34,104,200	91,305,600

INTERNATIONAL 5½ % LOAN 1930

Depositaries as at June 1, 1934

ISSUES AND RELATIVE CURRENCIES						
Belgian	French	British	Dutch	Italian	Swedish	Swiss
904,656.50	65,702,807.50	301,770. 5. 4	1,103,984.75	2,868,910.—	3,703,081.80	2,391,125.—
2,262.08	240,414.46	763. 4. 2	4,678.38	10,507.95	9,999.29	5,977.65
3,894.06	27,878.42	1,128. 1. 8	— 47,941.04	6,210.—	58,693.87	— 350.36
910,812.64	65,971,100.38	303,661.11. 2	1,060,722.09	2,885,627.95	3,771,774.96	2,396,752.29
37.95	245.40	28.15. 5	4.78	26.62	81.61	1.—
5,111.32	959,196.45	2,374.15. 2	25,968.25	17,153.10	16,138.27	27,111.84
915,961.91	66,930,542.23	306,065. 1. 9	1,086,695.12	2,902,807.67	3,787,994.84	2,423,865.13

as at June 1, 1934

35,000,000	2,515,000,000	12,000,000	73,000,000	110,000,000	110,000,000	92,000,000
2,266,100	140,038,000	799,900	5,172,000	5,900,000	7,227,000	5,933,000
97,500	5,993,000	25,800	210,600	197,000	287,000	241,000
32,636,400	2,368,969,000	11,174,300	67,617,400	103,903,000	102,486,000	85,826,000

TRUSTEE FOR THE GERMAN GOVERNMENT

Interim Statement of Receipts and Payments for

	Reichsmarks	Dollars
Nominal amount originally issued	36,000,000.—	98,250,000.—
Nominal amount outstanding as at December 1, 1934	34,104,200.—	91,305,600.—
RECEIPTS		
1. BANK BALANCES as at June 2, 1934	717,708.94	1,200,487.24
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—		
Interest coupons	344,936.68	378,934.93
Bond redemption	—	—
Expenses	910.58	1,089.20
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	823.85	504.62
	1,064,380.05	1,581,015.99
PAYMENTS		
1. INTEREST		
Matured coupons paid	1,138,499.13	1,056,851.79
2. EXPENSES		
Commission and expenses of Paying Agents and Commission of Trustee	2,845.58	7,167.11
3. CURRENCY CONVERSIONS	—121,340.37	12,205.39
4. BANK BALANCES as at December 1, 1934, in respect of:—		
Bond redemption	77.62	25.75
Matured coupons unrepresented	27,603.42	481,564.65
Miscellaneous items	16,694.67	23,201.30
	1,064,380.05	1,581,015.99

NOTE—The Trustee received during the half-year, in the currencies of the respective of the respective nominal amounts of the coupons due December 1, 1934; the of the remaining five instalments for interest and the six instalments for re-

INTERNATIONAL 5½% Loan 1930

the half-year ended December 1, 1934

Belgas	French Francs	Sterling	Florins	Lire	Swedish Crowns	Swiss Francs
35,000,000.—	2,515,000,000.—	12,000,000.—	73,000,000.—	110,000,000.—	110,000,000.—	92,000,000.—
32,636,400.—	2,368,969,000.—	11,174,300.—	67,617,400.—	103,903,000.—	102,486,000.—	85,826,000.—
915,961.91	66,930,542.23	306,065. 1. 9	1,086,695.12	2,902,807.67	3,787,994.84	2,423,865.13
135,334.42	10,226,634.90	46,866. 3. 6	312,984.56	465,634.60	343,255.—	587,741.45
—	—	—	—	—	—	—
388.26	42,363.10	134. 7. 3	889.16	1,917.05	1,015.52	14,600.34
1.49	84,158.35	160.12.11	3,257.88	1,149.76	13.63	2,368.45
1,051,686.08	77,283,698.58	353,226. 5. 5	1,403,826.72	3,371,509.08	4,132,278.99	3,028,575.37
860,845.07	63,770,898.56	295,621. 5. 7	901,515.87	2,823,914.50	1,626,842.83	2,885,911.30
2,275.58	236,991.75	742. 4. 3	4,184.39	11,484.05	4,686.46	90,839.44
19,379.65	281,711.57	5,843. 4. 7	144,624.46	7,054.35	55,027.23	— 395,129.80
37.95	245.40	28.15. 5	4.78	26.62	81.61	1.—
165,025.11	12,080,846.12	49,159.12.11	332,104.22	515,730.14	2,422,926.08	416,117.98
4,122.72	913,005.18	1,831. 2. 8	21,393.—	13,299.42	22,714.78	30,835.45
1,051,686.08	77,283,698.58	353,226. 5. 5	1,403,826.72	3,371,509.08	4,132,278.99	3,028,575.37

issues of the Loan, only the first monthly interest instalment representing one-sixth German Government did not provide the required sums in foreign currencies in respect demption.

TRUSTEE FOR THE AUSTRIAN

Statement of Receipts and Payments

Receipts

	American Issue \$	British and Dutch Issues £
1. BANK BALANCES as at July 1, 1933	850,826.—	119,308. 8. 9
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT		
(a) In respect of arrears for the third Loan year:—		
For interest — in order to effect payment of coupons of the Austrian issue on a gold basis	—	—
For bond redemption		
In cash	11.—	38.—.—
In bonds ceded for cancellation (see below)	464,508.—	64,845.—.—
(b) In respect of the fourth Loan year:—		
For interest coupons		
In cash	1,612,214.83	226,213. 9. 8
Accrued in bonds ceded for cancellation (see below)	12,008.84	1,479. 8. 6
For bond redemption		
In cash	746.09	5,378. 5. 2
In bonds ceded for cancellation (see below)	496,644.91	64,089.14.10
For expenses	8,916.80	1,125. 6.—
3. INTEREST RECEIVED on cash employed pending application to service of the Loan.	1,339.91	301. 7. 3
	3,447,216.38	482,779.—. 2

Payments

1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,630,805.63	229,983.12.11
Accrued interest on bonds ceded by the Austrian Government (see above)	12,008.84	1,479. 8. 6
2. REDEMPTION		
Drawn bonds reimbursed	—	—
Bonds purchased for redemption	556.25	5,350. 7. 1
Bonds ceded by the Austrian Government (see above)	961,152.91	128,934.14.10
3. EXPENSES		
Commission and expenses of Paying Agents and fees and expenses of Trustee	4,788.70	1,355. 2. 8
4. BANK BALANCES as at June 30, 1934, held in respect of the items shown on Annex VIIb	837,904.05	115,875.14. 2
	3,447,216.38	482,779.—. 2

NOTE— The monthly sinking fund instalments for the Austrian issue of the Loan have been regularly received the sinking fund instalments for the fourteen months July 1932 to August 1933 were not paid when due. The 1933, provided the sinking fund instalments in arrear could be liquidated by the surrender of bonds of the arrears were to be paid in cash because bonds of that issue were not available in the market. The Trustee Bond governing the cession of bonds in the normal course on account of monthly sinking fund instalments. resumption of the normal service of the Loan, the Trustee felt obliged to accept the bonds in settlement of but the Austrian Government has not provided the sums necessary to give effect to this clause in respect

AUDITORS'

We have audited the Books and Accounts of the Trustee for the Austrian Government International and Disbursements is correctly prepared therefrom and, read together with the Note thereon, properly by certificates obtained from the depositaries.

BASLE, October 10, 1934.

GOVERNMENT INTERNATIONAL LOAN 1930

for the Fourth Loan Year (July 1, 1933 to June 30, 1934)

Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.	General Expenses	
				£	Sw. Fr.
3,424,253.42	341,826.82	880,009.80	1,809,815.27	—	—
—	—	—	463,599.84	—	—
340.—	167,615.—	30.—	—	—	—
1,799,820.—	—	453,420.—	—	—	—
6,540,699.16	671,341.78	1,628,938.33	4,156,072.96	—	—
27,019.80	—	8,967.57	—	—	—
352,158.—	178,640.—	115,549.26	1,229,757.46	—	—
1,575,262.—	—	369,960.74	—	—	—
34,507.—	3,291.75	8,725.02	18,625.91	300.—	22,000.—
9,259.64	3,611.48	1,673.68	27,637.47	—	—
13,763,319.02	1,366,326.83	3,467,274.40	7,705,508.91	300.—	22,000.—

6,646,352.08	679,000.—	1,667,460.25	4,234,967.23	—	—
27,019.80	—	8,967.57	—	—	—
—	166,860.—	—	—	—	—
352,284.80	—	115,722.95	1,272,660.10	—	—
3,375,082.—	—	823,380.74	—	—	—
39,375.70	3,597.50	8,982.93	24,284.56	300.—	22,000.—
3,323,204.64	516,869.33	842,759.96	2,173,597.02	—	—
13,763,319.02	1,366,326.83	3,467,274.40	7,705,508.91	300.—	22,000.—

in cash and applied to the redemption of bonds through market purchases. In the case of the remaining issues, Austrian Government expressed its intention of resuming the regular monthly service of the Loan as from August Loan for cancellation, taken at a valuation of 99 per cent. except in the case of the Swedish issue where the observed that the cession of bonds in these circumstances was not in accord with the provisions of the General As, however, the Austrian Government made the cession of bonds on this basis a condition precedent to the sinking fund arrears. The definitive bond of the American issue of the Loan contains a "gold coin" clause of the fourth Loan Year.

CERTIFICATE

Loan 1930 for the fourth fiscal year ending June 30, 1934 and certify that the above Statement of Receipts sets forth the transactions for that year. We have also verified the bank balances on hand at June 30, 1934

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE AUSTRIAN

Statement of Funds in the hands

The Bank Balances as at June 30, 1934 were held in respect of:—

- | | |
|---|--|
| 1. (a) Unpresented matured coupons | |
| (b) Interest coupons maturing on July 1, 1934 | |
| 2. Expenses accrued to June 30, 1934, but not claimed until thereafter | |
| Funds on hand for the liquidation of accrued or accruing liabilities | |
| 3. Bond redemption account | |
| 4. Other funds on hand (of which Sw. Fr. 7,012.25 is deposited with a bank formerly a Paying Agent, which has suspended payments) | |
| Total balances on hand as per Statement of Receipts and Payments — Annex VIIa | |

Statement of Bonds outstanding

- | | |
|---|--|
| Nominal value of bonds issued | |
| Less: Nominal value of bonds redeemed during:— | |
| 1. First three Loan years | |
| 2. Fourth Loan year:— | |
| In respect of bond redemption instalments due in the third year | |
| In respect of bond redemption instalments due in the fourth year | |
| Nominal value of bonds outstanding as at June 30, 1934 (see note below) | |

NOTE: When drawn for redemption,

GOVERNMENT INTERNATIONAL LOAN 1930

of Depositories as at June 30, 1934

American Issue \$	British and Dutch Issues £	Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.
19,341.— 792,246.— 2,082.98	1,797.15. 5 111,237.—.— —, 1. 9	25,520.25 3,214,960.— 16,310.11	— 333,830.— 1,886.97	19,810.— 799,890.— 4,098.76	50,071.70 2,053,139.20 10,265.73
813,669.98 231.42 24,002.65	113,034.17. 2 73. 4. 8 2,567.12. 4	3,256,790.36 252.90 66,161.38	335,716.97 179,480.— 1,672.36	823,798.76 107.06 18,854.14	2,113,476.63 54.06 60,066.33
837,904.05	115,675.14. 2	3,323,204.64	516,869.33	842,759.96	2,173,597.02

as at June 30, 1934

25,000,000	3,500,000	100,000,000	10,000,000	25,000,000	50,000,000
1,222,100	168,900	4,011,000	300,000	1,051,000	2,871,400
469,200 673,100	65,500 87,400	1,818,000 2,315,000	162,000 —	458,000 637,000	— 1,299,600
22,635,600	3,178,200	91,856,000	9,538,000	22,854,000	45,829,000

bonds are repayable at 103 per cent.

TRUSTEE FOR THE AUSTRIAN

Interim Statement of Receipts and

	Dollars
Nominal amount originally issued	25,000,000.—
Nominal amount outstanding as at December 31, 1934	22,272,500.—
RECEIPTS	
1. BANK BALANCES as at July 1, 1934	837,904.05
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT in respect of:—	
Interest coupons	
In cash	763,411.37
Accrued in bonds ceded for cancellation (see below)	5,217.18
Bond redemption	
In cash	1,370.42
In bonds ceded for cancellation (see below)	270,883.58
Expenses	1,926.—
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	574.25
	1,881,286.85
PAYMENTS	
1. INTEREST	
Matured coupons paid and accrued interest paid on bonds purchased for redemption	793,345.—
Accrued interest on bonds ceded by the Austrian Government (see above) . .	5,217.18
2. REDEMPTION	
Bonds purchased for redemption	—
Bonds ceded by the Austrian Government (see above)	270,883.58
3. EXPENSES	
Commission and expenses of Paying Agents and fees and expenses of Trustee	2,260.01
4. BANK BALANCES as at December 31, 1934, in respect of:—	
Interest coupons maturing on January 1, 1935	779,537.50
Bonds drawn for payment on January 1, 1935	—
Matured coupons unrepresented	18,242.—
Bond redemption	1,601.84
Miscellaneous items (of which Sw. Fr. 7,012.25 is deposited with a bank formerly a Paying Agent, which has suspended payments)	10,199.74
	1,881,286.85

GOVERNMENT INTERNATIONAL LOAN 1930

Payments for the half-year ended December 31, 1934

Sterling	Lire	Swedish Crowns	Swiss Francs	Schillings
3,500,000.—.— 3,133,700.—.—	100,000,000.— 90,425,000.—	10,000,000.— 9,538,000.—	25,000,000.— 22,518,000.—	50,000,000.— 45,219,500.—
115,675.14. 2	3,323,204.64	516,869.33	842,759.96	2,173,597.02
108,118. 5.— 651. 9. 6	3,130,603.50 21,296.92	332,455.39 —	784,203.66 4,618.25	1,994,462.78 —
223.15. 2 37,569. 4.10 651.14. 2 155. 6. 3	53,193.20 991,541.80 15,509.— 4,759.08	92,155.— — 1,488.75 2,131.61	10,214.09 254,835.91 17,876.04 1,173.89	673,100.81 — 9,284.52 10,848.72
263,045. 9. 1	7,540,108.14	945,100.08	1,915,681.80	4,861,293.85
111,397.11.— 651. 9. 6	3,176,215.40 21,296.92	333,830.— —	803,263.60 4,618.25	2,070,226.42 —
223. 9.— 37,569. 4.10	52,060.60 991,541.80	— —	9,935.— 254,835.91	673,054.— —
761.12. 9	17,354.85	1,669.15	18,109.74	11,972.57
109,679.10.— — 1,640. 5. 5 73.10.10 1,048.15. 9	3,164,875.— — 64,860.25 1,385.50 50,517.82	333,830.— 179,220.— — 92,415.— 4,135.93	788,130.— — 16,660.— 386.15 19,743.15	2,025,833.60 — 44,257.40 100.87 35,848.99
263,045. 9. 1	7,540,108.14	945,100.08	1,915,681.80	4,861,293.85

INTERNATIONAL LOANS

FOR WHICH THE BANK IS TRUSTEE OR FISCAL AGENT FOR THE TRUSTEES

Funds on hand as at March 31, 1935

	German External Loan 1924	German Govt. International 5½% Loan 1930	Austrian Govt. International Loan 1930	Totals
Swiss francs at par				
FUNDS HELD IN RESPECT OF:—				
Redemption of bonds	646,246.63	753.08	112,620.43	759,620.14
Interest in respect of the next coupon falling due	—	—	3,557,733.—	3,557,733.—
Drawn bonds not yet presented for re- demption	4,329.19	—	—	4,329.19
Interest coupons due but unrepresented	390,739.80	2,049,158.11	223,187.18	2,663,085.09
Miscellaneous items	580,686.42	340,101.88	25,276.35	946,064.65
TOTALS	1,622,002.04	2,390,013.07	3,918,816.96	7,930,832.07

THE TRUSTEE OF THE CREDITOR GOVERNMENTS FOR THE ANNUITIES PAYABLE BY GERMANY

Summary of Receipts and Payments
for the period from April 1, 1934 to March 31, 1935

(EXPRESSED IN REICHSMARKS)

RECEIPTS	Reichsmarks
I—Balances as at April 1, 1934 :—	
(a) Held in special interest-bearing accounts in accordance with Article IV (f) of the Trust Agreement, reserved for payments for deliveries in kind	952,497.22
(b) Balance of the Annuity Trust Account being minimum deposits in accordance with Article IV (e) of the Trust Agreement	125,000,000.—
II—From the German Government on account of three monthly instalments due April 15—June 15, 1934 (see Note) :—	
(a) towards the service of the German External Loan 1924	12,672,071.49
(b) towards two-thirds of the service of the German Government International 5½% Loan 1930	10,069,788.13
Total	148,694,356.84
PAYMENTS AND BALANCES	Reichsmarks
I—To the Trustees for the service of the German External Loan 1924 in accordance with Article IV (a) of the Trust Agreement	12,672,071.49
II—To the Trustee for the service of the German Government International 5½% Loan 1930 in accordance with Article IV (b) of the Trust Agreement	10,069,788.13
III—In respect of deliveries in kind in accordance with Article VII of the Trust Agreement :	
For the account of: France	293,072.04
Yugoslavia	3,443.20
Japan	22,000.—
	318,515.24
IV—Balances as at March 31, 1935 :—	
(a) Held in special interest-bearing accounts in accordance with Article IV (f) of the Trust Agreement, reserved for payments for deliveries in kind	633,981.98
(b) Balance of the Annuity Trust Account being minimum deposits in accordance with Article IV (e) of the Trust Agreement	125,000,000.—
Total	148,694,356.84
<p>NOTE—The German Government has not paid, in the currencies of the respective issues, the monthly instalments due after July 1, 1934 for the service of the German External Loan 1924 and the German Government International 5½% Loan 1930. As regards the prior monthly instalments, including the three appearing in the above statement, the following considerations apply:—</p> <p> German External Loan 1924—The definitive bond of the American issue contains a "gold coin" clause but since this provision became operative, the German Government has continued to effect the service of this issue on the basis of its nominal value in current legal tender.</p> <p> German Government International 5½% Loan 1930—The General Bond securing the Loan requires that the service of all issues shall be paid on a gold basis. The German Government, however, has provided in respect of the interest obligation, only such amounts as were sufficient to meet the coupons of all issues of the Loan, including the American, British and Swedish issues, maturing on and after June 1, 1933 at their respective nominal amounts. The sinking fund instalments have not been paid since June 15, 1933.</p>	

TO THE BANK FOR INTERNATIONAL SETTLEMENTS,
TRUSTEE OF THE CREDITOR GOVERNMENTS FOR THE ANNUITIES PAYABLE BY GERMANY, BASLE.

As auditors of the Bank for International Settlements we have examined the above statement and compared it with the books of the Bank and, in conformity with Article XVII of the Trust Agreement between the Creditor Governments and the Bank, we report that in our opinion the statement, together with the Note thereon, correctly reflects all the operations of the Bank in respect of the whole of the German Annuities, including the service of the German External Loan 1924, for the year ending March 31, 1935.

PRICE, WATERHOUSE & Co.
Chartered Accountants.

BASLE, May 3, 1935.

BOARD OF DIRECTORS

*Leon Fraser

Chairman.

Prof. Alberto Beneduce, Rome

*Dr. L. J. A. Trip, Amsterdam

} Vice-Chairmen.

Dott. V. Azzolini, Rome.

Prof. Dr. G. Bachmann, Zurich.

Baron Brincard, Paris.

Louis Franck, Brussels.

Alexandre Galopin, Brussels.

Hisaakira Kano, London.

Gates W. McGarrah, New York Honorary President.

Hisanori Munakata, London.

Sir Otto Niemeyer, London.

Montagu Collet Norman, London.

Dr. Paul Reusch, Oberhausen (Rhineland).

Dr. Hjalmar Schacht, Berlin.

Curt Freiherr von Schroeder, Cologne.

Jean Tannery, Paris.

Marquis de Vogüé, Paris.

Alternates

Pierre Fournier, Paris.

H. A. Siepmann, London.

Dott. Pasquale Trolse, Rome.

Dr. Wilhelm Vocke, Berlin.

Paul van Zeeland, Brussels.

EXECUTIVE OFFICERS

*Leon Fraser

Pierre Quesnay

**Ernst Hülse

R. H. Porters

R. Pilotti

Marcel van Zeeland

President.

General Manager.

Assistant General Manager.

Manager.

Secretary-General.

Manager.

* Dr. Trip becomes President and Chairman of the Board, effective May 13, 1935 and J. W. Beyen became Alternate of the President, effective May 1, 1935.

** To be replaced by Paul Hechler as from May 13, 1935.