

BANK FOR INTERNATIONAL SETTLEMENTS

SIXTH ANNUAL REPORT

1st APRIL 1935 — 31st MARCH 1936

BASLE

11th May 1936

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SIXTH ANNUAL REPORT

TO THE GENERAL MEETING OF THE BANK FOR INTERNATIONAL SETTLEMENTS

Basle, 11th May 1936.

Gentlemen :

I have the honour to submit to you the Annual Report of the Bank for International Settlements for the sixth financial year beginning 1st April 1935 and ending 31st March 1936. Little change has occurred in the total of the Bank's balance sheet or in the larger items which compose it. The main lines of the Bank's business operations and the results of the year are set out in detail in Chapter VIII. After careful provision for contingencies the Board recommends to this General Meeting an annual dividend of 6 per cent. and the statutory allocation to reserves.

Seven years have passed since in the course of 1929 the great depression began which still holds large parts of the world in its grip. It might have been expected that in the period which has elapsed the depressive forces would have spent themselves and general prosperity would have returned. But the depression of these seven lean years has not been merely a slump of the pre-war order. Its background was different — it supervened upon an economic and financial situation still suffering from the dislocation caused by a world war; and, with the volume of world unemployment above 30 millions, it has grown into something vaster than any pre-war depression. In the succession of events it is possible to recognize four major disturbances:

Firstly, there was the ordinary downward trend of business. Conforming to type, this was characterized by reduced sales, accumulation of stocks and decline in output, particularly in branches such as the iron and steel industries which produce capital goods or, in general, provide industrial, agricultural, trade and transport equipment.

Secondly, there was a widespread fall in prices of primary products — both foodstuffs and industrial raw materials. This put a particularly heavy strain on the balances of payments of a number of overseas countries and, within a short time, effectively arrested the flow of capital in their direction, whether in the form of loans or of new investments.

Thirdly, in the late spring and summer of 1931 there came the banking crisis in Austria and Germany. Massive withdrawals of funds were followed by a series of organized attempts to stem the tide through the granting of emergency credits and, when these attempts proved unsuccessful, by the introduction of moratoria, transfer provisions and exchange restrictions, with the result that, not only did foreign credits remaining in the countries affected become frozen but ordinary trade was hampered by new and formidable fetters.

Fourthly, in the autumn of the same year there followed the depreciation of sterling and of a number of other currencies. New elements of uncertainty were thus added to the economic and financial situation and strong downward pressure was exerted on prices quoted on a gold basis in the world markets. A period of monetary changes had begun which within two years was also to involve the United States dollar.

The time has come to take stock of the situation and to consider what progress has been made on the path of recovery.

Signs are not lacking that the downward trend of business, the element in the depression which in its reactions most nearly corresponds to pre-war experience, has already been arrested over a wide field. Articles wear out, tools and machinery require replacement and buildings need repair. As a depression proceeds and population increases unsatisfied wants accumulate and these sooner or later find expression in effective demand. Furthermore, when times are difficult bad business is in constant process of liquidation, uneconomic methods are scrapped and countless efforts are made by individual firms to put their affairs on a remunerative basis. The cumulative effect of all these separate efforts helps to restore that equilibrium between costs and prices which alone can form the basis of recovery. Typical evidence of returning activity is afforded by the improvement in the tool and machine industries which after the lull of the last few years suddenly found difficulty in recruiting sufficient skilled labour.

In any examination of the causes of the improvement which has taken place due weight should be given to the steady influence of the curative forces inherent in the economic system itself. It is of interest to note that in spite of continued stagnation in the building trade a strengthening of demand and a revival of industrial activity occurred in France, the largest gold bloc country, during the latter half of 1935 and the first months of 1936. This development may be regarded as an indication that recent recuperative tendencies have been strong enough to mitigate maladjustments remaining in the cost and price structure of the different countries consequent upon the monetary changes of the past five years.

The abrupt decline in the prices of primary products which began in 1929 affected both foodstuffs and raw materials and in a few years brought about a veritable revolution in the whole price structure. From 1929 to 1933 the average of prices of important foodstuffs fell by some 60 per cent. while the prices of essential industrial raw materials fell by fully 50 per cent. The price of wheat expressed in gold touched the lowest point recorded for over 400 years. This decline came after six or seven years of relative stability during which wholesale price indices in practically all important countries had stood at about 40 per cent. above the 1913 level, giving apparent substance to the belief that this increase above pre-war levels would become a permanent feature of post-war economy.

In a number of cases the decline in prices was due to an advance in technique which lowered costs of production; other influences, however, were also at work. In the case of wheat, for instance, governments at first intervened to keep up the price, with the result that huge stocks were accumulated which eventually weighed heavily on the market. The output of many primary products, and of agricultural produce in particular, was maintained undiminished during the depression but prices fell heavily. The exact opposite happened with regard to many manufactured articles; prices were kept up by monopolistic organizations or generally by lack of adjustment, sales went down however and soon production had to be correspondingly curtailed. The result was a great disparity in prices, which not only added to the difficulties of the raw material producing countries but threw the whole international price relationship out of equilibrium. The first signs of a reaction were noticeable in the autumn of 1932 and, in spite of interruptions and difficulties, the upward movement has asserted itself; the year 1935 witnessed a steady

improvement in the prices of primary products not only in depreciated currencies but also to some extent in gold. By government action or simply through agreement between producers a number of restrictive schemes, affecting such products as copper, jute, lead, nitrate, rubber, silk, sugar, tea, tin, tin plates and wheat, have been put into operation. For some agricultural products (notably wheat) a reduction in supply was caused by the widespread drought in 1935. The case of wool is interesting: no artificial restriction was ever attempted and no stocks were laid up but current supplies regularly brought to the market. Prices slumped heavily at first, but this stimulated consumption and before long prices began to recover mainly under the influence of reviving demand. On the whole the influence of the various restrictive schemes should not be overrated. It is not easy to put into effect schemes that are sufficiently comprehensive to govern the world supply of any commodity. When a scheme covers only part of the total actual or potential output there is always the possibility of increasing production in countries not adhering to the scheme. A careful analysis of price movements during 1935 tends to show that, with the exception of a few commodities like tea and tin, increased demand by consumers and resumption of industrial activity has counted for more in reducing stocks and lifting prices than any artificial restriction of supply. Government spending for armament purposes and the purchase of reserve stocks prompted by war scares have also had an influence on the trend of certain prices. But not all the new spending represented a net addition to total world demand; in the case of Germany, for instance, increased imports of raw materials required by armament industries was more than offset by reduced imports of other commodities. Generally speaking, it was the greater absorption of commodities in the markets of Great Britain, the United States and a number of other countries which was the main cause of the revival in prices during the past year; and in this connection account must be taken of the expanding demand resulting from the increased gold production.

The increase in the demand for raw materials at improved prices is reflected in the mounting export trade of the South American countries, the Straits Settlements, New Zealand and Australia. It is true that from the point of view of the importing countries the rise in prices means that a larger amount in foreign currencies has to be paid for raw materials, but this additional outlay should soon be recovered in the general improvement in world business. The brisker trade with overseas countries has already helped to revive shipping. Many of the countries producing primary products, though helped by the better prices, are still faced with a series of problems, including certain difficult debt conditions. There has been in some cases conversion of old loans to lower interest rates, but not yet any recovery in new foreign lending to countries producing primary products or in the investment in any form of new foreign capital in them. The Empire and foreign issues on the London capital market registered, again in 1935, figures constituting new low records (except for the war years).

The liquidity crisis which swept over Europe in 1931 left behind it a system of exchange restrictions which as time went on developed into a network of ever-increasing control and prohibitions. In only one severely affected country, Austria, has it been possible to abolish most of the restrictions imposed during the crisis and restore a free foreign exchange market. In Hungary and Rumania some simplification was made in the course of 1935 in the very complicated system that had gradually been elaborated. Moreover, in South America, Ecuador completely abolished all exchange control in the autumn of 1935, and in the course of the same year several other countries found it possible to

apply with somewhat greater freedom the regulations on their exchange markets. Against this, however, must be set the imposition of new restrictions in Danzig, Italy, Lithuania and recently in Poland, the enforcement of a more severe control in several markets and a continued multiplication of clearing arrangements, bringing the number of such arrangements concluded by Germany, for instance, from 25 in 1934 to 32 at the end of 1935. On balance little improvement has been achieved; the transfer of funds from one market to another, whether for financial or commercial account, is still subject to intricate regulations in a large number of countries.

But if the restrictions still remain in force, the underlying debt position which gave rise to their introduction has in many ways improved. The statistics compiled by the Bank for International Settlements (and given later in this report) show that from 1930 to 1935 the total volume of short-term international indebtedness of European countries and the United States was reduced from 70 to 30 milliard Swiss francs. When the crisis broke out in 1931 reserves accumulated by central banks and other credit institutions were employed to cover withdrawals and when these resources became exhausted other methods were found, varying in character from country to country. Germany thus concluded agreements with her standstill creditors under which short-term credits were liquidated by the sale of so-called registered marks for tourist and other purposes. In many cases individual debtors and creditors made arrangements between themselves for repayments, the creditors as a rule accepting a more or less heavy discount on the amount due when ready cash was forthcoming for the remainder.

On long-term account also a reduction of outstanding foreign indebtedness was achieved mainly by the repatriation of bonds by private individuals. Adequate statistics are lacking, but such enquiries as have been made indicate that repurchases of bonds have taken place on a very extensive scale. As far as European countries are concerned, foreign indebtedness has been reduced far below the high level reached a few years ago. If, however, reserves are slender and the export position uncertain, even comparatively moderate indebtedness can cause great difficulty and necessitate the maintenance of hampering restrictions. The world has been caught in a vicious circle where the system of control handicaps trade, and the shrinkage in trade increases the difficulties of the foreign exchange position subject to control.

But cannot this circle be broken? Once the total volume of indebtedness has been brought down to manageable proportions the case for settlement by consolidation and adjustment of charges acquires additional strength. With so many signs to indicate that general business conditions in the world have taken an upward trend, surely arrangements for the solution of outstanding debt problems should be made at the earliest possible moment, particularly with the object of hastening the removal of those restrictions which are most harmful to the spreading of recovery.

The history of currency depreciation during the course of the depression may be readily summarized: before the crisis of the summer and autumn of 1931 the currencies of four raw material producing countries had left gold; during the period beginning with the depreciation of sterling in September 1931 and ending in April 1933 when the exchange value of the dollar fell below par, 35 currencies went off gold; and since 1933 the dollar and some other currencies, including the three silver-standard currencies of China, Manchukuo and Hong Kong, have depreciated. These many changes in currency values could not fail to exert a direct effect adverse to world trade. There was, however, an indirect effect, in many ways more pernicious; when exchange rates between countries

suddenly fluctuated to the extent of 20 per cent. or more, the governments of countries adversely affected found themselves obliged to apply measures for the protection of the economic life of their countries; new duties were imposed, existing duties were increased and many governments had recourse to quotas and similar limitations which in their effect on trade and economic relations generally were distinctly more hampering than the other measures of protection.

During the past five years changes in currency values have ranged from zero, in the few countries which have remained on gold at par, to a depreciation of 75 per cent. in the case of Chile. These figures may, however, give a somewhat exaggerated impression of the disorder experienced, for measures were as a rule taken by central banks or governments to reduce fluctuations of foreign exchange rates or to establish a new relationship to gold. The United States dollar, the Czechoslovakian crown, the belga and the Danzig guilder have been re-linked directly to gold; and though the governments in the United States and Belgium obtained the right to alter, within certain definite limits, the weight in gold of their currency units, no use has been made of this right, in fact the belga was definitely stabilised in the spring of 1936. In a number of other countries exchange rates have been maintained stable in relation to some gold currency. The Greek drachma, for instance, which depreciated in 1932 has since been pegged at a lower level on the French franc; the Austrian schilling and the Yugoslav dinar have likewise been held stable since 1933 on the basis of the franc; and in February 1936 the State Bank of the U. S. S. R. was charged with the maintenance of a fixed rate for the rouble in terms of the French franc in all its exchange operations.

In the countries which had introduced exchange regulations, the actual rates at which foreign currencies were sold would often depend on the particular character of the business involved. But the tendency recently has been to apply more uniform rates and this development represents a further step towards real stability. The working of clearing arrangements has further led to a standardization of the exchange rates on which current commercial transactions are based.

Then there are a number of currencies which have been pegged on sterling; these include, in addition to members of the British Empire, the Scandinavian countries, Finland, Estonia, Portugal, Japan and some South American countries. For this group the control by the Exchange Equalization Account established in Great Britain in 1932 has been of outstanding importance. The object of the Account was to iron out undue exchange fluctuations and it served to counteract seasonal and other temporary influences. Still however the fluctuations over the year in the exchange value of the pound were of the magnitude of 13 per cent. in 1934. But from the spring of 1935 the Exchange Equalization Account exerted stronger control and in the autumn the seasonal downward pull was effectively counteracted. Indeed, since the middle of 1935 the widest variations in the price of gold in London have not exceeded in all 2 per cent., which means that within very narrow limits sterling has been stable in terms of gold.

When the fluctuations of sterling were still comparatively wide, it was easy to indicate which currencies were to be included in the sterling group and which were linked to gold or the French franc. But now that sterling is relatively stable in terms of gold this distinction between different groups becomes more difficult to observe. Since the cutting of the link with silver the exchange rates of the Chinese dollar have been kept approximately stable, but the Chinese currency cannot be said to have been pegged either on sterling

or on the United States dollar. The division of currencies into different groups has lost some of its original significance due to the realization of greater de facto currency stability over the world as a whole.

Unfortunately no corresponding progress has been made in the restoration of real monetary confidence internationally. At one time or another during the course of the year every one of the major currencies has been under discussion, with rumours circulating as to possible depreciation from present values. In these circumstances it is hardly surprising that people have transferred their funds from one country to another, and it is transfers of this kind more than purely speculative operations based on borrowed money which have given rise to the movements of balances and gold in the year under review. To have realized exchange stability through the control exercised by central banks and exchange funds is clearly an achievement, but something more is needed. The world's monetary structure must be so strengthened that it will again command the confidence of the public. Political and monetary authorities should show the necessary determination and have at their command adequate resources to give effect to the policy adopted and not be deterred by any flow of nervous money, however large in volume or persistent in movement. The aim should be to build up again a stable system which will fulfil the essential conditions of financial and economic equilibrium; costs and prices in the individual countries must be adapted to the requirements of the common standard and a balance achieved in which the stresses and strains of currency over or under valuation would be reduced to a minimum.

The past seven years have constituted one of the most disturbed periods through which the world economy has ever passed in times of peace. Since 1929, when quotations on the stock exchanges slumped and prices of primary products began to decline, until 1933, when the dollar depreciated, one major disturbance after the other beset the world. An abnormal volume of unemployment and exceptionally large gold movements are signs of the prevailing difficulties and uncertainties. It is evident, however, that in many respects improvement has been achieved since the worst days of the depression. The normal cyclical swing is now upward. Primary products are again in greater demand and are being sold at better prices. International indebtedness has been substantially reduced and a large measure of de facto exchange stability between the principal currencies has been maintained for fully a year. But monetary restrictions continue to hold the field in a large part of the world, hampering finance and commerce, and in international dealings confidence in currencies is still widely lacking. Industrial production has advanced well in a number of countries but international trade has not made a corresponding improvement. The growth in foreign trade has in the first place been in raw materials, while manufactured articles penetrate only with difficulty the barriers surrounding national markets. The world has once more to learn the lesson that trade grows best when freed from fetters. Some progress in removing obstacles to trade has been made in the last few years by the conclusion of bilateral agreements, the benefits of which are extended by the inclusion of the most-favoured-nation clause. These efforts aim at an expansion of trade, the anti-thesis of the extreme restrictionist policy which to so large an extent has characterized government policy since the depression began in 1929. In the monetary field the large current gold production provides an expanding basis for a liberal monetary policy. There is certainly a desire in each country to proceed along the lines of cheap and plentiful credits and deviations from this policy forced upon individual central banks in the course

of 1935 have been in the nature of temporary reactions against an abnormal outflow of funds.

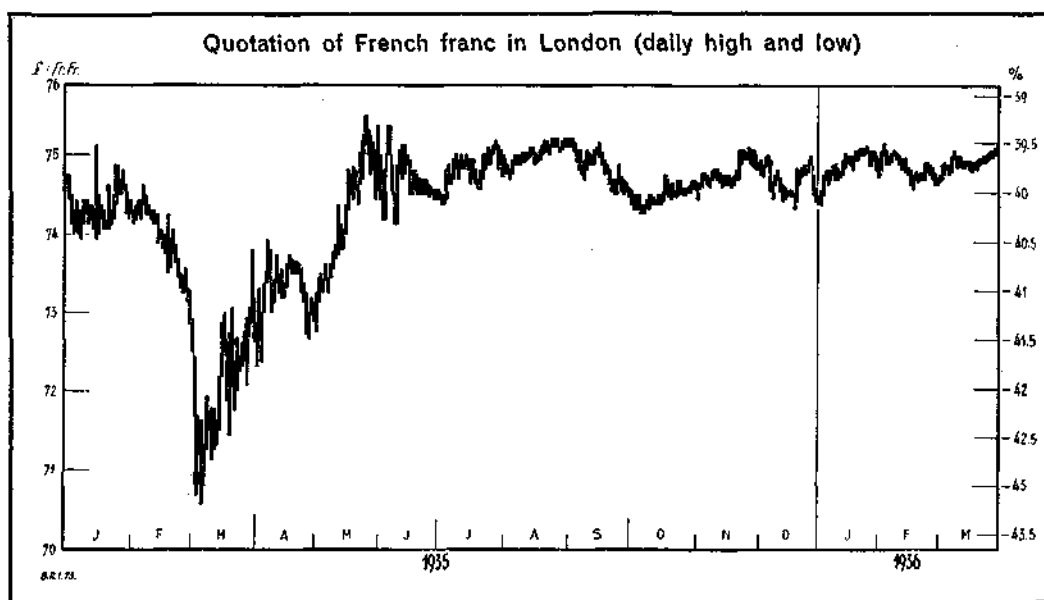
Political tension, though it has not entirely prevented recovery, has greatly influenced the direction which recovery has taken. Fear of war is naturally apt to give increased weight to nationalistic tendencies and particularly to stimulate a movement towards autarchy. Expansion of credit and other measures taken to overcome the depression have as a rule been confined to the national sphere. Internationally the influence has made itself felt in the main through the greater de facto stability of the foreign exchanges and the larger purchases of raw materials by countries in which domestic production has increased.

Faced with the problems of the depression central banks have endeavoured to perfect methods of action both at home and in their international relations. Assistance has been given in many ways by the monetary authorities of one country to those of another in order to maintain exchange fluctuations within narrow limits. New and effective means have been devised to prevent funds from becoming available for currency speculation; if during the past year such speculation has counted for less in the international movement of funds than it otherwise would have done, this is at least partly due to the initiative of the central banks. In addition to the questions which fall within their own sphere of action, central banks have to tender advice to their respective governments and markets on a large number of questions, many of them involving matters of international importance, for which contact between the central banks cannot fail to be of value. During the course of the year the Bank for International Settlements has continued to serve as a centre for consultation and is happy to find that at the regular meetings in Basle not only has contact been maintained but useful suggestions have been put forward which have been translated into practical action.

II. EXCHANGE RATES, PRICE MOVEMENTS AND FOREIGN TRADE.

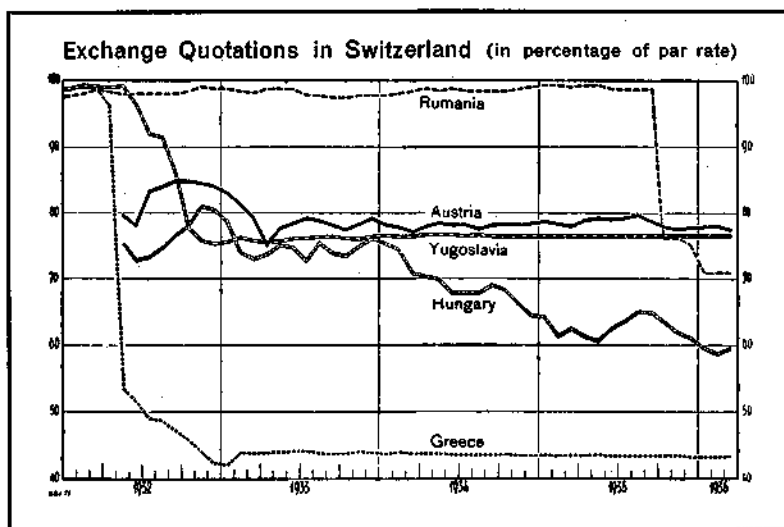
Events in the opening months of 1935 did not augur well for the maintenance of exchange stability. Contrary to the normal seasonal trend, sterling showed great weakness in February and March; the gold price in London rose on 6th March 1935 to 149 s. 4 d., the highest sterling quotation ever recorded, as compared with a maximum of 140 s. 0 d. in the corresponding months of the previous year. On 1st April 1935 the belga was devalued by 28 per cent. In terms of gold and on 2nd May the Danzig guilder by 42 per cent. In the course of the spring large transfers were made from the French, Dutch and Swiss markets and spot quotations of the French franc, the guilder and the Swiss franc were brought to the gold export points; forward rates also widened considerably, the discount on three months forward French francs in London touching a point one day in May 1935, corresponding to an interest rate of 40 per cent. per annum. The gold currencies were, however, maintained by the classical means of gold exports and increases of discount rates sufficiently vigorous to indicate the determination of the respective central banks to defend their positions.

The outflow of funds from the continental markets helped to sustain the value of the pound and assisted the authorities in London in taking firmer control of their exchange position. In the autumn when large foreign payments had to be made, the Exchange Equalization Account employed a substantial part of its gold holdings to provide the market with the foreign exchange required and thus prevented an undue fall in the value of the pound. Since 1st June 1935 the distance between the highest and lowest quotations of the French franc-sterling rate has been only $1\frac{1}{2}$ per cent. as compared with about 7 per cent. in the previous twelve months. The following graph gives the daily spread of the French franc rate in London from January 1935 to March 1936:



The great measure of exchange stability which has prevailed since the spring of 1935 can best be judged from the fact that there are only a very limited number of countries whose currencies have since then been subject to any appreciable change. First there

are the three silver standard countries in the East: China, Manchukuo and Hong Kong, which after severing their link with silver adopted systems of management of their foreign exchanges; the rates quoted by the end of 1935 involved some 30 per cent. depreciation, in terms of gold, from the increased value to which the rise in the silver price had brought them. The rial of Iran was also affected by the changes in the price of silver; it rose in value in sympathy with the silver price until in the summer of 1935 a change was made and the exchange value was lowered to about 20 per cent. below the level obtaining at the beginning of the year. In Europe the new system of premia paid by the National Bank of Rumania for certain currencies caused the quotation of the leu to depreciate in the free markets by some 30 per cent. New regulations regarding the premia to be paid by importers and to exporters were also issued in Hungary and seem to have somewhat affected the quotation of the pengö on foreign markets. The movements of the monthly average of rates quoted in Switzerland expressed as a percentage of the parity of 1931, are shown below for the Austrian schilling, the Hungarian pengö, the Yugoslav dinar, the Rumanian leu and the Greek drachma.



The gold value of the Italian lira fell by 6 per cent. during the year. In the U.S.S.R. a decree of 16th November 1935 terminated the sale of goods in the Torgsin shops against foreign currencies and fixed, for all operations connected with foreigners' visits to Russia, a rate of one rouble equal to three French francs (instead of the previous legal rate of one

rouble to 13.13 francs). By a further decree dated 29th February 1936 the new rate was adopted for all foreign business; the State Bank was authorized to revalue its reserves of gold and foreign currencies and charged with the maintenance of this rate in all exchange operations.

The exchanges of several South American countries were subject to fluctuations during 1935, the most pronounced being a further depreciation of the Bolivian and Paraguayan currencies which were adversely affected by the Chaco war. The Brazilian free milreis and the Colombian peso also declined in value, the former by 16 per cent. and the latter by 10 per cent., these being the extreme movements of the year. On the other hand, the quotations of the Argentine peso in the free market improved by 9 per cent. and the Peruvian sol by about 3 per cent.

In the remaining countries of the world currency changes have been unimportant which means that an area covering more than 85 per cent. of world trade has for a full year enjoyed practical de facto exchange stability.

The re-establishment of such a degree of order in the exchange situation has been possible only by very determined efforts and it is satisfactory to record that co-operation between the monetary authorities of the different countries has played a growing part in the execution of this policy. Means have been devised to fight against currency speculation and in their current dealings on the exchange markets the monetary authorities have been able actively to assist one another. It may be of interest to quote the testimony of two central banks given in their annual reports: the Bank of France writes that in the course of 1935 it appeared essential to maintain closer contact with foreign centres; the Bank wished to express its gratitude to the Bank for International Settlements and to the banks of issue of the principal markets for the real support rendered in aid of the defence of the franc. And the Swiss National Bank emphasises the collaboration in the following words: "More than once in the course of the year it was found that banks of issue made efforts to limit fluctuations in the quotations by intervention on the exchange markets. In this way they have not only supported their own exchanges but also frequently aided other countries to defend their currencies."

Secrecy is still maintained about the transactions of the British Exchange Equalization Account and the variations in its assets, although the general character of the control has become fairly well known and its significance is increasingly discussed in the public press. The Account was formed in the spring of 1932 to iron out undue fluctuations in the exchange rate of sterling, and it has been supplied altogether with £ 375 million in sterling assets, mostly Treasury bills, from the sale of which it obtains the sterling balances necessary for its operations. When there is an inflow of funds into the British market and the Account sees fit to intervene, Treasury bills are sold and the sterling thus obtained is used to buy, say, French francs which the Account is able to convert into gold. Gold may also be bought or sold directly on the London market against sterling to exert a desired influence on the gold price. Thus through the double operation of selling Treasury bills and buying foreign exchange or gold, not only the foreign exchange position but also the volume of credit on the domestic market is affected. The sale of Treasury bills by the Account acts, in fact, as an offsetting open-market operation preventing an inflow of gold to London from increasing the cash balances of the joint stock banks with the Bank of England. Conversely, when the Account sells gold or French francs to support the exchange value of the pound, it obtains resources in sterling with which it may repurchase part of its Treasury bills outstanding, thereby operating in the opposite direction so that the cash reserves of the market are maintained in spite of an outflow of funds. An addition to the gold holdings of the Exchange Equalization Account, therefore, does not lead to an increase in the amount of bankers' balances. To provide for more notes in circulation or an increase in bankers' balances, the Bank of England may take over part of the gold, without a counteracting sale of securities, or purchase securities on its own initiative.

It is interesting to analyse on the basis of the Bank of England returns the changes which have taken place since the depreciation of sterling in 1931. In the year 1932 when the policy of cheap and plentiful credit was put into effect the Bank of England increased its holdings of securities by £ 31 million and this was the main cause of an expansion in bankers' balances by £ 38 million (from January 1932 to January 1933), the note circulation remaining practically stable. During the three years from January 1933 to January 1936 bankers' balances hardly changed (apart from regular fluctuations of a seasonal character) but the amount of notes in circulation went up by £ 44 million. This increase

in the Bank's liabilities was more than counterbalanced by an increase of £ 79 million in the gold holdings, while the Banking department's holdings of securities were reduced by £ 15 million and the fiduciary issue, and the securities behind it in the Issue department, were also reduced by £ 15 million. The following table gives the relevant figures:

Bank of England (Averages of Wednesday figures)	Fiduciary issue covered by securities in Issue Dept.	Total securities in Banking Department	Gold holding	Notes in circulation	Bankers' balances
	in millions sterling				
January 1932	275	107	121	353	76
January 1933	275	138	121	357	114
January 1936	260	123	200	401	115

The American Gold Reserve Act, approved by the President on 31st January 1934, authorized the Secretary of the Treasury for two years (which the President might extend for a further year) to deal in gold and foreign exchange and such other instruments of credit and securities as would be necessary for the purpose of stabilising the exchange value of the dollar. At the same time an Exchange Stabilization Fund of \$ 2,000 million was established out of the book profits on the gold reserves accruing to the government from the devaluation of the dollar by 40.94 per cent. In the daily statements of the Treasury Department \$ 1,800 million are shown as a liability against the government's gold holdings under the heading "Exchange Stabilization Fund". The remaining \$ 200 million are entered on the general account (the "General Fund") of the Treasury Department in such a way that transactions undertaken by means of this allocation cannot be specifically traced; the dollars may thus be kept in a form readily available for monetary operations on the gold and exchange markets. As, however, the United States dollar was re-linked to gold at the same time as the Fund was instituted, there has been no need for the Fund to intervene regularly to prevent the gold value of the dollar from fluctuating. Only on certain occasions, when the foreign exchange markets have been in a particularly strained condition, has the Fund intervened and then, for example, provided dollars on foreign markets against gold or foreign currencies.

On 11th February 1935 the Secretary of the Treasury announced that the Fund had been employed in the foreign exchange markets since the 14th of the previous month. That was at a period when the dollar was exceptionally strong, the United States receiving no less than \$ 149 million in gold in January and \$ 123 million in February. Though no announcement has been made as to the gold or foreign exchange held by the Fund, it should be observed that all gold actually shipped to the United States appears in the official returns of the total gold stock.

Gold shipped to the United States is purchased for account of the Treasury and paid for by drafts on the Reserve Banks. In this way an increase takes place in member banks' reserve balances. It has not been part of the task of the Exchange Stabilization Fund to undertake open-market operations affecting the internal credit position of the market, and the amount of securities held by the Federal Reserve Banks has not changed since the dollar was devalued at the beginning of 1934. It will be seen from the following table that \$ 3,020 million have been added to the gold stock from February 1934 to January

1936 and that member bank's reserve balances have gone up by nearly the same figure, the increase in the money in circulation corresponding approximately to the amount of silver certificates issued.

U. S. Monetary gold stock and related items (Average of daily figures)	Holding of U. S. Government securities	Monetary gold stock	Money in circulation	Member bank reserve balances	
				Total	Excess
	in millions of dollars				
February 1934	2,432	7,138	5,339	2,822	891
January 1936	2,430	10,158	5,757	5,780	3,021
Changes over the period .	— 2	+3,020	+ 418	+2,958	+2,130

By a proclamation dated 10th January 1936 the President extended for a further year the life of the Exchange Stabilization Fund and the corresponding powers of the Secretary of the Treasury.

In Belgium likewise an Exchange Equalization Fund was established at the time of the devaluation of the currency in April 1935. Although the belga was devalued at a rate corresponding to a depreciation from the old parity of 28 per cent., giving a gold content of 0.150632 grammes fine, the gold reserve of the National Bank was provisionally revalued on the basis of a rate of depreciation of 25 per cent. Out of the book profits thus realized 1,125 million Belgian francs were set aside for the Equalization Fund. The value of the currency was however maintained in the ordinary course of business without any special intervention on the part of the Fund, the National Bank having conformed its operations immediately to the new gold parity. In his address to the shareholders on 24th February 1936 the Governor of the National Bank declared that at the gold points calculated on the new basis the Bank had always been and was always ready to buy and sell either gold or gold currencies. The choice between these modalities, he said, was left by the law of October 1926 to the Bank. But in both cases the effect was the same: either the Bank bought or sold gold to the market, or the Bank undertook itself to receive or deliver the metal by a direct transaction with the foreign central bank concerned. On 1st April 1936 the devaluation of the belga by 28 per cent. was made definitive and the gold revalued on this basis. The Exchange Equalization Fund was wound up and its assets, as well as those realized by the new revaluation of the Bank's gold holding, were taken over by the Treasury.

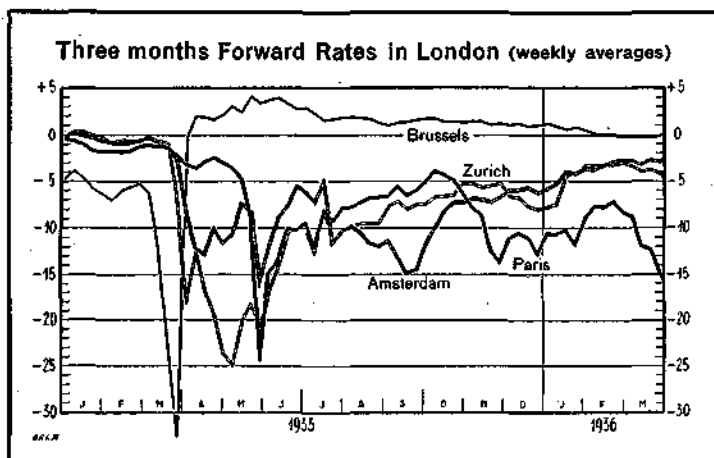
In the summer of 1935 an Exchange Fund of the Dominion Government was instituted in Canada. It was provided with \$ 63 million out of the profits which the government obtained from the revaluation of the gold holdings at the market value of gold, i. e. circa \$ 35 per ounce, revaluation being made although the Canadian dollar had not been officially devalued. The Fund bought Dominion bonds from the Bank of Canada and also holds short-term Treasury bills and amounts on deposit at the Bank. Future profits or losses on gold held by the Bank of Canada will be credited or debited to the account of the Exchange Fund.

The various exchange funds which have been instituted in recent years thus differ widely both as regards their assets and the functions they perform. As far as can be seen their operations are of a kind that falls properly within the normal field of action of central

banks. Such temporary arrangements may be used to provide against exceptional risks or as a method of furnishing extraordinary resources (in the form of securities, balances or gold) for intervention on the markets. Under these arrangements government departments have become connected with the formation of exchange policy in a period of great monetary disturbance; the central banks continue to be the agencies which handle the actual operations on the exchange markets.

At a time when the ordinary currency legislation is more or less suspended and new situations arise the political authorities become more pre-occupied with monetary issues. But once the basic monetary principles shall have been fixed again and a reasonable degree of continuity assured, the temporary circumstances will have ceased which gave rise to the introduction of dual responsibility in these matters.

When in January 1936 the President of the United States extended the life of the Exchange Stabilization Fund for another year, he gave as his reason for doing so that the situation which had called for the establishment of the Fund had become worse and presented conditions of instability for international commerce and exchanges. Although in the re-establishment of de facto exchange stability the last twelve months certainly compare favourably with previous years, it must be admitted that, if account be taken of the extent to which real monetary confidence has been regained, no progress but rather a setback has occurred, the past year being characterized by widespread fears of radical changes in currency values. Symptomatic of the disturbed conditions have been the extensive movements of balances from one country to another and also the wide spreads of forward rates, which register in a very sensitive way the shifting phases of monetary sentiment; the strain on the exchange markets during the past year can



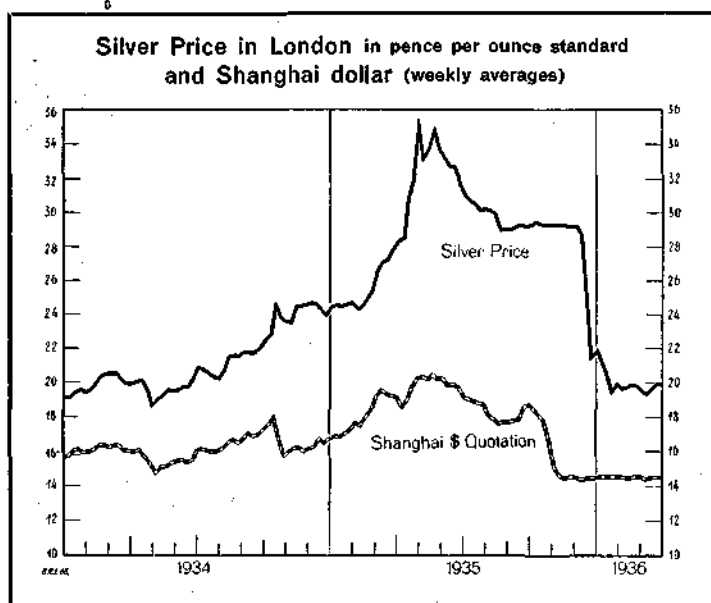
be clearly seen from the graph opposite which gives the three months forward rates for certain currencies vis-à-vis sterling as a premium or discount on the spot rate calculated on an annual percentage basis.

It will be seen that the forward rates quoted on these currencies at times greatly exceeded the normal spread corresponding to the difference in short-term interest rates between the

markets concerned. The belga was devalued after the slump in March; in April the speculative attack centred over the florin and the Swiss franc, while the heaviest gold losses of the Bank of France were in May and November.

Outstanding among the monetary events of 1935 have been the changes in the currency systems of the silver standard countries, China, Manchukuo and Hong Kong. The Silver Purchase Act of June 1934 declared 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. In pursuance of this policy the U. S. Treasury bought silver in large amounts at rising prices from August 1934 to the spring of 1935, after which the price again declined. The following graph shows for the years 1934 to 1936 the price of silver



ruling on the London market and the rate of the Chinese dollar in terms of sterling.

For China the increase in the price of silver meant an appreciation of the national currency at a time when the currencies of other countries, especially those with which China maintained the closest commercial contact, were depreciated. Faced with this situation, the Chinese Government in October 1934 imposed a sliding-scale duty on silver exports to provide a margin of freedom for exchange management. After some wide initial variations,

the duty was maintained within limits of $13\frac{1}{2}$ – $14\frac{1}{2}$ per cent.; for the following four months (November 1934–February 1935), during which the price of silver was fairly stable, the imposition of this duty kept the "official" exchange rate of the Chinese dollar about 14 per cent. below the silver parity, while the Shanghai exchange rate (the free rate quoted on the market) was as a rule a few points per cent. lower. Towards the end of February 1935 the price of silver began to rise and as the duty remained the same the "official" rate moved with the price of silver. The Shanghai exchange rate, which was of importance for current commercial and financial transactions was, however, held fairly stable through intervention by the Chinese Exchange Committee, a government institution acting in close co-operation with the banks. Exports of silver were discouraged by arrangement with the banks and the value of the market rate was in fact almost completely divorced from the price of silver. This phase lasted to October 1935, when there was a sharp decline in the exchange rate on rumours of devaluation.

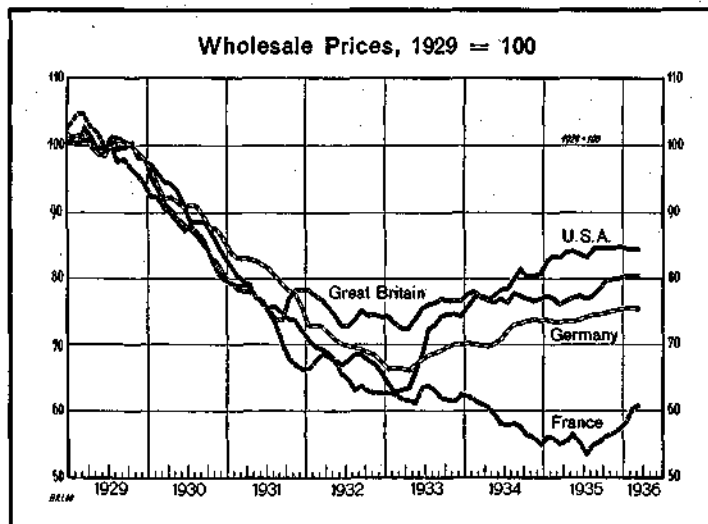
On 4th November 1935 the government cut what remained of its link with silver, made the notes of the Central Bank of China, the Bank of China and Bank of Communications legal tender, and charged the Chinese Exchange Committee with the task of managing the exchange rate. Silver, whether in bars or coin, was to be handed over to the government against payment of the nominal value in notes. A month later, on 5th December, Hong Kong adopted a similar policy of a managed inconvertible currency, the rate of the Hong Kong dollar being in fact maintained fairly stable in relation to the Shanghai dollar, with a premium of about 7 per cent. over the latter. Already earlier in the year the silver basis had been abandoned in Manchukuo, after a period of two years, 1933 and 1934, during which the exchange rate of the yuan had been maintained stable in relation to the Chinese dollar. From the beginning of 1935 the yuan was allowed to depreciate in terms of silver and since September 1935 has been maintained at par with the Japanese yen.

From 1932 to 1934, fifteen to sixteen Chinese dollars had been equal to one pound (which, incidentally, gave the Chinese dollar about the same exchange value as the Swiss franc). With the rise in the price of silver the Chinese dollar appreciated and in May 1935 about $11\frac{1}{2}$ dollars sufficed to obtain £ 1. After the change in the system introduced in the late autumn of 1935, the value of the Chinese currency again fell and has since been kept at a rate of about $16\frac{1}{2}$ dollars to £ 1. If the present value of the Chinese currency is calculated as a percentage of its average value in 1929, the Chinese dollar will be found to have depreciated by 58 per cent. in terms of gold as compared with a depreciation of 40 per cent. of the British pound and the United States dollar and a depreciation of $65\frac{1}{2}$ per cent. of the Japanese yen — the three currencies with which Chinese foreign trade is mostly concerned.

At the time of writing it is not clear to what extent the new monetary arrangement adopted in China in the autumn of 1935 has really been made effective in the management of the exchange rate and in the internal organization. The problems connected with the organization of a central bank equipped to undertake the management of the currency, to accustom the people to payments in bank-notes instead of in specie, to regulate the internal credit volume and to make the reforms effective over an area inhabited by hundreds of millions of people, are indeed formidable. The first task to engage the attention of the authorities has been to build up a reserve in gold and foreign currencies to serve as a basis for exchange management. In November 1935 an arrangement was made under which the United States Government purchased 50 million ounces of silver directly from China for \$ 32.5 million, of which \$ 10 million were taken in gold by the Central Bank of China.

The silver policy of the United States caused dislocation of Eastern exchanges and made China, Hong Kong and Manchukuo give up their age-long link with silver — a venture of which the end has not yet been seen. The American purchases of silver on foreign markets contributed, on the other hand, in a year of exceptionally large movements of funds, to the settlement of the accounts between the United States and the rest of the world. In 1935 net silver imports into the United States had a declared value of \$ 336 million, compared with an export surplus of merchandise (other than silver and gold) amounting to \$ 235 million. In the same year \$ 1,739 million net in gold were imported; in 1933 and 1934 there were periods during which the traffic of gold across the Atlantic was more intense than at any time in 1935, but never before has so large an amount moved from Europe to the United States in a single year. This one-way movement was not caused by any disequilibrium in the current account of the balance of payments but constituted transfers of funds made for a number of reasons; part represented the home-taking of funds owned by Americans (e. g. transfer of deposits from foreign to domestic banks); part consisted of money seeking security outside Europe; part went to participate in the rise on the New York stock exchange and part was transmitted to increase balances with New York banks at a time of trade recovery. These movements, all of them on capital account, have dominated the exchange position and overshadowed the influence of merchandise trade and other items on the income account of the balance of payments which are more closely connected with the relative levels of costs and prices in the different countries.

The most notable feature of price movements during 1935 has been a general strengthening of prices in the wholesale trade. The following graph shows the movements of wholesale prices in national currencies of four important countries for the period



1929—1936, reduced to the common base of 1929.

In the United States wholesale prices rose during the first three months of the year and have since been practically stable; the fact that no setback occurred is in itself remarkable in view of the particular shocks which the American economy had to sustain in the course of the year. In the spring of 1935 the Supreme Court declared unconstitutional most of the functions of the National Recovery Administration and,

later on, also some of the functions of the Agricultural Adjustment Act. It was feared that the withdrawal of the support which these emergency organizations had given, in one form or another, to various economic activities would cause a setback in prices, but after some weeks of hesitation on the commodity markets it was found that the price level remained practically unaffected. Large purchases by Italy in preparation for the Ethiopian campaign also had a stiffening effect on prices, although many expected that this effect would disappear as soon as the exceptional purchases ceased; but no relapse of any consequence occurred in the late autumn. On the contrary, prices rose somewhat and thus again showed definite resistance at a time of doubt and uncertainty.

The increase which has occurred in the prices of certain commodities may be explained at least partly by rearmament (and not only the direct acquisition of arms and ammunition but also the building-up of reserve stocks and the renovation of plant, etc.). The restriction of supply under various schemes has also exerted a certain influence. The rise must, however, in the main be attributed to a genuine increase in the demand for goods by consumers in those countries where economic recovery has gone furthest. The importance exerted by the record output of gold on the volume of purchasing power has been on the increase in view of the fact that probably, on balance, a smaller part of the current supply of gold was absorbed by private hoarding in 1935 than in any previous year of the depression.

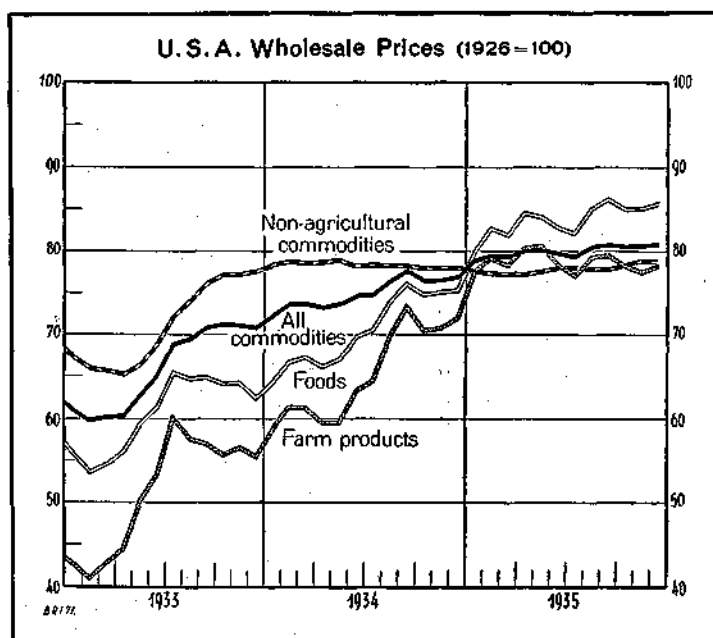
There are not a few countries where large government spending over and above current revenue affects the purchasing power in the hands of the consumer; and it might be feared that when this spending is arrested a decline in the demand for goods will occur. Naturally an important change in financial policy may cause difficulties during a transitional period but it may well happen that a strengthening of confidence, assisted by regained budget equilibrium, will set free purchasing power on a sufficiently large scale not only to counterbalance the reduction in government spending but to produce a net increase. The following table shows the movements of wholesale prices and the cost of living on a gold basis in the monetary triangle made up of the United States, Great Britain and France:

Wholesale prices and cost of living (gold indices)						
Gold indices 1913 (1914) = 100	United States		Great Britain		France	
	Wholesale prices	Cost of living	Wholesale prices	Cost of living	Wholesale prices	Cost of living*
1929 December	134	171	133	166	119	115
1930 "	112	161	109	153	101	121
1931 "	98	146	73	103	84	108
1932 "	90	132	68	96	79	105
1933 "	65	84	69	95	79	107
1934 "	65	82	63	86	70	102
1935 "	69	84	66	88	72	97

* Last quarter of the year.

Wholesale price indices include a relatively large number of staple commodities for which world market quotations are as a rule decisive, and the changes in these indices in the different countries must therefore to a large extent harmonise. From December 1934 to December 1935 there was an increase in the wholesale prices of the three countries. As pointed out above, United States prices rose in the first quarter of the year and remained comparatively steady afterwards in spite of the withdrawal of much artificial support. In Great Britain the movement was upwards, particularly in the autumn. In France the wholesale price level fell until the middle of the year and then from August to December rose rapidly by 6 per cent. and has continued to rise in the first three months of 1936. If the wholesale prices are calculated on a gold basis and taken in relation to 1913, the level in France is somewhat higher than the price levels in Great Britain and the United States; but it should be noted that the discrepancy between the French and American prices, for instance, was in April 1936 within 10 per cent.

Movements in the index figures of the cost of living differ more profoundly from country to country, and are often considered to indicate changes in relative price



levels more adequately than the wholesale price indices (though of course there is no simple set of figures which gives a reliable indication of the "economic rate" between two countries). In the United States the cost of living in terms of the national currency went up by more than 15 per cent. from the lowest point reached in 1933 to 1936, while in England there has been a rise of 4 to 5 per cent. In France the cost of living continued to fall during 1935, the decline from the previous year being 5 per cent. On a gold basis the cost of living

in France is still higher than in the other two countries but the difference has been reduced in the course of the year. Moreover the discrepancy in France between the index figures for wholesale prices and those for the cost of living, which at one time was considerable, is now hardly any greater than in Great Britain. It would seem as if through these diverse movements (and notwithstanding the recent rise in French wholesale prices) the relative levels of costs and prices in France, Great Britain and the United States have on the whole become better adjusted to each other.

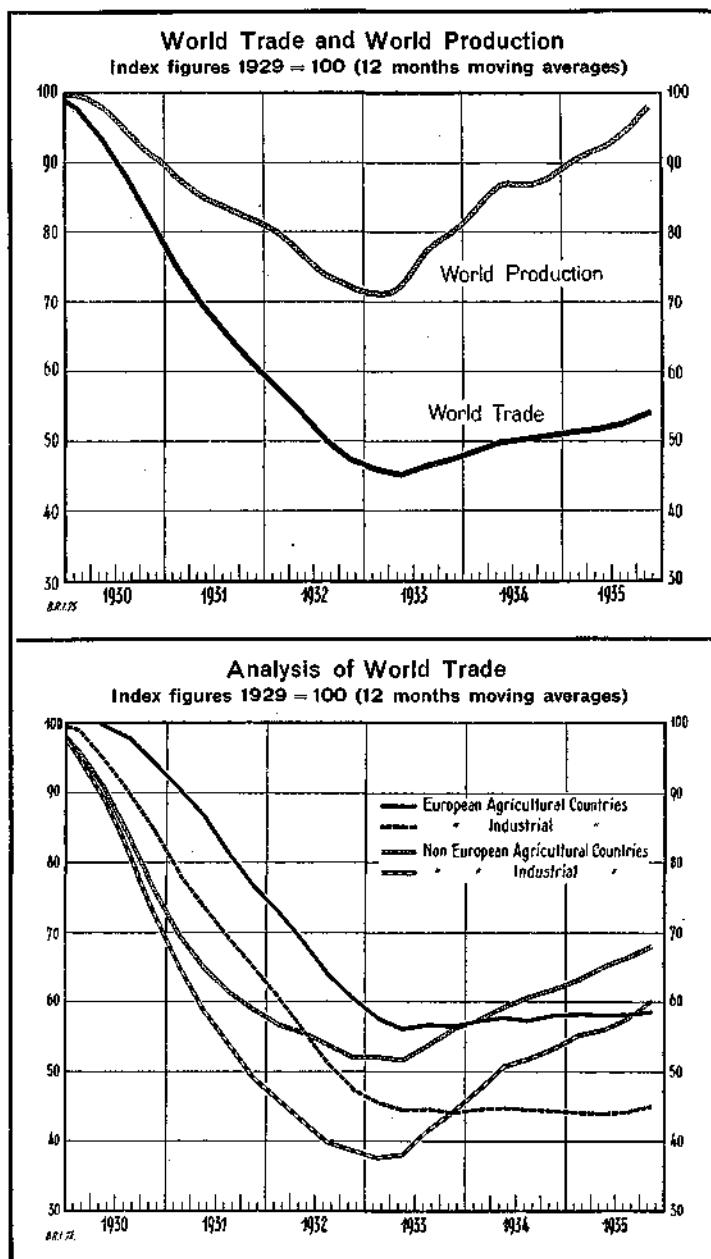
The adaptation of prices to a better equilibrium is noticeable in the internal movements in a number of countries. The preceding graph shows, for the United States,

how prices of farm products are now much better balanced in relation to the general price level than they were a few years ago.

The recovery in business during 1935 is reflected in a slight improvement in world trade, as can be seen from the graphs opposite based on figures calculated in national currencies by the German Institute for Business Research (Institut für Konjunkturforschung).

The quantum of goods moving from one country to another now stands within 20 per cent. of the 1929 level. International trade lags behind the advance in national production which in a number of countries has already reached or even surpasses the 1929 volume. This is another illustration of the strength of the autarchic tendencies in the world of to-day.

It is naturally in those areas where exchange regulations, quotas and similar obstacles hold sway that the smallest improvement in foreign trade is found; and it is therefore not surprising that the continent



of Europe is the greatest sufferer. By their exchange control individual countries have continued to stave off disequilibrium in their foreign accounts but, caught in the meshes of a web of hampering restrictions, they have found no means of achieving an expansion of trade. The results obtained under the so-called "New Plan" which was adopted in Germany in the spring of 1935 are significant in this connection: the import surplus of RM 284 million in 1934 was converted to an export surplus of RM 111 million in 1935, but this change was effected to the extent of only one-quarter by an increase in exports and of three-quarters by reduction in imports.

Among the measures in force which restrict the flow of goods from one country to another there are some which have been imposed for reasons of general politics, related either to purely internal developments or to considerations of an international character. But there are other measures, for instance in the form of exchange regulations, which cannot be said to serve any national purpose. The sooner such obstacles are abolished by common consent the better. It may be that the intensification of protection in recent years has made it more difficult to attack the problem of exchange restrictions but, on the other hand, the possibility of arriving at a solution has certainly been facilitated by the great reduction in the volume of international indebtedness since 1931. The present moment would seem to be propitious for new efforts to be made in this connection. The cyclical movement of business seems at last to be in an upward direction; and the long-term tendency of prices which for a decade has been under the influence of a downward pull is also beginning to turn.

III. THE SUPPLY AND MOVEMENTS OF GOLD.

In 1935 the world's gold production not only attained a new high figure but the absolute increase in the year was the largest ever recorded; and although the amount released by China, India and Egypt showed a declining tendency (amounting to only half of the peak year of 1932), the combined supply of new gold from current production and the East was slightly higher than in 1934. Again a part of the new gold available was absorbed by fresh private hoarding, for the increase in the gold hoarded by private individuals and firms resident on the continent of Europe was only partially counterbalanced by reductions on other accounts as, for instance, in the amount held in London by American individuals and firms. Large gold losses were sustained by the central banks of France, Holland, Italy and Switzerland. The largest recipient of gold was the Treasury Department of the United States which received an amount not far short of double the year's total production. The gold reserves of the Bank of England and of several other central banks, particularly in the sterling area, were strengthened, and the British Exchange Equalization Account also added considerably to its holdings.

(1) THE SUPPLY OF GOLD.

Estimates of the world's annual gold production are necessarily somewhat approximate, as complete data are lacking for a number of countries. But one thing is certain, the production of gold continues to rise at a pace more rapid than ever before. Since 1929, i. e. in the course of the past six years, the output of gold has risen by fully 50 per cent. and by no less than 150 per cent. if valued in currencies which have depreciated by 40 per cent. (as e. g. the dollar at the legal price of \$ 35 per ounce and sterling with a gold price in London of slightly above 140/- per ounce). The following table shows the world's gold production in 1915, the record year before 1932, and each year from 1923 onwards.

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	4,040	19,673	2,108
1930	10,716	2,286	2,102	1,434	4,184	20,722	2,220
1931	10,878	2,396	2,694	1,701	4,702	22,371	2,397
1932	11,559	2,449	3,044	1,990	5,224	24,266	2,600
1933	11,014	2,537	2,949	2,667	6,347	25,514	2,733
1934	10,480	2,916	2,965	4,263	6,715	27,339	2,929
1935	10,773	3,619	3,280	5,650	7,356	30,678	3,287

* Record year before the years 1932-1935. ** Including the Philippines.

Although the Union of South Africa is still by far the most important gold producing area in the world, the South African production has not kept pace with the expansion in other countries. There was even a decline in output in 1933 and again in 1934; a slight recovery in 1935 was not enough to bring the figure back to the 1932 level. But this comparatively even tenor of production does not mean that the gold mining industry in South Africa has stood still, for a marked development has in fact taken place. When the price of gold rose in terms of the South African currency, it became possible to exploit ore of lower grades, particularly large tonnages of ore which had been exposed in previous years but could not be milled profitably at the price then obtainable for the metal. In its report for 1935 the Union Corporation of South Africa explained that the addition of this low grade ore to the ore reserves justified an increase in milling capacity, but this involved in most cases an extension of reduction works and in some cases the sinking of new shafts — both of which took time.

The immediate effect, therefore, of the increase in the price of gold was a fall in the grade of ore treated and a consequent fall in the production of gold on the Rand. But the Union Corporation estimates that by 1937 the increased capacity of the plant and the bringing into production of new mines will more than offset the reduction in output due to the milling of low grade ore, and that thereafter production in the Union of South Africa should steadily expand and may possibly approach the 15 million ounce mark within the next five or six years.

The marked increase in Russian gold production which began in 1928/29 continued in 1935, thus confirming the U.S.S.R.'s position in the second place among the gold producing countries, and recalling the fact that in the first half of the 19th century, before the discoveries in California, Russia was the largest producer of gold in the world. The production in 1935 was seven times as large as in 1927, very great efforts having been made to modernize the technical apparatus and make new discoveries. The Chief of the Soviet Trust concerned with gold production announced that the gold industry was the first to complete its programme under the Five Years Plan. He also estimated that by 1940 Russian production would reach the present level of the Union of South Africa, i. e. between 10 and 11 million ounces, equal in value to about 1,200 million Swiss francs.

Both in the United States and in Canada gold production has advanced well in the course of the year; in the latter country the government successfully carried out a programme of geological research in the regions where it was expected to find gold. The number of Canadian gold mining enterprises rose from 32 at the end of 1931 to 155 in 1935 and their daily operating capacity from 16,000 to 29,000 tons of ore. It is not so much large mining concerns as a number of small proprietors that have played a preponderating part in the expansion of production.

With the exception of Colombia, the output of gold seems to have been maintained or increased all round during the year. The increase certainly helped the producing countries in the promotion of domestic recovery and in meeting foreign liabilities; it had, however, a beneficial effect also in a more general way, for it meant a strengthening of the purchasing power of the world available especially for purchases on foreign markets and thus tended to facilitate expansion of trade.

There was a decline in 1935 in the amount of gold provided by the East from the release of hoards. Shipments from India were still important, but very little came from China either directly or smuggled by way of Hong Kong. Even a reversal of the current

set in at the end of the year when the Chinese Government obtained \$ 10 million in gold from the United States government as part payment for a sale of silver. India's exports will presumably continue to decline and the country might become a purchaser of gold if economic conditions showed a decided improvement. The following table shows the net gold exports from India, China and Hong Kong in the period 1931 to 1935.

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	706	54	68	828
1935	495	43	34	572
Totals	3,345	343	324	4,012

The increase which took place in the production of gold during 1935 was just sufficient to counterbalance the decline in the shipments from the East, with the result that Sw. frs. 3,860 million of new gold, rather more than in 1934, became available to meet the demand for monetary and other purposes.

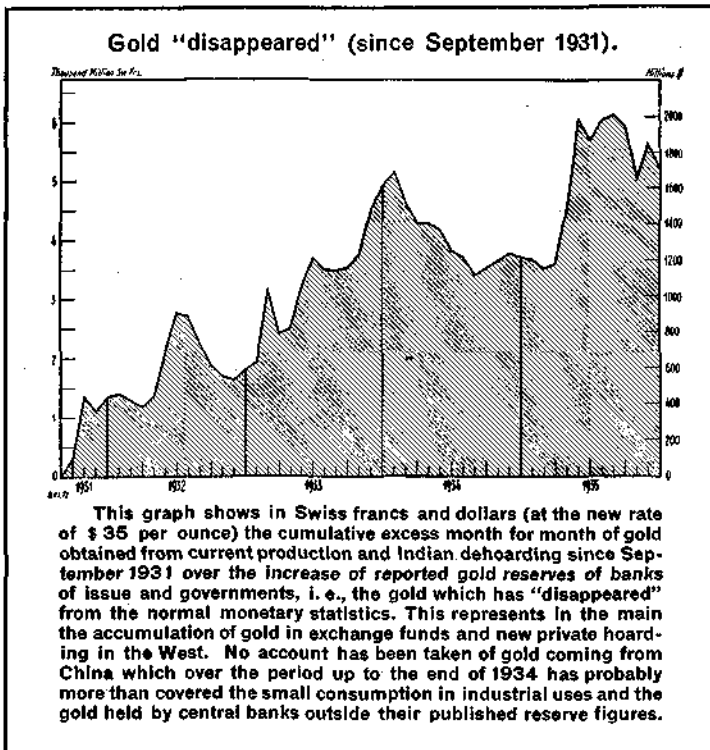
In Italy large collections of gold were made in the late autumn of 1935, the public being actuated by patriotic motives; but the amount obtained has not been published and could barely have been available for monetary uses at the end of 1935.

It has not been necessary in recent years, prior to 1935, to make allowance for industrial requirements, for these have been more than met by the recovery of old gold from the public. In some countries, notably Great Britain, it would appear that in 1935 also the amount of old gold available has been sufficient to supply the needs of industry but it is known that, for instance in France and a number of other countries, this has not been the case. On balance there would seem to have been a net consumption of gold in industry which may be tentatively estimated at about Sw. frs. 160 million, representing about 5 per cent. of current gold production. If the net amount of gold consumed by industry be deducted from the supply of new gold from the mines and the East, there remains a net amount of approximately Sw. frs. 3,700 million available for monetary purposes.

Where has this gold gone? About Sw. frs. 1,700 million represent a net increase in the aggregate reported gold holdings of banks of issue and governments. As to the destination of the remainder, amounting to Sw. frs. 2,000 million, no exact information is available, but it is possible to give at least some indication of the main direction this gold has taken, whether it has gone to swell private hoards or been absorbed into the stocks of exchange funds, or found its way into the gold holdings which several central banks maintain outside their reported reserves.

As regards hoarding, the year has been characterized by a number of diverse movements. There have been certain notable reductions in the amounts held in hoards. When the Swiss market became exposed to an acute strain of foreign withdrawals in the spring of 1935, the private banks employed gold in their possession to procure liquid funds. Americans who particularly in 1933 had acquired gold in London and elsewhere sold a large part of this gold in the course of 1935 and repatriated the proceeds, actuated partly by fears of conflicts between European powers, partly by a growing belief in

the stability of the dollar and by a desire to invest their capital in securities on the American stock exchanges to profit by the rising quotations. Furthermore, large international trading concerns which had begun to keep a substantial part of their cash in gold or to hold gold as a counterpart to commercial transactions as an insurance against losses, seem to have kept less actual gold and dealt more in currencies, taking advantage of the greater de facto exchange stability during the past year. But against these reductions must be set the continued increase in hoarding by individuals and firms resident on the continent of Europe. On balance there was undoubtedly a net increase in the total amount of gold privately hoarded, but the increase was probably lower than in any of the previous four years. (There has, however, been an intensification of private hoarding in the first quarter of 1936, but this period cannot yet be fully reviewed.)



A certain amount of gold would also appear to have been taken by central banks and kept outside their statutory gold reserves, being included for instance in the foreign exchange holdings or "miscellaneous assets". A large part of the Sw. frs. 2,000 million in gold mentioned above has, however, been acquired by the special exchange funds. The gold held by these funds must of course be said to serve a monetary purpose for it is specifically employed to provide for intervention on the markets with a view to ironing out fluctuations in the exchange and is thus available for the settlement of foreign balances. The

British Exchange Equalization Account in particular has added considerably to its gold holdings during the year, while the foreign liabilities of the London market have also risen though not in the same proportion.

Taking all these factors into consideration it appears probable that the total monetary gold stock (including the exchange funds) increased by about 5 per cent. during the year. And the total gold production of the year increased by 12 per cent. These are very rapid rates of increase and, as has been mentioned above, further rises in output are expected within the next few years both in South Africa and in the U. S. S. R. What effect this mounting gold production may have on prices is a question already widely discussed. There are a number of indications which all appear to point in the same direction. Firstly, the slowing down of the annual increase in population in many countries which began during the war is now affecting the active population, persons above sixteen years of age. Secondly, a policy of cheap and plentiful credits is being applied wherever possible

and it is foreseen that where interest rates have not yet fallen reductions will be made as soon as market conditions permit. Thirdly, a great many governments are spending for armaments and other purposes more than they can well afford. Fourthly, the starting point for a rise in prices, the present price level as calculated on a gold basis, is particularly low in Great Britain, the United States and other countries of which the currencies have depreciated. In spite of the upward tendency of prices in 1935 the level when measured on a gold basis still remains well below the lowest point ever reached from 1800 to 1930. Assuming that about the present price of gold in sterling and the present gold value of the dollar are retained, there is a likelihood of a continued rise in commodity prices on the British and American markets. Such a rise will no doubt tend to facilitate a general return to equilibrium in the near future and should be welcomed from this point of view. But developments need watching, for a marked rise in prices is not an unmixed blessing but brings its own dangers and difficulties.

(2) THE FLOW OF GOLD BETWEEN MONETARY CENTRES.

Apart from the distribution of new gold from current production and the East, the outstanding movement during 1935 was the very substantial loss of gold sustained by the central banks in France, Holland and Switzerland. For France this loss contrasts sharply with the large inflow which occurred in the previous year when the Bank of France was, after the United States Treasury Department, the biggest recipient of gold. Indeed, the various changes in the direction of the gold current to and from the gold bloc countries in the period 1931 to 1935 clearly illustrate some of the main forces which in that period influenced the transfer of funds from one market to another.

Gold Reserves (in millions)	Bank of France		Nederlandsche Bank		Swiss National Bank	
	Total	Yearly change	Total	Yearly change	Total	Yearly change
	French francs		Guilders		Swiss francs	
End of 1930 . .	53,578	+ 15,285	426	+ 461	713	+ 1,634
" " 1931 . .	68,863	+ 14,154	887	+ 146	2,347	+ 124
" " 1932 . .	83,017	— 5,919	1,033	— 111	2,471	— 473
" " 1933 . .	77,098	+ 5,026	922	— 80	1,998	— 88
" " 1934 . .	82,124	— 15,828	842	— 199	1,910	— 521
" " 1935 . .	66,296		643		1,389	

In 1931 and 1932 the central banks of France, Holland and Switzerland gained gold on a very large scale. This was partly due to the conversions of their own holdings of foreign exchange into gold; at the same time, the private banks of these countries called for repayment outstanding credits which had previously been granted abroad; moreover, floating funds in search of security were attracted to the countries whose currencies remained on gold and were backed by particularly large monetary reserves. With regard to this last factor there was, however, a change of sentiment in the summer of 1933 caused by the clash of opinions at the Monetary and Economic Conference held in London, and in the autumn by a number of concurrent events, including the inauguration of the

gold buying policy in the United States, budgetary difficulties in France and pronounced weakness of sterling. Foreign funds which had been invested in the markets of the gold bloc countries were withdrawn and their central banks sustained losses of gold reserves. In 1934, on the other hand, the Paris market saw a reversal of the current; the French public began to bring home funds which had in some cases been held abroad for years, and this repatriation was at times on a very large scale. The Bank of France gained gold, but both the Nederlandsche Bank and the Swiss National Bank lost on balance, although the amounts were inconsiderable. But in the following year, 1935, the strain on the gold bloc countries became very acute, first after the devaluation of the belga on 1st April and again in the summer and late autumn. As far as the Swiss market was concerned, the outflow was largely the result of withdrawals by foreigners who in previous years had made investments in Swiss securities or kept money on deposit in Swiss banks, but the foreign balances withdrawn from the French and Dutch markets were not of a magnitude to explain the outward movement of funds; in fact in both these cases the main movement was the result of an export of home capital by nationals. Throughout the period since 1930 the gold movements to and from France, Holland and Switzerland have been almost entirely due to capital movements and not to any considerable surplus or deficit in the current account of the balances of payments.

To indicate the changes which have taken place in monetary reserves generally, the table on the next page sets out the reported gold stocks in each country at the end of 1934 and 1935 respectively and at the end of March 1936, the countries being divided into three groups: those in which the reserves fell during 1935 (Group 1); those where there was no change in the magnitude of the reserves (Group 2); and those in which an increase occurred (Group 3).

Poland, which until April 1936 remained one of the few countries whose currency was maintained at the gold parity without legal exchange restrictions, also felt the strain in 1935 as is evidenced by the net export of gold. The Annual Report of the Bank Polski for 1935 explains that the reduction in the gold reserves from Zl. 503 to 444 million in the course of the year was partly due to hoarding of gold coins internally in the early summer and again in the autumn, and partly to a shrinkage in the export surplus (from Zl. 177 million in 1934 to 66 million in 1935), which was felt the more as a portion of the amounts due in payment of exports was immobilized in countries with exchange restrictions. The gold reserves of the Banca d'Italia fell from Lit. 5,811 million at the end of 1934 to 3,027 million at the end of 1935, the bank having to provide foreign exchange for payments largely connected with the military campaign in Africa. It should be explained that the gold collected from the public in the late autumn is not incorporated in the holdings of the Banca d'Italia but is maintained in a separate fund under the ownership of the Ministry of Finance.

The gold reserves of the Reichsbank throughout the year remained at the low level of less than RM 100 million which had been reached in the course of 1934. After a slight improvement in the summer of 1935, the reserves again dropped in the autumn, the net change over the year being insignificant. The Reichsbank explains in its Annual Report that in the circumstances no alleviation in exchange control could be made, but that it was necessary strictly to adhere to the principles of the "New Plan", according to which allocations of foreign exchange would be made only to the extent that exchange became available. By strict control the total imports into Germany were reduced from RM 4,451 million in 1934 to 4,159 million in 1935 and, as at the same time exports rose from

Reported gold reserves of banks of issue and governments	Dec. 31, 1934	Dec. 31, 1935	Loss (-) Gain (+)	March 31, 1936	Loss or gain in the first quarter of 1936
in millions of Swiss francs					
Group 1:					
France	16,675	13,455	- 3,220	12,978	- 477
Italy	1,585	826	- 759	826 ⁽³⁾	0
Switzerland	1,910	1,389	- 521	1,509	+ 120
Holland	1,754	1,340	- 414	1,487	+ 147
Canada	669 ⁽¹⁾	578 ⁽²⁾	- 91	578	0
Dutch East Indies	236	167	- 69	177	+ 10
Poland	293	258	- 35	248	+ 10
Yugoslavia	163	131	- 32	136	+ 5
Uruguay	249	226	- 23	226 ⁽³⁾	0
Denmark	185	164	- 21	164	0
Spain	2,268	2,255	- 13	2,228	- 27
Danzig	24	12	- 12	12	0
Columbia	59	48	- 11	55 ⁽³⁾	+ 7
Lithuania	27	19	- 8	26	+ 7
New Zealand	76	71	- 5	71 ⁽³⁾	0
Ecuador	16	13	- 3	10 ⁽³⁾	- 3
Total	26,189	20,952	- 5,237	20,731	- 221
Group 2:					
Algeria	43	43	0	43	0
Argentina	1,235 ⁽⁴⁾	1,235 ⁽⁴⁾	0	1,235 ⁽⁴⁾	0
Australia	13	13	0	5	- 8
Belgian Congo	9	9	0	9	0
Egypt	165	165	0	165	0
Hungary	71	71	0	71	0
India	840	840	0	840	0
Latvia	46	46	0	46	0
Marocco	22	22	0	22	0
Portugal	208	208	0	208	0
Total	2,652	2,652	0	2,644	- 8
Group 3:					
Albania	7	8	+ 1	8	0
Austria	139	140	+ 1	140	0
Chile	89	90	+ 1	90	0
Czechoslovakia	343	344	+ 1	344	0
Peru	60	61	+ 1	61	0
Bulgaria	58	60	+ 2	60	0
Germany	188	192	+ 4	180	- 12
Estonia	34	40	+ 6	40	0
Turkey	67	74	+ 7	76	+ 2
Mexico	70	80	+ 10	80 ⁽⁵⁾	0
Rumania	319	335	+ 16	339	+ 4
Finland	42	62	+ 20	65	+ 3
Belgium	1,837	1,857	+ 20	1,733	- 124
Norway	187	257	+ 70	257	0
Sweden	488	566	+ 78	631	+ 65
South Africa	562	649	+ 87	748	+ 99
Japan	1,205	1,302	+ 97	1,324	+ 22
United Kingdom	4,850	5,046	+ 196	5,066	+ 20
U. R. S. S.	2,277	2,569 ⁽⁶⁾	+ 292	858	- 1,711 ⁽⁶⁾
U. S. A.	25,216	30,992	+ 5,776	31,176	+ 184
Total	38,038	44,724	+ 6,686	43,276	- 1,448
Grand total⁽⁷⁾	67,300	69,000	+ 1,700	67,300	- 1,700

- (1) Government and chartered banks. (2) Bank of Canada and Government. (3) Latest date available. (4) October figure.
 (5) Gold at home. In addition an amount of gold not separately reported is held as part of the foreign assets.
 (6) The first balance sheet of the State Bank of the U. S. S. R. made on the basis of the new exchange value of the rouble (1 rouble equal to 3 French francs) was issued on 1st April 1936 and shows a considerable fall in the gold holdings in comparison with 1st October 1935. It is understood that the gold which has "disappeared" was taken over by the Finance Commissariat, but the exact amount held by this Commissariat is not known; the amount given in the table for the U. S. S. R. as on 31st March 1936 comprises only the gold reported by the State Bank. As can be seen from the table, the net decline in the aggregate gold holdings of central banks and governments during the first quarter of 1936 is explained by the reduction in the Russian figure. There was neither a decline nor an increase in the visible holdings of other banks of issue and governments, which seems to indicate that in the first quarter of 1936 the new supply of gold all went into exchange funds and private hoards.
 (7) Partly estimated and including also other countries.

RM 4,167 million to 4,270 million, the import surplus of RM 284 million in 1934 was converted into an export surplus of RM 111 million in 1935. These figures cannot of course be related directly to the gold and devisen position of the country as other items in the balance of payments must be taken into account and no estimate for 1935 has yet been published. It is interesting, however, to analyse the foreign trade figures and information is available to show that in the year 1935 sixty per cent. of German exports passed through clearing accounts. Any export surplus in favour of Germany on these clearing accounts is not in most cases freely available. Further, twenty per cent. of German exports was offset through private clearings or by so-called ASKI-transactions. Only twenty per cent. of exports were made for "free devisen" of which one-half was earmarked against standstill and other interest payments, so that only ten per cent. remained to meet import surpluses from countries with which no clearing existed and to cover amongst other foreign payments the expenses of German official representatives abroad, for example. Now, according to German customs statistics gold imports in 1935 exceeded exports by about RM 100 million, while the Reichsbank's gold holding abroad remained practically unchanged. A certain part of this import of gold may have been on foreign account but that part on German account, in so far as it was not used for industrial purposes, is understood to be kept as a special reserve against certain foreign commitments already incurred, particularly those of the "Konversionskasse".

Among other central banks which registered a decline in their gold reserves, Nationalbanken i Kjøbenhavn utilized Kr. 15 million for the repayment of an outstanding foreign credit and the Bank of Java drew on its reserves to meet foreign obligations; but an improvement set in at the end of the year under the influence of the recovery in the prices of overseas products from which the Dutch East Indies naturally benefited.

The continent of Europe has lagged behind the rest of the world in the recovery of business and particularly in the revival of foreign trade, this retardation being reflected also in the gold statistics. While the central banks in several countries on the continent of Europe suffered a loss of reserves, not one of them, apart from Soviet Russia, was able to add appreciably to its gold stock. Of particular interest are the developments in Belgium. In the first quarter of the year the National Bank of Belgium drew on its gold reserves to provide the exchange required to meet a strong outflow of funds. After the devaluation on 1st April 1935, there was an almost immediate return movement of amounts previously expatriated and an influx of other funds of a more temporary nature. The maximum gold holding was reached in June, since when a slight decline has occurred, presumably connected with the gradual withdrawal of some foreign-owned balances. At the end of the year the gold reserve, as shown in the balance sheet of the National Bank was only slightly above what it had been at the end of 1934. As to such moderate increases in reserves as have occurred, it should be mentioned that the National Bank of Rumania has acquired some gold from domestic production, and the National Bank of Yugoslavia has also somewhat strengthened its gold holding.

Besides the United States and Great Britain, mentioned below, a number of other countries have appreciably increased their gold holdings: among them are Norway and Sweden, and outside Europe, Japan and South Africa. In 1935 Japan had an export surplus, not large in itself (only 27 million yen) but the first the country has had since

the war. As regards South Africa, it should be recalled that in the course of 1934 and the first quarter of 1935 the Reserve Bank had increased its gold stock considerably and reduced its holdings of British Treasury bills. In the remaining three quarters of 1935 no further amounts were added to the gold stocks; on the contrary, a certain reduction took place, but on the year the gold reserve was higher by £3½ million.

The gold reserves of the United States increased during every month of 1935, the total increase over the year being \$ 1,887 million or Sw. frs. 5,780 million. The magnitude of this figure in relation to current production, recoveries from the East and the aggregate of net gold losses of the Bank of France, the Nederlandsche Bank and the Swiss National Bank, is shown for 1935 by the following comparisons:

	million Swiss francs	
Increase of U. S. gold holdings		5,780
New gold: Current gold production	3,290	
Gold recovered from the East	570	3,860
Aggregate of net gold losses of the Bank of France, the Nederlandsche Bank and the Swiss National Bank		4,160

The United States thus absorbed in 1935 an amount equal to the whole supply of new gold from current production and the East plus nearly half of the aggregate net gold losses of the Bank of France, the Nederlandsche Bank and the Swiss National Bank.

Of the increase in the United States gold reserves \$ 148 million were obtained from domestic production, return of coins and similar sources, while \$ 1,739 million came from net gold imports. In 1935 the United States also imported \$ 336 million of silver and the net imports of gold and silver together thus amounted to \$ 2,075 million. This extraordinarily large import of precious metals does not reflect any excess amount due to the United States on the current account of the balance of payments; it is especially significant that in recent years imports of merchandise have shown a steady increase:

U. S. A. Foreign Commerce	1932	1933	1934	1935
	in millions of dollars			
Imports of merchandise	1,323	1,450	1,655	2,047
Exports of merchandise	1,611	1,675	2,133	2,282
Export surplus	288	225	478	235
Net imports (+) or exports (—) of gold	— 446	— 173	+1,134	+1,739
Net imports of silver	+ 6	+ 41	+ 86	+ 336

Recent estimates of the balance of payments tend to show that the remaining export surplus and the income receipts from foreign investments are more than counterbalanced by tourist expenditure abroad, immigrants' remittances and freight payments to foreign vessels. The import of gold and silver in 1935 appears to result solely from movements on capital account. These movements, to which reference has been made in other parts of this Report, include the repatriation of American funds from Germany (e. g. under standstill agreements) and from London and Paris; the increase of European balances in American banks; and the transfer of large amounts for investment in the New York stock market.

In Great Britain the gold reserves of the Bank of England, which are valued at the old parity, increased during the year by £ 7.8 million, which at the present value of sterling corresponds to about £ 13 million. It can be concluded, however, that in addition the Exchange Equalization Account increased its gold holdings by an appreciable amount. Net imports of gold into Great Britain in 1935 had a value of £ 70 million at the current gold price. The Board of Trade in its carefully worded comment on this figure explained that "as in the two previous years the net inward movement of gold during 1935 was no doubt again due in part to gold being sent to this country and held here on foreign account though perhaps not to the same extent as in 1933 and 1934". An increasing proportion of the net imports has thus been available for purchases on British account, i. e. for the Bank of England and the Exchange Equalization Account. It is of interest to relate this conclusion to the world figure, already given above, of the amount of gold which "disappeared" in 1935. The total supply of gold from current production and the East was Sw. frs. 3,860 million, and if industrial requirements of about Sw. frs. 160 be deducted there remain Sw. frs. 3,700 million. Now the reported reserves of banks of issue and governments increased by Sw. frs. 1,700 million, leaving an amount of Sw. frs. 2,000 million or about £ 130 million sterling to be accounted for in other ways. Part of this gold, as has been explained above, was absorbed by fresh private hoarding, and part went into the holdings of central banks outside reported reserves, but a large amount must have been taken by government exchange funds and especially the British Exchange Equalization Account.

The increase in the reserves of the British monetary authorities are the net result of a number of diverse movements. There was, on the one hand, a surplus on the current account of the balance of payments estimated by the Board of Trade at £ 37 million, and a further surplus of something like the same amount derived from the repayments on foreign loans over and above new foreign issues; against this must be set, however, an amount not known exactly but evidently fairly substantial, representing private investments abroad, particularly in American securities. In relation to the United States there was further a transfer of balances to the New York market; but this decrease in foreign liabilities was more than counterbalanced by an increase in the amount of funds held in London by countries of the sterling area and the continent of Europe. Although a certain proportion of the continental funds went to reduce sterling liabilities rather than accumulate sterling assets, there would seem to have been on balance a net increase in the foreign liabilities of the London market, but this increase would appear to have been well within the additions to the gold stocks of the Bank of England and the Exchange Equalization Account.

Over the year the foreign liabilities thus rose to a certain extent in London and considerably in New York, but the increases in the gold reserves of these two centres were more than sufficient to take care of the new foreign commitments. Movements on capital account continue to overshadow the international transactions arising out of merchandise trade, interest payments and similar items. In 1935 only a minor part of the capital movements was caused by transfers of funds already held abroad; the most important movement represented an expatriation of home capital: British, French, Dutch, Swiss and other European investors bought American securities and further transfers were also made from the continent to London. In the course of the first quarter of 1936 the active buying of securities in New York for European account diminished, but the strain on the French market caused by the outflow of funds continued unabated. Obviously

movements of capital funds are difficult to foresee as they depend not only on financial and economic considerations but are largely influenced by the psychological disposition of the owners of the capital. An important point to retain is that only in the case of a few countries has disequilibrium on the current account of the balance of payments given rise to extraordinary shipments of gold. Should the movement of capital funds slow down, the effect would be felt as a distinct relief from the tension still affecting the gold position. Indeed, the current supply of gold from the mines is already so large and holds out such a prospect of further increases, that within a short time the world may be faced, not with scarcity but with an abundance of gold greater than has ever before been experienced.

IV. INTERNATIONAL SHORT-TERM INDEBTEDNESS.

The enormous reduction in the gold value of international short-term indebtedness effected through repayments and consolidations as well as by depreciation of currencies in which the debts were due was shown by the estimates made at the Bank for International Settlements and published in earlier reports: the aggregate of international indebtedness with maturity of not more than twelve months of European countries and the United States was given at the equivalent of 70,000 million Swiss francs at the end of 1930 and was estimated to have been reduced to 32,000 millions in 1933 and around 29-30,000 millions at the end of 1934. In the course of 1935 European debtor countries continued to liquidate outstanding liabilities and substantial amounts which had been held on deposit, particularly in English and French banks, were withdrawn by Americans but, on the other hand, foreign deposits in American banks rose considerably while the total of foreign deposits in London also increased somewhat. Fuller information has been made available to the Bank for International Settlements in 1935 than in earlier years, but comparable figures show that on balance there would appear to have been little change in the aggregate volume of short-term foreign debts outstanding in the world, although the frozen position was, perhaps, somewhat reduced.

It must be remembered that an estimate made at a particular moment of a total in fact continually changing in size and composition is in the nature of a snapshot which gives little idea of the movement or rate of turnover, important as a barometer of current business activity and an essential factor from the monetary point of view. (It appears that only in Finland are turnover statistics available of the banks' accounts with foreign correspondents and of foreign bills.)

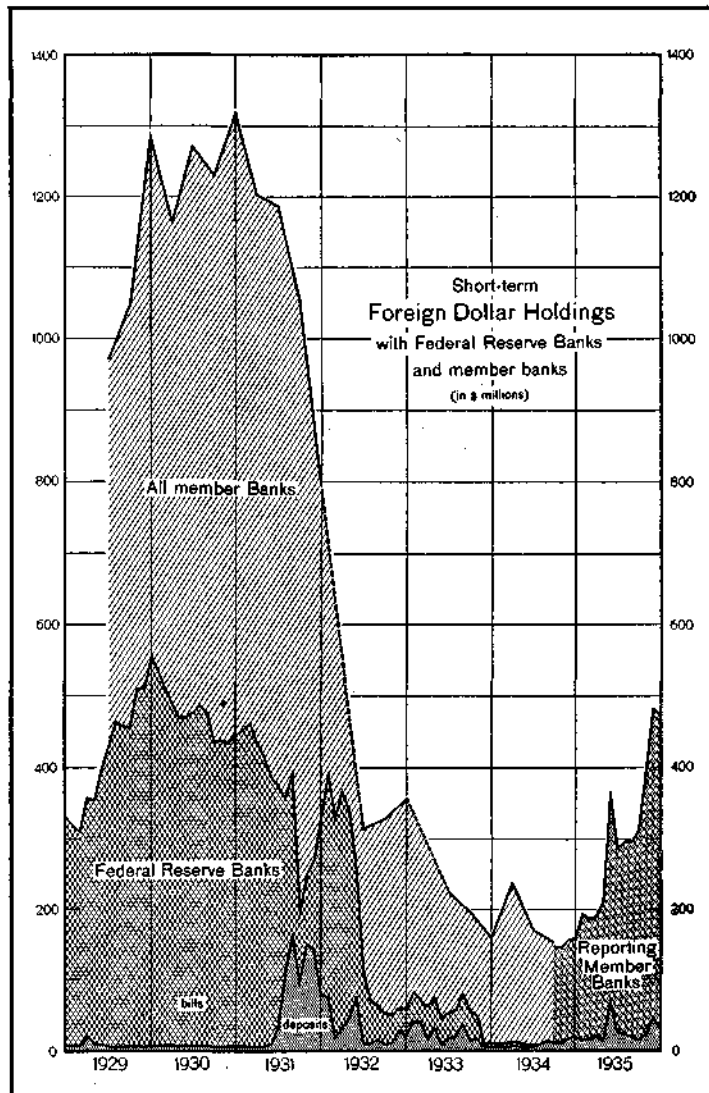
Further, it is important to bear in mind that the above estimates cover commitments of a very heterogeneous character, including the following classes of funds: i) Merchandise credits represented most typically by bills of exchange and re-imbursement credits. In normal times this would constitute the bulk of short-term international financing, fluctuating in volume according to the trend of world trade. ii) Contractual credits generally represented by some document. These are short-term "credits" in the strict sense of the word, being as a rule granted for a certain period as between banks or other institutions; the turnover of this class is now low since the imposition of standstill agreements and foreign exchange restrictions, the total being subject generally to a slow contraction as very little new lending of this nature is undertaken. iii) Liabilities resulting from a deposit or similar transaction and often represented by a mere book entry. They include all those deposits and short-term employments made for one reason or another largely in the important money markets which as a counterpart become debtors at short term. This class differs from that mentioned under (ii) largely on account of the initiative in the creation of the debt and raises the technical differences between a credit and a deposit. This latter class has in recent years been subject to rapid changes of volume and turnover.

In addition to the transfers of funds falling within these three categories, large movements of capital may occur in connection with transactions in long-term securities. Foreign holdings of bonds and shares represent for the market concerned potentially a short-term liability about which it is difficult to obtain adequate information. The outstanding feature of international capital movements since January 1934, when the new gold value of the dollar was fixed, has been a persistent flow of funds to the United States: American capital has been repatriated (both funds lent

to Europe in the post-war decade and funds transferred abroad in 1933 while uncertainty about the dollar prevailed) and more recently European funds have been sent to the United States partly for employment on Wall Street and partly to build up new balances. Although a large turnover in the short-term and foreign exchange markets has been evident and the consequent flow of gold to the United States has been a striking manifestation of this phenomenon, the movement has been only partly visible in the statistics of short-term funds covering the various national markets. The explanation is largely that funds which have moved through the short-term and foreign exchange markets have been employed to a great extent in long-term investments at each end of the chain. Nevertheless, it is of interest to follow this movement in so far as it is revealed in short-term statistics, especially as weekly statistics are now published covering over 90 per cent. of the foreign deposits with all member banks of the Federal Reserve System. As explained in the Federal Reserve Bulletin: "Statistics collected have been revised from time to time in response to new needs or changes in economic conditions and all new information of substantial accuracy and of public interest has been made available to the public".

Using the published statistics of the member banks and figures of foreign bank deposits and contingent liabilities on bills purchased for foreign correspondents of the Federal Reserve Banks, the graph on this page has been compiled to give a general idea of the movements of short-term foreign funds in the American market since the end of 1928; the volume thus obtained varies from 30 to 50 per cent. of the total foreign short-term liabilities of the United States according to the yearly data of the Department of Commerce.

The importance of the amounts previously held by foreign central banks on the New York market may be indicated by the fact that in the middle of 1929 the acceptances purchased by the Federal Reserve Banks for foreign correspondents rose above 40 per cent. of the total acceptances



outstanding in the market. This position has in recent years been almost completely liquidated, central banks having either converted their dollar holdings into gold or used them in the defence of their currencies. Further illustration of the great changes in relationship between the American and other markets is afforded by the movement of the total banking figures as published by the Department of Commerce and summarised in the following table:

United States international banking accounts	At end of year					
	1930	1931	1932	1933	1934	1935
	In millions of dollars					
Foreign short-term assets	1,802	1,239	1,053	1,082	1,216	852
Foreign short-term liabilities	2,737	1,465	870	487	614	1,219
Net position	— 935	— 226	+ 183	+ 595	+ 602	— 367

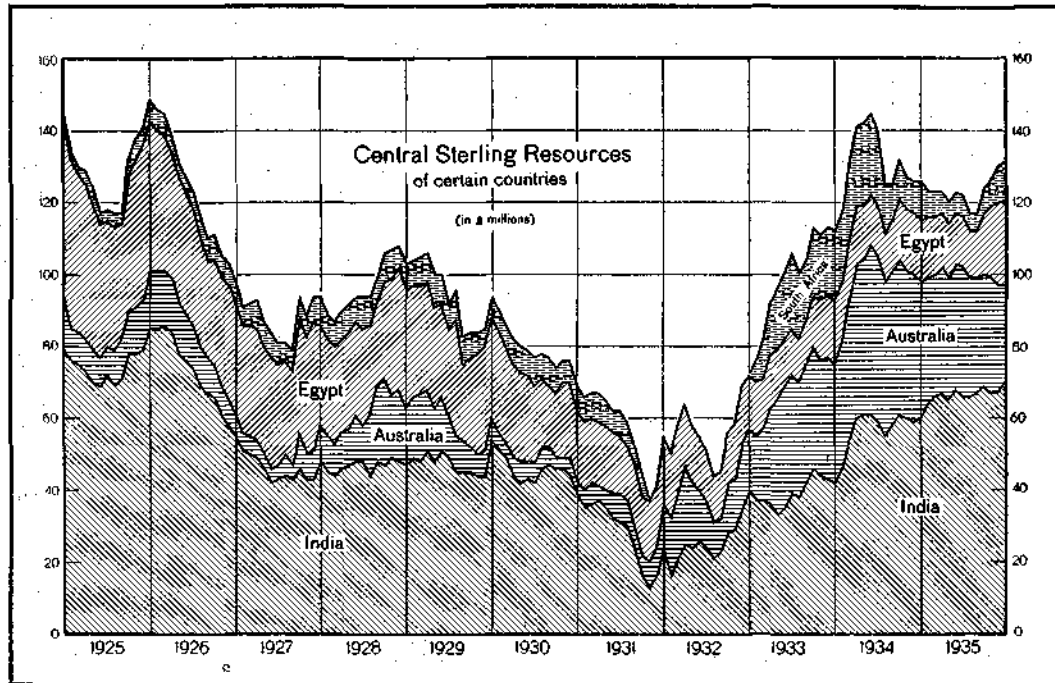
The reduction in the short-term foreign assets which were built up in the post-war decade continued until the end of 1932; after an interruption in the next two years the trend was resumed in 1935. On the liabilities side the withdrawal of money held in New York by foreign individuals and institutions went on at a rapid pace up to 1933; in the following year a return movement began and during the year 1935 foreign funds in American banks doubled in volume and reached the highest level since the spring of 1932. This increase of foreign funds in New York appears to consist not only of resources of European banks and private concerns but also to include a certain amount of flight capital. It is difficult to form an opinion of the volume of European funds which has gone into the New York stock exchange, but there can be little doubt that this has been considerable, especially during the past year. The following round figures of United States Steel Corporation common stock held by foreigners is an inadequate but perhaps significant indication:

U.S. Steel Corporation common stock Number of shares held by:	At end of year		
	1929	1934	1935
English	38,000	150,000	191,000
Dutch	42,500	157,000	186,000
All other foreigners	101,500	113,000	128,000
Total	182,000	420,000	505,000

— but even for 1935 this constitutes less than 6 per cent. of the total stock outstanding, compared with 25 per cent. in 1914.

London has in some respects been exposed to the same forces as the American market; for example, central banks on the continent of Europe generally disposed after 1931 of the sterling assets which they previously held. But the position of the London market as the financial centre of a number of countries within and outside the British Commonwealth of Nations made it subject to special influences which showed their effect both before and after the 1931 crisis. The following graph sets out as a representative sample the central sterling resources of four important countries holding sterling

in their reserves — India, Australia, Egypt and South Africa — according to the information published in these countries:



The reduction in central sterling resources from over £ 100 million at the end of 1928 to under £ 40 million in the autumn of 1931 gives one reason for the strain on sterling experienced during the years prior to the suspension of the gold standard and shows how London, as the financial centre of a group of non-industrial countries, stands to feel directly the strain of a decline in the prices of primary products in countries separated from it by thousands of miles. Yet this picture does not tell the whole story, for amongst other factors in the three years up to the middle of 1931 Australia borrowed almost £ 40 million at short-term in London, while India raised nearly £ 30 million of new money in the same year. Since 1931 there has been a rapid accumulation of central sterling resources to a level higher than at the peak of 1928. It should be noted, however, that commercial banks in general tend to hold less surplus sterling than in earlier years and to sell balances to the central bank as they arise. Further, special factors must be taken into account when judging the position of each of these countries: India has been able to pay off part of its maturing London debt out of accumulating balances; South Africa has similarly repaid the whole of its so-called war debt and has recently replaced part of its sterling holding, which had swollen to abnormal proportions early in 1934, by gold; Australian London funds were alimanted by sales of gold but, on the other hand, the whole of the short-term debt has been repurchased by the Commonwealth Bank and is now held in addition to the sterling shown in the graph (if gold and the sterling holdings of the trading banks be also taken into account, the international reserves of Australia are at present only half of the level of 1928-1929).

Similar movements of funds are shown by other countries of the sterling area. For example, the Sveriges Riksbank, besides increasing its gold holding, has accumulated some £ 30 million since the spring of 1932, while the Reserve Bank and trading banks

of New Zealand held at the end of 1935 over £ 30 million of sterling resources (whereas in 1931 the country was borrowing in London to cover maturing liabilities). Seen from the London point of view, these accumulations represent an increase in the commitments of the market towards sterling area countries. At the present time short-term resources of the sterling area in London constitute a great proportion of the short-term foreign liabilities of that market.

During the year 1935 the flight of European capital went largely through London en route for New York, sterling being a sort of conduit pipe through which these funds passed; but part of the capital remained in London, continental countries increased their bank balances, bought securities on the stock exchange and repaid sterling liabilities e.g. on commercial account. On the other hand, American funds invested in London and moneys previously held on deposit and in gold moved towards the United States. As a whole, outside the sterling area for which London is the natural centre, the foreign short-term assets held in the market did not greatly increase in 1935. But during the first quarter of 1936 there was a large flow of continental funds to England, only a minor stream passing on to the United States; the foreign short-term liabilities of the London market thus rose rather steeply but the increase was fully covered by an addition of corresponding assets in gold or foreign claims.

The position of the northern European members of the sterling area developed favourably during 1935. Thanks to a succession of years with an active merchandise balance (which closely determines the balance of payments), Finland was able to make substantial repayments of her foreign liabilities, both at short and long term, and by the end of 1933 became for the first time a creditor on net foreign short-term account. During 1935, however, foreign short-term assets were reduced by 250 million Finnish marks in spite of an export surplus of 860 million; the explanation lies in the fact that besides a gold purchase of some 300 million Finnish marks made by the central bank, 870 million of long-term bonds issued abroad were repatriated or redeemed. The current account of the Swedish balance of payments has yielded a surplus since 1932, and in addition fairly substantial amounts of Swedish foreign investments have been liquidated and the proceeds brought home. In 1935 the Sveriges Riksbank purchased gold for about Kr. 100 million, but nevertheless its net claims abroad rose by Kr. 76 million to a total of Kr. 629 (after touching Kr. 657 million in September — the highest figure ever reached), while the net position of the Swedish private banks remained practically unchanged according to the official statistics. In Norway also the net foreign position of the joint stock banks shows little change on the year, but the foreign exchange holding of the Norges Bank has risen from Kr. 57 million to Kr. 112 million, the portion "provisionally placed in gold" increasing from Kr. 16 million to Kr. 66 million. For Denmark the year has been more troubled. In the autumn a certain farming organization called a "valuta" strike, which by increasing the credit to English importers from the usual 10 days to 3 months would have deprived the Nationalbank of the normal influx of foreign exchange from exports for some 2½ months and thus, it was hoped, force a further depreciation of the currency. But the Nationalbank took precautions, inter alia raising the discount rate from 2½ to 3½ per cent., and the strike in fact broke down almost before it had started. Confidence in the stability of the krone was strengthened and a simultaneous recovery in the price of Danish export products helped to create a further improvement. In August the Nationalbank sold Kr. 15 million gold, using the proceeds to repay a Swiss credit of Sw. fcs 20 million which had been outstanding since 1932.

The countries of the gold bloc suffered a succession of extraordinary movements of funds during the year. The efflux of capital from Belgium reached its climax in March 1935 without, however, seriously affecting the position of the National Bank. After devaluation of the currency on 1st April (due to economic and political considerations of a general nature), a reverse movement of both national and foreign capital attained considerable proportions and contributed to the strengthening of the position of the commercial banks. This inward movement continued until June, after which some reflux occurred, insufficient, however, to reduce the central bank's ratio. At the end of the year net foreign short-term liabilities of the banks were about 1,900 million Belgian francs (compared with the National Bank's gold holding of over 17,000 million).

In April and May 1935 the storm shifted over Switzerland, Holland and France and returned at intervals throughout the year, particularly in July, September (Holland) and November (France). The incidents shown by a graph of forward rates in a previous chapter may be further illustrated by the following table which gives the gold losses (—) or gains (+) of the central banks each quarter from January 1935 to March 1936:

Quarterly movements of central gold reserves	1935				1936
	First	Second	Third	Fourth	First
	in millions of Swiss francs				
France	+ 104	— 2,359	+ 190	— 1,155	— 476
Holland	— 130	— 253	— 254	+ 224	+ 146
Switzerland	— 197	— 517	+ 177	+ 16	+ 120
Belgium	— 210	+ 313	— 84	+ 1	— 125
Total	— 433	— 2,816	+ 29	— 914	— 335
Italy	+ 4	— 64	— 365	— 334	.
Total	— 429	— 2,880	— 336	— 1,248	.

The movements were characterized by their concentrated intensity: in April 1935 the Swiss National Bank lost Sw. fcs 350 million, one-fifth of its gold reserve; in May the Bank of France lost Ffcs 9 milliards of its gold holdings and again nearly 6 milliards in November; the Nederlandsche Bank lost one-fifth of its gold reserve in a single week in July and the cover ratio fell 13 points. The Governor of the Bank of France at the Annual Meeting of the Bank in January 1936 said: "The wide spread of the forward rate discloses the existence of speculative positions which have not yet been definitively liquidated in spite of repeated setbacks. It would be vain, however, to attribute to this single cause the adverse tendencies which have been manifest on the exchange market. In fact, they result principally from a movement of export of capital which, particularly in November, was encouraged by a recovery of security values in the United States. Foreign deposits on the Paris market play too insignificant a rôle for their withdrawal sufficiently to explain these transfers of funds. In reality, more than ever, the fate of the franc is in the hands of the French." During the past year the exodus of capital has gone further than the mere liquidation of foreign assets in the principal money markets and has affected a deeper layer of funds. From Switzerland the outflow was mainly of moneys which for years had been invested in the country by foreigners; while the capital which went abroad from France and Holland was on the whole the property of nationals. The contraction of the

home market due to the export of capital and not the insufficiency of gold reserves which in fact remained adequate, caused the French Treasury in February 1936 to raise a credit of £ 40 million in London to cover expenditure in francs. The credit was granted at 3 per cent., a rate appreciably below that at which the operation could have been concluded in Paris, and appeal was naturally made to the cheapest market.

The gold losses of the Banca d'Italia, which, except for a balance sheet on 31st December 1935, has published no return since 20th October, were heavy in the second half of 1935 on account of the repayment of outstanding commercial and other credits and the purchase of further imports for cash.

In 1935 the gold value of the short-term indebtedness of Germany was not, as in previous years, reduced by any further depreciation of sterling and the dollar. The liquidation of the standstill credits, which in the summer of 1931 were the equivalent of some RM 6,300 million, has continued through the operation of registered marks:

Standstill Credits Utilized credit lines only	February 1934	December 1934	December 1935	Movement in 1935
	in millions of Reichsmarks			
England	615	517	545	+ 28
Switzerland	528	459	312	— 147
U. S. A.	639	430	366	— 64
Holland	328	224	142	— 82
France	104	68	31	— 37
Other countries	47	36	28	— 8
Totals	2,261	1,734	1,424	— 310

Although total English credit lines have been reduced the amount utilized has actually increased over the year; Swiss and Dutch availed credits have been reduced by about one-third and French by over a half; American withdrawals were much more moderate than in recent years. Since 1st March 1933 when the registered mark system was inaugurated RM 1,416 million has been withdrawn in this way, of which over 60 per cent. for tourist purposes in Germany.

The foreign debts of Hungary have decreased considerably since 1931, owing partly to the depreciation of certain foreign currencies and partly to capital repayments. The short-term debts subject to a standstill agreement between foreign creditors and their banking debtors have been reduced by more than one-half in the last four years. Repayments on short-term debts have been made by the Hungarian debtors in pengő. Pengő amounts paid on standstill debts could be converted into foreign exchange by means of additional exports under the Pengő Transfer Agreement and by way of sale for the purpose of tourist traffic, emigrant remittances and other similar transactions. In relation to certain countries Hungary became a creditor on clearing account and took advantage of this position to offset previous liabilities due to the same countries. Thus a part repayment on the \$ 5 million credit granted by the Reichsbank in 1931 was made during the year and at the beginning of 1936 the settlement of a previous credit was arranged with the Banca d'Italia.

The lapsing of the Austrian standstill agreement was recorded in last year's Annual Report. Early in 1936 a final settlement of the Credit Anstalt debts, which were provided for by an agreement outside the standstill, was concluded whereby the creditors agreed

to receive in full settlement of their "live claims" of 215 million schillings an immediate cash payment of 60 million and a further 40 million spread in instalments over 20 years. Of the Sch. 60 million required in foreign exchange, the National Bank provided 38.8 million from its reserve, 12 million were received from the Credit Anstalt and the remaining 9.2 million were covered by special settlements with individual live claim creditors. The immediate payment of so large an instalment in foreign exchange was possible owing to the favourable development of the position of the National Bank whose exchange holding had increased from Sch. 35 million to 112 million during 1935.

Russian short-term indebtedness which reached considerable proportions in 1930 became almost extinct during 1935 with the repayment of short-term German credits. In April 1935 a new trade agreement was signed with Germany, but the RM 200 million 5-year credit granted in this connection was only partly utilized at the end of the year. In 1932 46 per cent. of Russian imports came from Germany but in 1935 only 9 per cent.; Soviet debt repayments to Germany are estimated at only RM 60 million for 1936 against RM 220 million the previous year. The repayment of outstanding foreign credits has been greatly facilitated by the growing gold production. Russia has obtained long or middle-term credits from certain countries (Czechoslovakia, Italy, etc.) during the year but the first place for both imports and exports is now taken by Great Britain.

The accumulation of trade debts has caused difficulties in certain countries, notably Rumania and Spain, arrears amounting in the latter case to some six months' imports, a position which led to the arrangement of a clearing with England where Spain has a large active balance. When commercial debts remain unpaid for a protracted period the exporter is deprived of his working capital and exposed to the risk of currency fluctuations, a situation which has serious repercussions on the volume of international trade. In an increasing number of countries arrangements have been made through a central institution for frozen exporters' assets to be mobilized; in Yugoslavia and Hungary the provision of funds for this purpose has been a factor in the increase of the note circulation.

The movements of short-term funds from one market to another at the time of acute crisis in 1931 were chiefly caused by withdrawals of sums which at an earlier date had been placed on deposit with foreign banks or granted in the form of credits to foreign banks or other institutions. In the past year there also occurred withdrawals of a similar character, Americans in particular repatriating funds that they held on deposit abroad; but in 1935 the bulk of the transfers were of a different character. As a rule no credit transactions were involved, the nature of the movement being a transfer of private investments.

Attention must also be drawn to the effect which may be caused by a re-arrangement of the payment of commitments arising out of the import and export trade. In a number of cases when there was an apparent outflow of balances from a market, it was found that a considerable part of the pressure resulted from commercial firms covering their foreign commitments in advance or allowing maturing claims in foreign currencies to remain abroad for the time being. There may be a certain semi-speculative element involved in changes of this kind, but to a large extent it is natural for the commercial community to be prompted by the legitimate desire to avoid losses which might arise in the event of a sudden change in monetary values.

Speculation, in the strict sense of the word, may with borrowed money intensify a movement at any given time, but it can only be successful in so far as it creates a psychological atmosphere favourable for more important factors to come into play. After a series of discussions at Basle in the spring of 1935 between the governors who take part in the Board meetings of the Bank for International Settlements, central banks of the leading markets in Europe made arrangements with their private banks and other credit institutions with a view to checking the granting of credits for the purpose of speculation in gold or currencies. Particular care was taken that lending in respect of dealings in forward exchange should be restricted as far as possible to commercial or other non-speculative transactions. The restrictions agreed upon have to a large extent been effective in limiting the amount of speculation based on borrowed funds.

This intervention by the central banks has been important not only in so far as it checked speculation of an undesirable character but generally as a measure designed to guard against the dangers arising from sudden movements of funds from one market to another. In view of the importance of the flow of nervous money from a monetary point of view, it may be of interest to set out briefly the measures which may serve as safeguards against a dangerous development:

- (i) Firstly, central banks already keep a stricter watch on borrowing abroad than has been usual in earlier periods. More complete statistics are collected and they are analysed with increasing knowledge of the problems involved. Typical of the views which are beginning to be held was the statement by Dr. Klenböck, President of the Austrian National Bank (quoted in last year's Report) to the effect that Austria would not accept short-term foreign credits except those arising naturally from the import trade. Observance of that rule would exclude a class of credits which might easily render a country's situation highly illiquid.
- (ii) Secondly, central banks in creditor countries are also giving these questions increased attention, collecting more complete information and generally watching the position. The arrangements made by a number of central banks in the course of 1935 with credit institutions in their markets with a view to withholding advances for speculation in currencies and gold are a sign of the active interest taken in this matter.
- (iii) To be able to meet the strain of an outward movement of funds central banks must have at their disposal adequate monetary reserves. The revaluation of the gold holdings in countries with depreciated currencies will automatically increase the gold backing of their markets in relation to actual and potential foreign commitments. Furthermore, the increase in the current gold production (in weight now 50 per cent. higher than in 1929) provides a larger supply from which the reserves of central banks may be replenished. At the Monetary and Economic Conference held in London in 1933 a resolution was adopted recommending that increased elasticity should be given to central banks' legal cover provisions by the reduction, for instance, of the percentage gold cover to a minimum ratio of not more than 25 per cent. It was explained that such a change should not be taken as an excuse for building up a large super-structure of notes and credits, but should be made in order to increase the free reserves of central banks and thereby to strengthen their position. In conformity with this resolution, the laws and statutes of several central banks have been amended in such a way as to render the monetary reserves more effective

for the purpose of meeting foreign payments. In an emergency the reserves of a central bank may also be strengthened by the granting of credits from other central banks.

- (iv) Any undesirable influence which an outflow or inflow of migrating funds might have on the domestic credit position may be at least reduced by the credit policy which the central bank in the exposed market finds opportune to pursue. In planning their policy the central banks have to distinguish between gold movements which reflect a lack of equilibrium in the current balance of payments and which should be allowed to have their effect on the credit volume and other movements which are simply the result of a temporary outflow or inflow of funds.
- (v) Finally, it may be pointed out that the danger in 1931 arose not only from an exaggerated use of short-term credits for purposes properly requiring long-term financing but also from the fact that short-term funds were held abroad in excessive amounts and not always in their natural centres. It is evident, for example, that a large volume of sterling area funds in London, although subject to extensive movements over a number of years, is much less subject to sudden and violent waves than a similar volume of European funds. The position in 1930 was due largely to the overgrown foreign exchange standard which is unlikely in the future to assume the same proportions.

The extensive movements of funds in recent years have been caused largely by fears of abrupt changes in currency values. If a stable monetary system were re-established and general confidence restored, it is certain that much less anxiety need be felt with regard to rapidly-moving short-term balances. But even if monetary confidence were restored, say, to the extent found in the years before 1914, the evolution of short-term international indebtedness would still need watching, for important movements may occur other than those caused by fear of depreciation, affecting the liquidity of the money markets and occasionally taxing the reserves of the central banks. In a period of active international lending there may be an interval between the time when a loan is issued and when the funds are drawn upon, and during this interval the volume of short-term funds in the lending market may be swollen beyond normal proportions. Furthermore, a depression affecting a large number of countries may lead to a protracted strain on the monetary centre in which these countries keep their monetary reserves; the graph reproduced above on page 38, for instance, shows the drain on London in the years prior to 1931. And the large movement of funds to the United States for investment in call loans or securities on the New York stock exchange which occurred in 1928-1929 is another example of persistent pressure on the exchange situation at a time when there was no monetary unrest. It is thus essential that central banks should continue to collect information regarding international assets and liabilities and that the position as it develops should be studied closely in each national market and also from an international point of view.

V. THE TREND OF SHORT AND LONG-TERM INTEREST RATES.

The downward pressure on short and long-term interest rates which began in the spring of 1932 after the acute phase of the liquidity crisis of the previous summer and autumn had passed, still characterized developments in 1935. Outside Europe the tendency towards cheaper short-term money was continued almost without check. In Europe also the improvement continued in so far as a number of the higher rates were reduced, several central banks quoted the lowest rates recorded since the war or for all time, and some of the low rates have now been in effect for record long periods. But the rates of six European central banks were higher at the end of the year than at the beginning, the banks in each case taking steps to defend their currencies at a time when they were losing gold. As the influence of low short-term money rates has penetrated into the long-term markets a number of important conversions of long-term securities, particularly the obligations of governments and other public authorities, have become possible and were carried through during the year.

The tendency of short-term money rates in Europe can be seen from the following table which gives the bank rates of the twenty-six European central banks divided into three classes, showing the number in each class:

Central banks' discount rates	End of			
	1931	1934	1935	March 1936
Over 6 per cent.	15	4	2	2*
4 to 6 per cent.	7	13	15	15
3½ per cent. and under . .	4	9	9	9

* Greece and Albania at 7 and 7½ per cent. respectively.

Of the twenty-six rates thirteen remained unchanged in 1935 and seven were further reduced; six, namely, the rates of the central banks in Danzig, Denmark, France, Holland, Italy and Switzerland, were increased. The monetary unrest and uncertainty prevailing during the year and evident in the large movements of balances and gold was clearly reflected by the frequency with which bank rates were changed in the countries most exposed to the strain. Since 1925 there has been an average of some forty changes a year made by the twenty-six European central banks, about 1½ times per annum for each bank. In 1931 the number of changes was as high as sixty-three, the following years seeing a decline to the low level of sixteen in 1934. In this comparatively tranquil year no bank changed its rate more than twice. In 1935 there were forty changes of which twenty-five by two banks alone, the Bank of France making ten and the Nederlandsche Bank fifteen effective changes, while the Banca d'Italia made three. Except for these three banks the year was quieter even than 1934. In the first three months of 1936 there were four further changes in France and two in Holland. The large number of changes of bank rate in France and Holland receives added significance when compared with the past history of these countries. During the previous twenty years (1915-1934) there were altogether nineteen changes in France and twenty-four in Holland, while in the twenty years prior to the war there were fifteen changes in France and thirty-six in Holland. Comparison with England is also of interest and shows a striking contrast between the practices of pre-war and present times:

Number of changes of bank rate	Total number of changes in twenty years preceding the war (1894-1913)	Total number of changes in twenty years preceding 1935 (1915-1934)	Changes in one year to 31st March 1936*
France	15	19	14
Holland	36	24	17
England	90	38	nil

* There were no changes in the first three months of 1935.

The Bank of France and the Nederlandsche Bank both during the year increased their rates by jumps of 2 per cent. at a time; in each case this was the first time in a hundred years that such drastic steps were necessary, a fact which gives some measure of the tough resistance put up by these banks against forces threatening their currencies. After the devaluation in Belgium a large outflow of capital occurred from Holland, the Dutch rate being gradually raised from 2½ per cent. at the beginning of 1935 to 5 per cent. on 1st June, after which some relaxation occurred as the storm centre shifted over Paris. The French bank rate, also 2½ for the first four-and-a-half months of the year, was raised to 4, then in one jump to 6 per cent. on 29th May, at which level the rate remained for nearly a month before a gradual relaxation to 3 per cent. in August. In May 1935 the flow of funds from Switzerland caused the rate to be raised from 2 to 2½ per cent., at which it still stands. With the return of calm to France, Amsterdam again came under pressure, an internal political crisis reacting upon the exchange position. The rate was raised from 3 to 5 per cent. on 25th July and to 6 on the following day, remaining however for only a week at this level, but again being raised to 6 per cent. on 17th September, this time for a month before the downward movement which brought the rate to 2½ per cent. in February 1936. By this time the Bank of France rate had been reduced to 3½ per cent., to be raised again to 5 per cent. at the end of March.

The other central banks which raised their rates as their currencies came under pressure during the year were the Bank of Danzig, which jumped from 4 to 6 per cent. early in May (with, however, a reduction to 5 before the end of the year) and the Nationalbank i Kjøbenhavn, which raised its rate from 2½ to 3½ per cent. on 22nd August under the threat of the farmers' "valuta strike" mentioned in the previous chapter; and the Banca d'Italia increased its rate from 3½ to 4½ per cent. in August and to 5 per cent. in September 1935.

A development of importance in Paris during the year under review has been the initiative taken by the Bank of France to extend additional credit facilities to the market. On 21st February 1935 the Bank decided to allow advances for thirty days maximum against government securities of maturity not exceeding two years at a rate below that for ordinary advances. The new rate was first fixed at 2⅝ per cent., ⅛ per cent. above bank rate and 1⅞ per cent. below the ordinary advances rate. When bank rate was raised to 3 per cent. however on 23rd May 1935 the new rate was also raised to 3 and has since remained equal to bank rate, changes being made from time to time with that rate. From small beginnings in May 1935 these new facilities have been increasingly used, particularly during the heavy withdrawals of funds in May and November 1935 when the volume of thirty days' advances outstanding amounted to about Ffcs 1 milliard. During the year 1935 the total of all advances granted under this head amounted to Ffcs 16½ milliard

(compared with 22 milliard of ordinary advances which with an average balance sheet figure of somewhat over 3 milliard for these advances show a much slower rate of turnover).

The ordinary discount facilities of the Bank of France were also utilized in an increasing degree during the year, especially in May and November: at the end of 1935 the portfolio stood at about Ffrs 10 milliard, an increase of 6 milliard on the year, while during the same period the balances of the banks and other private deposits at the Bank of France fell by 6 milliard to 9 milliard. The portfolio of the Bank of France continued to increase in 1936, amounting to about Ffrs 13 milliard at the end of the first quarter, the highest figure since the stabilization of the franc. The Bank of France in its Annual Report says that the importance which government securities, particularly Treasury bills and bonds of the Défense Nationale, have assumed for the employment of short-term funds imposed an obligation on the Bank to give holders the certitude that in certain conditions they would always find at the Bank the temporary assistance of which they might stand in need. To this effect, within the limits of the discount line allowed to any borrower, the Bank has received both Treasury bills and commercial bills for discount without distinction.

Market conditions in Berlin which are largely unaffected by foreign influences have remained very liquid. Bank rate has remained unchanged at 4 per cent. (since 22nd September 1932) but the market rate of discount fell from $3\frac{1}{2}$ per cent. in December 1934 to around 3 per cent. in the second half of 1935. Surplus funds on the market have been mopped up by the issue of three months' sight bills by the Golddiskontbank amounting to some RM 700 million during the year, these bills being eligible for rediscount with the Reichsbank.

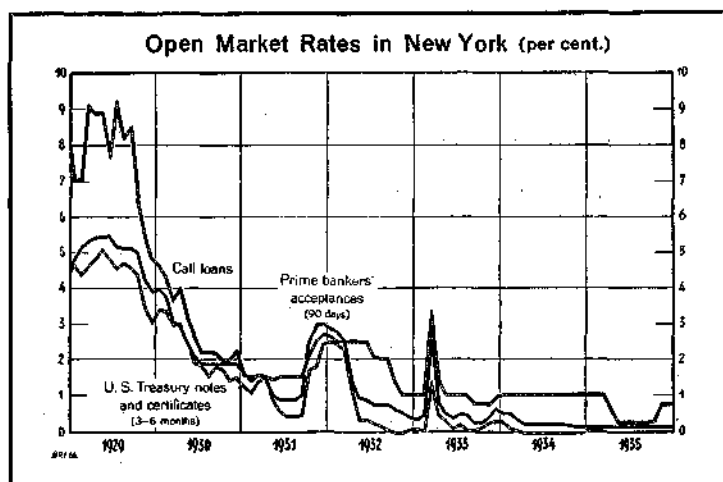
In England, where bank rate has been unchanged at 2 per cent. since 30th June 1932, the London rate of the clearing banks for seven-day deposits remains at $\frac{1}{2}$ per cent., with higher rates for foreign and longer-term deposits. The most important market rate, that for Treasury bills, reached its lowest point in January 1935 at under 0.2 per cent., rising however towards the end of the year to slightly over 0.75 per cent. The average for the year was 0.55 per cent. against 0.73 per cent. in 1934. The rather firmer trend of money rates was brought about largely by technical causes arising from the internal mechanism of the money market itself and particularly the clearing banks' decision not to tender for Treasury bills below their lending rates to the market. The development of the London money market has taken place without any further enlargement of the credit basis, bankers' balances at the Bank of England remaining around £ 100 million, the level to which they were raised in 1932.

The seven European countries where bank rate was reduced during 1935 were Austria, Belgium, Bulgaria, Estonia, Hungary, Spain and Yugoslavia, while a decrease was made in Czechoslovakia on 1st January 1936. The decreases were mostly moderate, being of $\frac{1}{2}$ per cent. in each case except Yugoslavia ($1\frac{1}{2}$ per cent.), Austria and Bulgaria (1 per cent.); but the reductions are the continuation of a movement which has now been operating for some years and the present rates are very low compared with earlier times. All these countries except Belgium have more or less isolated their internal money markets by exchange restrictions and in many of them funds which have been accumulated for the service of foreign debt remain untransferred and are employed in the short-term market. These factors give a certain element of artificiality to the market rates in such countries but, on the other hand, the rates tend to become effective in the internal credit structure penetrating to the savings banks and mortgage institutions.

Outside Europe, the only central bank which has raised its bank rate during the year is the Bank of Java, where an increase of $\frac{1}{2}$ to 4 per cent. was made. In the United States none of the twelve Reserve banks applies a rediscount rate of more than 2 per cent.:

Number of Reserve banks	End of			
	1931	1933	1934	1935
Per cent.				
4	2	.	.	.
$3\frac{1}{2}$	10	5	.	.
3	.	1	3	.
$2\frac{1}{2}$.	5	5	.
2	.	1	3	10
$1\frac{1}{2}$.	.	1	2

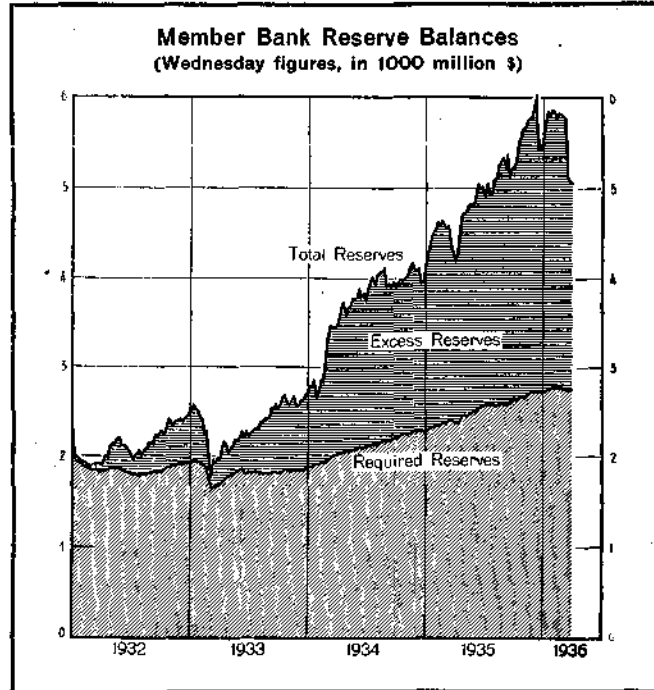
Elsewhere, over a wide area, similar conditions exist: Bank rate in Canada is $2\frac{1}{2}$, in India and the Argentine 3, in Japan slightly over $3\frac{1}{4}$, and in New Zealand and South Africa $3\frac{1}{2}$ per cent. But the liquidity of the banking systems is so great that even these low rates are out of touch with market rates and are thus rather nominal; the central banks of India, New Zealand, Canada and the Argentine have no discount portfolio of inland bills whatever, while internal discounts in the United States and South Africa are negligible. In such circumstances bank rates tend to become ineffective and have frequently been left behind the markets. In the United States rates have fallen so low that for three months' Treasury notes and certificates a negative yield has been quoted at certain times. These short-term bills may be bought at an apparent loss on account of exchange rights which give the possibility of conversion at par into a longer-term security obtainable otherwise only at a premium. The movement of open market rates in New York during the past seven years is brought out clearly in the following graph.



The continued fall of short-term rates in the United States is attributable to the influx of gold which increased excess reserves by over \$1,000 million to \$3,000 million during the year and to the methods adopted by the United States Government to finance the budget deficit and relief expenditure.

The existence of such large surplus reserves of cash, which might be the basis for a considerable expansion of member bank credit, led to a recommendation in November 1935 by the Federal Advisory Council (consisting of twelve members appointed by the twelve Reserve banks respectively) that these excess reserves should be eliminated or greatly reduced by open market sales of government securities (or permitting these securities to "run off" as they mature) while the less flexible weapon of raising the per-

centage of required reserves should be retained for subsequent use. Although these measures have not been taken and the natural check of gold exports has not come into play, yet excess reserves were reduced from their maximum of \$ 3,310 million on 11th December to \$ 2,310 million on 1st April 1936. This reduction of \$ 1 billion has been the resultant of a number of forces of which by far the most important was the accumulation by the United States Treasury of \$ 1,060 million on its accounts with the Reserve banks during the same period. But it is also of importance to observe that required reserves continue to increase as member bank deposits grow in volume: in December 1935 total member bank deposits subject to reserve requirements were \$ 32½ billion against \$ 28½ billion a year earlier, an increase of 14 per cent.



Banks in the United States are subject to strict regulations as to the interest which may be paid on deposits. The Banking Act of 1933 prohibits the payment of interest by all member banks on sight deposits. The Board of Governors of the Federal Reserve System has the power to limit the interest paid on time deposits and Regulation Q in force from 1st January 1936 fixes the maximum rates for six months' deposits at 2½ per cent. and for 90 days' deposits at one per cent. The Federal Deposit Insurance Corporation has fixed similar rates for insured non-member banks as from 1st February 1936.

The experience of the Swiss National Bank which has power to review certain interest rates of the banks is mentioned in Chapter VI. The same chapter in general sets out legislative changes with regard to control over interest rates. But also in countries where no definite legal powers are bestowed upon any given body the ability of the central bank to affect rates may be sufficiently effective through the influence exerted in the ordinary way by credit policy and by contact with the credit institutions in the market.

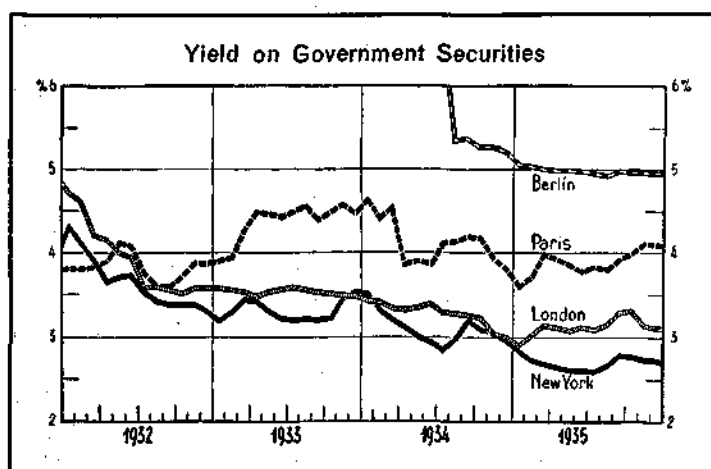
If a comparison be made of the relative positions of money rates in different countries it is evident that the significance of the official bank rates varies considerably from country to country. Account must particularly be taken of the structure of the banking system and the absence or presence of some outside market. In France bank rate is the uniform rate applied for discounts throughout the country, whereas, for example, in England actual transactions at bank rate are extremely rare, the rate for seven days' advances (the usual method of accommodating the market) being generally at ½ per cent. above bank rate. In Sweden, on the other hand, the banks may rediscount at ½ per cent. below the published rate of 2½ per cent. In addition, numerous other rates

besides the official discount rate are quoted by central banks: in France *inter alia* for advances for 30 days against government paper with less than two years to run; in Poland there is a special rate for export bills; in Lithuania differential rates are quoted for import bills of exchange and for export and industry; in Latvia credit institutions are able to rediscount at $\frac{1}{2}$ per cent. below the rate of discount for private entities, etc. In addition, central banks normally quote a rate for three months' advances one per cent. or more above the discount rate, the former rate being to some extent assimilated to the long-term rate of interest as advances tend to be at longer term than discounts and are not self-liquidating in the same way. And in practice the effectiveness of the rates quoted by the central bank at any given time will depend upon the funds in the hands of the banking system and the open market.

Nevertheless, with all these differences in mind, it is believed that the comparisons made in the preceding paragraphs help to give a representative picture of the trend and fluctuations of short-term money rates in the world.

The downward trend of short-term interest rates has continued in the phase of the conjuncture through which the world is at present passing, the interruptions to the main theme which have been experienced in Europe being rather in the nature of episodes which do not in themselves change the more fundamental development. The low rates are a natural result of a drawn out depression characterized by little demand for new funds; the downward readjustment has been assisted in many countries by central bank policy and other interventions. Cheap money has been a necessary preparatory condition for conversions of long-term securities, desirable not only as a means of alleviating the budget but for more general reasons. Although there is still little sign of a general hardening of rates, it should be remembered that a change in credit conditions has in the past often followed a rise in gold production and an increase in government spending (as, for instance, in the twenty years before the great war). It remains essential that central banks preserve their freedom of action in the use of the discount weapon for the maintenance of currency stability and a sound credit position.

The tendency of long-term interest rates in four important countries is shown by the following graph which gives the fluctuations of the yield of representative government securities:



The securities represented are not exactly comparable: the French 3 per cent. perpetual rente is irredeemable, the British $3\frac{1}{2}$ per cent. Conversion loan is redeemable in twenty-five years' time, while the outstanding United States Government Treasury bonds (except those due or callable within eight years), the average yield of which has been taken for New York, are on the average shorter than the

French and British securities represented and also carry valuable tax exemption rights. For Germany the yield on the 5 per cent. Deutsche Reichsanleihe of 1927 has been taken.

For the four years there has in general been a decided downward trend in long-term yields which has brought the London rate from about 5 to around 3 per cent., the New York rate from 4 to $2\frac{1}{2}$ –3 per cent., while in Berlin the rate fell below 5 per cent. in 1935 compared with over 12 per cent. early in 1932. The yield of the 3 per cent. perpetual rente in Paris stood around 4 per cent. at the end of 1935 — for a year to the spring of 1934 the yield was $4\frac{1}{2}$ per cent.; the improvement in the spring and late autumn of 1934 which nearly brought the rate down to $3\frac{1}{2}$ per cent. was interrupted by the disturbing events of 1935.

The conversion of the remaining \$ 8,200 million Liberty Bonds outstanding in the United States was completed in 1935 with the results shown below:

Conversion of Liberty Bonds	\$ millions	per cent.
into new bonds	5,060	62
into short-term notes	1,890	23
cash repayments	1,250	15
Total called	8,200	100

The rates at which bonds and notes have been issued declined throughout the series of operations, the latest conversion offer in October 1935 being of $2\frac{3}{4}$ per cent. 10–12 year bonds and $1\frac{1}{2}$ per cent. $3\frac{1}{2}$ -year notes. The completion of these operations leaves (apart from the short-term debt) no further maturities of government bonds within the next five years, the earliest callable issue being a small amount of $3\frac{3}{8}$ per cent. bonds 1940–1943. Most of the government bonds now outstanding mature in more than eight years and many are not callable within ten years.

The yield of all outstanding Treasury bonds of over eight years' maturity fell below 2.6 per cent. in July 1935, a record for all time. Thus, although in the past five years the total debt of the United States has been nearly doubled, the service charge has risen only 50 per cent., being kept down by conversions and by the very low current rate of interest on short-term securities. The following table shows the evolution of the direct Federal government debt of the United States (exclusive of governmental corporations and credit agencies) arranged according to maturity):

Federal government debt of the United States	Previous highest August 1919	Lowest post-war December 1930	December 1932	December 1934	December 1935
in thousand million dollars					
Bonds maturing in over five years .	17,0	12,1	14,2	13,0	14,7
Short-term debt*	9,6	3,9	6,6	15,5	15,8
Gross debt	26,6	16,0	20,8	28,5	30,5
Treasury net balance in general fund	1,1	0,3	0,2	2,6	2,2
Net debt	25,5	15,7	20,6	25,9	28,3

* including matured and other debt payable on presentation and bonds called for repayment or conversion.

At the present time over half of the gross debt of approximately \$ 30 billion is due within five years; of the increase of \$ 14 billion since 1930, \$ 12 billion has been in the form of securities with under five years' maturity. Although no further conversions of bonded debt are possible within the next five years, Treasury operations on a large scale will remain necessary to raise funds for the refunding from time to time of recurring maturities of Treasury notes and bills and for the financing of any government expenditure over and above current revenue. In the middle of March 1936 the United States Treasury offered \$ 1,250 million of new $2\frac{3}{4}$ and $1\frac{1}{2}$ per cent. securities mostly for cash subscription, the largest operations of this type since the war period, in preparation for the payment of the Soldiers' Bonus. The extreme liquidity of the market is shown by the fact that cash applications alone reached \$ 8,460 million.

It has been authoritatively estimated that of the total debt of \$ 28,7 billion outstanding at the end of the fiscal year 30th June 1935, \$ 15 billion or 53 per cent. was held by banks in the United States; of the increase of \$ 1,650 million during the 1934-1935 fiscal year the banks took over 90 per cent. It is probable that 60 per cent. of the government securities held by member banks of the Federal Reserve System mature within five years.

The year 1935 has seen important issues on public account in Germany for the consolidation of employment creation and other short-term bills outstanding in the market, the total issues and announcements on official account during the year amounting to some RM 2,350 million. Early in the year RM 500 million $4\frac{1}{2}$ per cent. Reich 28-year bonds were taken up at $98\frac{1}{4}$ by the savings banks and Girozentralen. After the mortgage bond and loan conversion in the spring had been accomplished and the capital market had settled down, further consolidations became possible. In the late summer a RM 500 million issue of 10-year $4\frac{1}{2}$ per cent. Reich Treasury Certificates at $98\frac{3}{4}$ was made to the public, this being the first Reich loan offered for public subscription since 1929. In order to avoid disturbing the money market payments were distributed over a three months' period. It was announced in August that a further RM 500 million of Reich bonds would be taken over by the savings banks on the same terms as the previous issue, the first tranche having been absorbed without difficulty. In addition, the private insurance institutions also invested part of their current revenue in Reich loans, the amount being in the neighbourhood of RM 350 million on conditions which have not been published. Further, in December 1935 it was announced that the German railway company was issuing RM 500 million $4\frac{1}{2}$ per cent. 8-year Treasury certificates at $98\frac{1}{2}$, of which RM 400 million were to consolidate short-term debts, the remainder to be used for Reichsbahn investments. The total amount to be applied to the consolidation of short-term bills on the market amounts therefore to RM 2,250 million. The Reichsbank Annual Report states that in the long-term capital market generally interest has been almost universally reduced to $4\frac{1}{2}$ per cent. with the result that the annual savings on public and private account amount to some RM 500 million.

The savings banks have played an active part in taking up the new issues and it is interesting therefore to show the reconstitution of savings in the German savings banks since the financial crisis of 1931.

The preponderating part of the assets of the savings banks consists of mortgages and, to a much smaller extent, loans to local authorities. Of the total assets of over RM 13,000 million only about RM 1,500 million consists of Reich government securities.

German Savings Banks (from monthly statistics)	Balance of deposits (or withdrawals)	Interest added	Total savings deposits at end of year*	Average rate of interest paid per annum
	in millions of Reichsmarks			
1930	+ 893	+ 444	10,400	4.8
1931	-1,389	+ 551	9,722	5.1
1932	- 631	+ 522	9,917	3.9
1933	+ 359	+ 368	10,808	3.5
1934	+ 317	+ 376	12,350	3.5
1935	+ 515	+ 445	13,384	3.1

* including additions due to revaluation of old savings deposits.

In England the capital market was active during the year 1935, the total issues being £ 182 million against £ 161 million in 1934. The present total is only half of the peak year, 1928, but is double the lowest year, 1931. The long-term rate of interest reached its lowest point in January 1935 when $2\frac{1}{2}$ per cent. irredeemable consols touched 94, the highest price ever reached by this security, and business was done in $3\frac{1}{2}$ per cent. War Loan (1952) at 110. The outstanding event of the year was the successful Treasury borrowing early in December when £ 200 million $2\frac{1}{2}$ per cent. 20/25-year bonds were issued at 96½ and £ 100 million 1 per cent. 5-year bonds were issued at 98, both amounts being oversubscribed within a few hours. The nominal rates of interest of these two issues are low records in English financial history. About £ 200 million of the proceeds were applied for the redemption of maturing long-term debt while the balance was applied to retire part of the floating debt.

In France the capital market has been subject to a number of adverse factors. Besides the uncertainty caused in the spring of 1935 by the devaluation of the belga, the Paris market has suffered, as indeed during the past two or three years, from the continuous financing of budget deficits and extraordinary expenditure which have raised the total public debt by Ffcs 64 milliard to Ffcs 340 milliard from the end of 1930 to the end of 1935, while the accumulated deficits of the common fund of the railways, covered by obligations issued by the companies, amounted to Ffcs 19 milliard in the same period. In view of the export and hoarding of French capital Treasury borrowing has been all of short-term character: in the spring of 1936 advantage was taken of the cheaper market rates in London to borrow £ 40 million for three (or maximum nine) months in sterling.

Among the important measures included in the economy decrees of July 1935, the Laval government cut all government expenditure by 10 per cent. including interest on rentes, bonds and other obligations of the State. In addition, the decrees provided for the payment by anticipation (after four weeks' notice) of all or any civil or commercial debt contracted before 17th July 1935 and represented by transferable securities. The object of this measure was to allow conversions to be made which might otherwise be held up through the fact that the securities to be converted might not be due for repayment; but the decree does not apply to rentes and other government debt.

Important conversions of internal debt have also taken place in a number of other countries. In Belgium the first conversion of public debt since 1895 was made during the year. State, municipal and provincial loans amounting to a global total of nearly Bfcs 40,000 million have been converted to a uniform interest level of 4 per cent.,

while further measures concerning the lowering of the interest rate on Bfcs 25,000 million of mortgage credits and the constitution of a central mortgage institution have been put into operation early in January 1936. A Polish government conversion operation applying to Zl. 600 million covered all internal loans (with one or two minor exceptions) floated before 1933 which were consolidated into a 4 per cent. 45-year loan in January 1936. In Spain and Portugal important internal conversions of government securities have been carried out reducing interest rates roughly from a 6-6½ per cent. level to 3½-4½ per cent. In Czechoslovakia a 10 per cent. cut of the interest on internal government loans already subject to a 15 per cent. coupon tax has been made from 1st January 1936 as part of a plan providing for the unification of the government debt and the reduction of interest rates in general.

Capital issues on foreign account show little sign of expansion. In the United States foreign issues in 1935 amounted to nearly \$ 80 million mostly for Canada, compared with \$ 10 million in 1934. In March and April 1936 two Norwegian government 4½ per cent. long-term issues for conversion purposes, together nearly \$ 50 million, were successfully made in New York. In London foreign issues attained only £ 21 million against £ 42 million in 1934, in each case about 80 per cent. being for Empire countries. Refunding and conversion issues on overseas account amounted to £ 72 million of which £ 62 million for the Empire: India, New Zealand and Australia were the chief beneficiaries from conversions; in the case of Australia the eleventh conversion since October 1932 was made in January 1936, bringing the total converted to some £ 182 million with an annual saving of about £ 2½ million. The ban on foreign issues in the London market which dates from 1932 has since been somewhat relaxed with regard to issues for countries in the sterling area and issues calculated to produce direct benefit to British industry. In April 1936 the Chancellor appointed a committee to advise him on particular applications and, if occasion arises, on the principles which govern the restrictions, although he stated that no radical alteration of the ban was at present contemplated. Stockholm has continued to take up issues by governments in neighbouring countries; in particular a Kr. 20 million 3½ per cent. 15-year loan issued at 96½ in January 1936 for account of the Norwegian government was considerably oversubscribed in one hour.

The extraordinary redemption and repatriation of foreign bonds, especially of European and other dollar bonds, has continued during the year under review, particularly in the cases of Belgian and Finnish bonds, but at probably a somewhat slower pace than in recent years. It would also seem as if fairly large amounts of bonds originally issued in the United States had been bought by foreign investors in other than the debtor countries. Of the \$ 7,500 million nominal foreign dollar bonds outstanding at the end of 1935, it has been estimated* that on account of repatriation and resales abroad only \$ 4,500 million or 60 per cent. are held in the United States, although information on this subject is very incomplete. To debtor countries with slender monetary reserves and a difficult export position such repatriations are naturally a great strain and in the case of Hungary a decree issued in January 1936 prohibits the importation of Hungarian securities from abroad except with the approval of the National Bank.

If those countries are excepted which stand to each other in a special relationship, as, for instance, the members of the British Empire, the cheap money policy has only

* Bulletin of Institute of International Finance (of New York) issued early in April 1936.

in a few instances led to conversions of foreign issues to lower rates of interest. It is true that in cases of transfer difficulties special arrangements have been made to provide for the reduction of rates effectively paid or for the payment of interest by means of new bonds. But these arrangements are only temporary expedients. Concerning the question of concluding more durable agreements, it is of importance to remember that the volume of international long-term indebtedness has, by redemptions and repatriations, been very much reduced in recent years; the international debt position, therefore, begins to be of more manageable proportions, the total debt outstanding being much below the high figure which was reached when the liquidity crisis of 1931 put an abrupt end to practically all new foreign financing. In this field no recovery is as yet visible; in fact, international business is increasingly being settled on a cash basis. Difficulties are found in judging the credit position of would-be borrowers in foreign countries and in overcoming the obstacles which the many clearing arrangements put in the way of the ordinary working of the credit machinery; the monetary uncertainty also acts as a deterrent to the development of credit connections. De facto maintenance of exchange rates, while of great help to trade, does not seem to provide a sufficient basis for the re-establishment of credit transactions, especially when these are of a long-term character.

VI. RECENT DEVELOPMENTS IN CENTRAL AND COMMERCIAL BANKING.

Seven years of depression involving an unprecedented fall in commodity prices, seriously affecting the market value of real assets, and extensive movements of funds in search of liquidity and safety have everywhere submitted the banking structure to severe strains. It is in only relatively few countries that the existing banking organization was so strongly established and maintained such a degree of liquidity that it could pass, if not unscathed at least unassisted, through the crisis. Experience has shown that nowhere have the authorities been able to abstain from intervention if faced with serious difficulties in domestic banking. When a breakdown threatened, measures of immediate relief had often to be improvised and in particular State aid was given to supplement normal credit facilities. But the necessity of attacking the evil at its roots provided the urge for the adoption of reforms designed to strengthen the permanent banking machinery and prevent as far as possible the repetition of errors which recent events revealed.

Some of the temporary measures were clearly required only while exceptional pressure prevailed; others have been incorporated, sometimes in a modified form, in permanent legislation. Executive and legislative action varies naturally from country to country, but it is possible to recognize some broad categories:

- (i) In the first class may be placed those measures which referred almost exclusively to the powers and working of the central banks' organization. Steps have thus been taken to give greater elasticity to legal cover provisions, to enable the central banks to dispose more fully of their accumulated reserves. Mention of a number of the measures taken to date was made in the last Annual Report. On 1st May 1935 an amendment to the statutes of the Bank of Danzig reduced the legal minimum of gold and foreign exchange to be held against notes and other demand liabilities from 40 to 30 per cent. A decree of 13th January 1936 makes certain changes in the statutes of the National Bank of Bulgaria: the legal minimum cover against the note issue and other demand liabilities is reduced from $33\frac{1}{3}$ to 25 per cent.; as was the case with the Reichsbank in 1931, the progressive tax and automatic increases of bank rate, envisaged in the statutes when the cover falls below the prescribed percentage, are now abolished. At the Annual General Meeting of the Bank Polski held on 20th February 1936 a number of modifications in the statutes of the bank were approved by the shareholders, in particular a reduction in the capital of the bank from Zl. 150 to 100 million; the Zl. 50 million represents the participation made at 150 per cent. by the State, at the time of the Stabilisation Loan, and which the bank will repurchase at the same price of Zl. 75 million by an equivalent reduction of the State debt to the bank.
- (ii) In certain other countries changes in the banking structure have been concerned almost exclusively with the commercial banks, leaving unaltered the standing and the current functions of the central bank. That has been the case in Rumania, Switzerland and Belgium, and the same can in the main be said also about the German reforms. The new Belgian legislation was adopted in the summer of 1935, while the new banking laws in Germany and Switzerland were promulgated in the previous year; thus some experience of their working has already been obtained.

(iii) In other countries, notably the United States, the Argentine and Italy, the changes introduced have aimed at a thorough overhauling of the whole credit organization affecting both the central banking institutions and the private banks. In the Argentine the reforms included the creation of a new central bank; in the United States the new Banking Act of 1935 made the most fundamental revision of the Federal Reserve Act since its adoption in 1913; and in Italy the Banca d'Italia was transformed into a bankers' bank, in connection with a reform changing the legal status of the country's major credit institutions.

It would, however, be taking too narrow a view of the recent banking legislation to regard it simply as the product of an emergency situation. In many respects this legislation is the outcome of experience over a number of years, often connected with deep-rooted changes in methods of financing domestic and foreign business; or it reflects currents of ideas which have grown gradually stronger. Typical of the new developments of a longer term trend is the creation of central banks in countries which cannot be said to have experienced any acute credit difficulties during the depression. Besides that in the Argentine, new central banks have been established in New Zealand, Canada and British India, and in several countries some already existing banking organization is either gradually, or by definite legislative act, being transformed into a central bank working on modern lines, by the elimination of private business and concentration upon the task of regulating the credit and currency volume. Information on these developments has been given in previous annual reports of this Bank.

For the year 1935 it should be added that on 1st April the new Reserve Bank of India was inaugurated, on which day it took over the control of the Issue department from the Government and the management of the public debt and government accounts from the Imperial Bank; on 4th July the first official bank rate in the country (of 3½ per cent. reduced in November to 3 per cent.) was announced and on 5th July the scheduled banks lodged their statutory deposits. As in the Argentine the creation of a central bank made it possible to clear away the somewhat rigid mechanism of the Conversion Office, so in India the central bank took over the gold (at the old price without revaluation) and sterling assets of the Gold Standard and Paper Currency reserves, which previously assured the external and internal convertibility of the currency, £7½ million sterling being retained, however, to constitute the new Silver Redemption Fund. The balance-sheet of the bank at the end of the year 1935 shows in the Issue department 44 lakhs of gold and 66 of sterling against the note issue of 172 lakhs, giving a proportion of 57 per cent., while a further 17 lakhs of sterling were held in the Banking department.

The various exchange, commercial and indigenous banks of India are subject to no new law except the provisions of the Reserve Bank Act directly affecting them; by Section 42 of the Act the scheduled banks are bound to maintain a balance with the Reserve Bank of not less than 5 per cent. of demand liabilities and 2 per cent. of time liabilities in India; the scheduled banks make returns showing demand and time liabilities and various other assets in India to the Reserve Bank which the Bank compiles and publishes weekly as a consolidated statement.

It should also be mentioned with regard to the position of the central banks that legislation has been introduced (and in part already adopted) to provide for the State-ownership of the Nationalbank i Kjøbenhavn (which is to be transformed into the Danmarks Nationalbank), the Reserve Bank of New Zealand and the Bank of Canada.

Even though provisions are being made to guarantee a certain measure of autonomy to the central banks, this development is contrary to the principles adopted at the London Conference in 1933 as to the maintenance and strengthening of the independence of central banking organizations. Experience has shown how important it is for monetary authorities to be free from political pressure; but such freedom does not mean that central banks are precluded from collaborating with government departments. Indeed, their position as bankers of the government makes such collaboration an integral part of their functions.

Both with regard to the magnitude of the emergency measures and the scope of the permanent re-organization, the most important developments are to be found in the United States. It is still too early, however, to draw a definite line between the temporary and the permanent innovations.

Certain emergency measures have definitely served their purpose as, for example, the provisions for the opening of the banks after the banking crisis in the spring of 1933 and the restrictions on dealing in foreign exchange imposed at that time. Other measures apparently also of an emergency character have not been liquidated: the Reconstruction Finance Corporation formed under President Hoover in January 1932, although it was able to reduce its outstanding loans under the original Act (Sect. 5) during 1935 from \$ 1,296 million to \$ 970 million, has had further functions added to its sphere of activity, and its total loans, purchases and allocations (including the loans mentioned above) rose from \$ 4,362 million to \$ 4,926 million during the year; also President Roosevelt declared in January 1936 that the emergency under which the dollar had been reduced in weight by 40.94 per cent. continued to exist and he reserved his powers for a further year to alter the gold weight of the dollar within the limits of 40 to 50 per cent. But as recovery proceeds temporary measures become of less weight while permanent measures of reform, based on the experience of the emergency and of the past in general, grow in importance. The new Banking Act of 1935 determines and concentrates responsibility for the national credit policy; restrictions which were found hampering in the emergency period are permanently removed; and certain measures, some of which were originally framed to meet the emergency, are made permanent.

The Federal Reserve Board is reconstituted under the name Board of Governors of the Federal Reserve System. From 1st February 1936 the Secretary of the Treasury and the Comptroller of the Currency ceased to be ex-officio members and the Board consists of seven members appointed by the President. The general qualifications and method of selection of the members of the Board remain unchanged but the full term of office is lengthened from twelve to fourteen years, members being ineligible for re-appointment. The chairman and vice-chairman are designated by the President for a 4-year period, thus giving these positions a definite tenure.

Open market operations are under the control of a committee consisting of the seven members of the Board of Governors and five representatives of the Federal Reserve banks, an arrangement which gives both the Board and the regional banks representation in the determination of open market policy, and places fixed and unescapable responsibility for the policy on one statutory body. A line of action once adopted by the Open Market Committee, the individual Reserve banks have no authority to decline participation; it becomes the policy of the system. Purchases and sales of United States government obligations may be made only in the open market (as indeed they have

always been in practice). Records must be kept by the Board of all actions of the Open Market Committee and the Board on all questions of policy, and these records showing the action taken, the votes in connection therewith, and the underlying reasons for such actions will be published in the annual report of the Board.

Apart from open market operations, authority over all major instruments of credit control, viz. changes in discount rates, in member bank reserve requirements and margins prescribed for loans on securities, is vested in the Board of Governors. The local autonomy of the Reserve banks is preserved as regards their dealings and relations with the member banks in their respective districts, but the ultimate responsibility for the national credit policy rests on the Board of Governors in Washington. The local Reserve banks must submit to the Board the rates they wish to establish in their districts and these rates cannot become effective without the approval of the Board which, with the Federal Reserve banks, must review the rates at least once every two weeks. The law also clarifies and alters the authority of the Board of Governors to change member bank reserve requirements. Under the Thomas amendment to the Agricultural Relief Act (adopted in 1933) reserve requirements could only be changed when an emergency was declared to exist owing to credit expansion, and then only with the approval of the President of the United States: changes may now be made by a vote of four members of the Board "in order to prevent injurious credit expansion or contraction", provided that the reserve requirements shall not be reduced below those at present in force nor increased to more than double. The emergency provision from the Glass-Steagall Act of February 1932 authorizing a Reserve bank to make advances to its member banks on any security suitable to the Reserve bank (but not eligible under the old Act) is liberalized and made permanent. These advances, no longer considered exceptional, are to be made at a rate of interest at least one-half of 1 per cent. higher than the highest discount rate in effect at the Reserve bank in question and the maturity of the advance may not exceed four months. The permanent adoption of these powers constitutes a recognition of the fact that rigid technical provisions with regard to eligibility hampered the Reserve System in a period of crisis and failed to protect the banking system from collapse; it also recognizes that the scope of operations of the member banks has changed and that eligible paper under the old definition forms a decreasing proportion of the assets of the banks.

Besides the re-organization of the Board, administrative changes with regard to the Reserve banks include the creation of the posts of president and vice-president, the chief executive officers, appointed for a term of five years by the local board of directors subject to approval by the Board of Governors in Washington, which thus has an opportunity of approving the Reserve banks' chief executives without impairing the essential regional autonomy of the banks. Under the old law there was no provision for an executive head of the banks although in practice the local boards had selected executive officers and designated them as governors.

Various emergency measures are thus made permanent law but there are others which though important are not included. For example, the Glass-Steagall Act, which was passed in 1932 at a time when the system was under pressure of withdrawals of funds, heavy gold losses and extensive hoarding of notes, authorized the Reserve banks to hold United States government obligations as supplementary cover for the note issue, thus greatly increasing the "free gold" of the system. Although a similar provision was included in the original draft of the new law, it was eliminated in the Act as

passed in 1935 so that the Federal Reserve note issue is still subject to the Federal Reserve Act of 1913 modified for the time being by the Glass-Steagall Amendment which remains in force under Presidential proclamation until March 1937.

The new law makes permanent the Federal Deposit Insurance Corporation, originally created under the Banking Act of 1933. Title I of the new law lays down the conditions for the insurance of deposits up to the amount of \$ 5,000 for any one depositor, the assessment rate being fixed at one-twelfth of one per cent. per annum on total deposits. This measure makes a step towards the unification of the Federal Reserve System by requiring that all banks with deposits of \$ 1 million or more must become members of the system by 1942 in order to retain the benefit of deposit insurance. By June 1935 90 per cent. of the banks in the country were insured, the Corporation's liability covering \$ 18,000 million out of the \$ 41,000 million deposits of the insured banks.

The Banking Act of 1935 also includes a number of other measures regarding the banks of the country. The provisions under which national banks are permitted to make real estate loans are liberalised, the percentage of the value a real estate loan may cover being raised from 50 to 60 per cent. and the term of the loan from 5 to 10 years: real estate loans may be made up to an aggregate amount equal to 100 per cent. of a bank's unimpaired capital and surplus (previously 25 per cent.) or 60 per cent. (previously 50 per cent.) of time and savings deposits, whichever is greater — previous geographical restrictions are also removed. "The liberalization of real estate provisions" comments the Federal Reserve Bulletin "will make it easier for the member banks to participate in the financing of building activity, the resumption of which is an essential factor in recovery ... The danger for banks is not in making real estate loans as such, but in making poor loans of any kind. The field of real estate loans offers considerable opportunity for the proper investment of bank funds". Every national bank is required gradually to build up its surplus fund until it equals the amount of its common stock.

The new law contains certain regulations regarding the computation of required reserves; in particular member banks are now required to maintain the same reserves against United States government deposits as against other deposits, whereas previously no such reserves were necessary. Other provisions are also made with regard to the payment of deposits and interest, postal savings accounts and interlocking bank directorates.

The new central bank in the Argentine, which opened in May 1935, was created as part of a comprehensive plan for the re-organization of the monetary and banking system of the country: three autonomous bodies, the Conversion Office, the Rediscount Committee and the Amortization Board, and two funds, the Foreign Currencies Fund and the Exchange Profits Fund, were incorporated in the central bank or ceased their functions; the gold reserve taken from the Conversion Office was revalued and the book profit allocated; a new Liquidation Institute was formed to take over the frozen assets of the banks and a law on the banks was put into force.

Under the old law of 1899 the monetary system was very rigid, gold movements producing an automatic effect on the volume of the note circulation, a system of much inconvenience to a country like the Argentine subject to wide fluctuations of the trade balance although, in practice, a number of makeshift measures brought some mitigation. The new central bank under the law of 28th March 1935 has as its first object "to concentrate sufficient reserves to moderate the consequences of fluctuations in exports and invest-

ments of foreign capital; on currency, credit and commercial activity, in order to maintain the value of the currency" and the new regulations are designed to give the system the elasticity necessary for such a policy to be carried out.

From 1929 to 1935 the Argentine peso declined to about 46 per cent. of its old parity and when the central bank took over the gold of the Conversion Office (together with its note liabilities) the gold was revalued on this basis, although the provisions in the law for redemption of notes in gold or foreign exchange were expressly suspended until further decree. The "gold in vaults" shown in the first balance-sheet of the new bank on 31st May 1935 amounted to 1,224 million pesos, the revaluation having produced a profit of 663 million. This profit, made up to 700 million from other sources, was utilized by the government as to 10 million to provide half of the subscribed capital of the central bank, as to 10 million to constitute the capital of the Liquidation Institute; a further 380 million provided the Institute with the funds to purchase frozen assets from the banks, thus enabling them to reconstitute their cash balances and to comply with the minimum cash reserve; the remaining 300 million was applied as to 150 million to the amortization of the government's direct debt to the Banco de la Nacion, 140 million for repayment of Treasury bills outstanding, while the balance was deposited in the central bank. The floating debt of the government which at the beginning of 1932 stood at 1,200 million pesos had been reduced by consolidations, repayments and the profit on the gold revaluation to 110 million at the end of 1935.

The general banking law stipulates that the private banks must hold cash reserves equal to at least 16 per cent. of demand deposits and 8 per cent. of time deposits and two-thirds of these reserves must be concentrated at the central bank (which may, however, temporarily exempt any bank in special circumstances and for short periods). Interest paid by the private banks on demand deposits must be at least 3 per cent. below the minimum rediscount rate of the central bank and on savings deposits at least 1 per cent. below the same rate. Certain operations which might affect adversely the liquidity of the banks are prohibited. Each bank is bound to render a confidential monthly return to the central bank which publishes a summary without divulging the details of individual establishments and the central bank is given power to request any further confidential information or amplification of the data given. The banks are also subject to periodical inspection by officers sent from the central bank.

The statutes of the Central Bank of the Argentine Republic give the bank the monopoly of note issue in the country and stipulate that a gold and foreign exchange reserve of at least 25 per cent. must be held against notes and demand liabilities, while no dividend may be paid if the proportion falls for more than two or three months below 33 per cent.; foreign exchange may not exceed one-fifth of the total reserve nor count as to more than 10 per cent. of the legal proportion. Half of the subscribed capital of 20 million pesos was provided by the banks in the country having a capital of at least one million pesos and half by the government (without voting rights) from the revaluation profits. The banks maintain cash balances at the central bank as provided also in the banking law and the most important government business is taken over from the Banco de la Nacion. The central bank is governed by a full-time President and Vice-President, designated by the Chief Executive in agreement with the Senate from candidates proposed by the meeting of shareholding banks, and twelve directors, mainly representing banking interests but including an agriculturist, a livestock producer, a business man, a

manufacturer and a government representative. Not more than three foreigners may be on the board at the same time. The institution is essentially a bankers' and government bank having no direct relations with the public. Rediscounts and loans may be made for the member banks and temporary advances to the government up to 10 per cent. of the average cash receipts from revenue of the previous three years.

The first balance-sheet of the bank showed, besides the gold taken over from the Conversion Office, 123 million pesos of foreign exchange and gold abroad received from the Foreign Exchange Fund and consisting mainly of gold held in London. The utilization of the revaluation profit to repay debt and unfreeze the banks has naturally given liquidity to the market and the central bank has as yet no rediscount portfolio. (The cash holdings of the commercial banks were 827 million pesos at the end of 1935 compared with 485 million a year earlier.) The only domestic earning assets of the central bank consisted of 400 million pesos of National Treasury 3 per cent. consolidated bonds which the bank is permitted to sell on the market to absorb excess funds. In fact, during the first two months of its operations the central bank sold 250 million pesos of its holding of Treasury bonds but had repurchased some 70 million by the end of 1935. The first return showed a reserve of gold and foreign exchange at 140 per cent. of the note issue and 72 per cent. of total sight liabilities, ratios which have not greatly changed since that time. No change has been made in the official rate of exchange, the price paid for export bills, which was pegged to sterling at 15 to £ in January 1934, while the free rate fluctuates around 17 to 18.

In Europe, the most drastic innovations have been made in Italy. The adverse movement of Italian foreign trade, particularly the falling off of exports, led already in 1934 to restrictions being placed on imports and foreign exchange operations were limited to the real requirements of industry and trade or of persons travelling abroad. In the first half of 1935 further import restrictions were imposed and a superintendent of foreign exchanges appointed, depending directly from the Prime Minister, to regulate the allocation of foreign exchange according to the provisions in force and to co-ordinate the services in control of exports and imports. In July, the obligation of the Banca d'Italia to maintain a 40 per cent. cover in gold and foreign exchange was temporarily suspended, allowing recourse to the gold reserve for the settlement of outstanding foreign commercial debts amounting to some Lit. 500 million, a figure lower, however, than Italian credits frozen abroad. In August 1935 it was decided to make compulsory the surrender to the National Exchange Institute, acting on behalf of the Treasury, of all foreign credits, which were to be paid in cash at the rate of the day of the decree. Also all foreign securities and Italian securities issued abroad and held by Italians, possession of which had already been declared under the decree of 8th December 1934, were to be purchased by the Institute against 5 per cent. nine-year Treasury bonds. The special conditions obtaining from October 1935 onwards hastened the process of centralization, and from that month the publication of statistical data was suspended. Thus, the regular returns of the Banca d'Italia have ceased (but the figures relating to the end of December 1935 were published at the meeting of the General Assembly of the Banca d'Italia). By decree of 14th November 1935 the Foreign Exchange Institute, acting on behalf of the Treasury, received a monopoly for the purchase abroad of gold and was empowered to purchase gold within the Kingdom at the average price for gold on the international markets. Acting for the Treasury through the agency of the Banca

d'Italia gold was purchased from the public at 15.50 lire per gramme compared with 12.62 lire, the rate corresponding to the official parity of the currency: gold could also be received on deposit at 5 per cent. interest.

The decree of 12th March 1936 makes "provisions for the protection of savings and the regulation of credit" by the constitution of an Office of Inspection directly dependent from a committee of ministers of which the Prime Minister is chairman and including the ministers of Finance, Agriculture and Forests, and Corporations. The Office of Inspection, of which the Governor of the Banca d'Italia is the head, has wide powers of supervision over all the banks of whatever description in the Kingdom. In particular, the Office of Inspection may order periodical or exceptional inspection; authorize the issuing of bonds and shares when these are offered by credit establishments subject to control; authorize the admission to the Stock Exchange of bonds and shares; and take decisions, binding for the banks, relating to the limit of interest rates on deposits and for advances, the repartition of investments with regard either to liquidity or to the different branches of economic activity, the relation between net assets and liabilities and the possible forms of employment of surplus funds, the minimum percentage of profits to be placed to reserves, etc.

The Banca d'Italia is transformed into an "Institution under Public Law" (Istituto di Diritto Pubblico) and will confine its rediscount operations to the banks of the country, leaving commercial and private banking business to them. Advances on securities will, however, be made to the banks or the public. On 31st March 1936 Governor Azzolini presided over the last General Meeting of private shareholders. The capital of Lit. 500 million, in shares of 1,000 lire, paid up as to Lit. 300 million or 600 lire per share, will be repaid at 1,300 lire per share, representing the paid-up capital and the proportionate value of the reserves. The new capital of Lit. 300 million fully paid will be subscribed and held entirely by the savings and other banks and the insurance companies.

As was already the case with the Banco di Napoli and the Banco di Sicilia, the three large banks, the Banca Commerciale Italiana, the Credito Italiano and the Banco di Roma, have been given the position of "Banks under Public Law"; in consequence, their shares must be registered and be the exclusive property of Italian nationals and firms. These banks, as well as other credit establishments, are subject to the supervision of the Office of Inspection. For the regulation of credit at long and short term a committee of ministers and, under it, the Inspection Office, concentrate all the functions relating to credit institutions previously divided between the different ministries. It has further been decided that the Istituto Mobiliare Italiano, whose President will be the Governor of the Banca d'Italia, shall absorb the functions of the "Consorzio per Sovvenzioni su Valori Industriali" and Section "A" of the "Istituto per la Ricostruzione Industriale".

The new banking laws in the United States, the Argentine and Italy embrace both the central banking organization and the private banks; in Belgium, on the other hand, the new measures are concerned almost exclusively with the private banking structure. The emergency situation which arose in Belgium during the first quarter of 1935 and which led to the devaluation of the currency on 1st April 1935 was characterized by an outflow of funds that deprived the banks of the most liquid part of their assets and brought up, apart from the general question of banking reform, the particular question of some additional mechanism in the market to provide further liquidity.

It was not, however, until after the devaluation when the reflux of funds had already relieved the pressure on the banks that the Royal decree of 13th June 1935 was promulgated, creating the Institute of Rediscount and Guarantee. The institute is formed for five years with the possibility of prolongation for periods of five years, with a capital of 200 million Belgian francs, 20 per cent. paid, subscribed by the banks, and with all its operations up to Bfcs 2,000 million guaranteed by the State. The institute may take over from banks and others sound but not necessarily liquid assets at a rate of interest not more than one per cent. above the highest rate for discounts or advances against public securities of the National Bank. Bills carrying the signature of the institute may be discounted by the National Bank under the usual conditions applicable to discountable paper. The institute is administered by a committee composed of a president and five directors nominated by the King. In this way it is possible for the commercial banks to mobilize assets not otherwise eligible at the central bank, while the securities issued by the institute provide a suitable investment for short-term banking funds, so that the surplus resources of the market would generally be fully utilized before recourse were had to the National Bank. At the same time, it is not necessary for the National Bank to depart from its traditional practices and regulations as laid down by its statutes.

In addition to these liquidity measures the banking question was dealt with in a more comprehensive way through the promulgation of a new law on 9th July 1935 governing the activities of the commercial banks. The term "bank" is defined and all institutions entitled to use the term must be inscribed with a newly-instituted Banking Commission. A bank's capital must be at least Bfcs. 10 million wholly paid up (private banking firms however at least 2 million francs) and reserves must be invested in government or certain other public securities. The provision in the law of August 1934 prohibiting the banks from holding participations (shares, bonds, etc.) in commercial or industrial firms other than banks is re-enacted. Exception is made where the bank acts as issuing house for the securities in question when firm participations may be held for a maximum of six months.

The most far-reaching provisions of the new law are due to the creation of an autonomous Banking Commission whose expenses will be paid by the National Bank, by whom also its secretariat is provided. The Commission consists of a president and six members appointed by Royal decree, two nominated directly by the King and two each from lists submitted by the banks and by the National Bank and the Institute of Rediscount and Guarantee. The Commission is charged generally with the application of the new law and enjoys extensive powers. A corps of inspectors is created which reports to the Commission upon legal or other irregularities and the Commission may also charge the National Bank with special enquiries. Further, the Commission, with the approval of the Ministers of Finance and of Economic Affairs, may determine for the banks the proportion which must exist a) between cash and other easily mobilizable assets and liabilities at sight or short term, and b) between the capital and reserves of the bank on the one hand and either the total of all deposits or of all liabilities at sight or short term on the other. The Commission may also by a two-thirds majority vote, in agreement with the National Bank and the Office de Redressement Economique and with the approval of the Ministers of Finance and of Economic Affairs, fix the maximum rate of interest applicable to specifically designated categories of credit operations. The banks registered with the Commission must make monthly returns

in a specified form to the National Bank which publishes a combined statement of the banks every three months.

The Banking Commission is also given wide powers and duties of supervision over the issue market. The Commission must be informed two weeks in advance of any proposed issue of securities to the public with a statement in prescribed form giving all relevant details as to the object of the issue etc. (This also applies to securities guaranteed by the government, the Belgian Congo, provinces and communes, and to foreign issues of Belgian concerns.) If the Banking Commission considers any private domestic issue to be of a nature to disturb the market it may recommend a reduction of the total or the spreading of the emission over a period of time. If the question is not settled amicably, the Banking Commission may forbid the issue for a period not exceeding three months and may publish its decision. If the Banking Commission considers the conditions of a proposed issue to be such as to mislead investors as to the nature of the business or the rights attaching to the securities, the Commission may, if the issuing house does not take account of its expressed opinion, forbid the issue for three months and may publish its decision; if the issue is then made the Minister of Finance, on the request of the Banking Commission, may prohibit the quotation of the securities on the stock exchange. The Commission may at any time demand information as to the results of issues made during the previous six months (while regular issuing houses make an annual return of issues made by them).

It will be seen that, although its powers are extensive, almost all the functions of the Banking Commission are facultative and rest on the combined judgment of its members. It is particularly intended not to disturb the principle of the prime responsibility of the banks towards their depositors and shareholders and there is thus no provision for such measures as deposit insurance.

In Germany, the new law of 5th December 1934 regarding the credit system was put into application; certain modifications were made of a more practical character, suggested by the experience gained during the year. Outside the field of purely private banking, two events should be mentioned. Arrangements for the centralisation of the note issue came into force at the end of 1935 when the privilege of the four private note-issuing banks expired. Their circulation, then amounting only to RM 158 million, is to be withdrawn while their gold reserves, amounting together to RM 75 million, have already been taken over provisionally by the Golddiskontbank, the ultimate destination of this gold being still undecided. A further concentration of the German banking system results from a law of October 1935 placing the ten State banks, of which the Prussian State Bank (Seehandlung) is by far the most important, under the direct supervision of the Reich Minister of Economic Affairs, at present also the President of the Reichsbank. These banks had been founded in the formerly autonomous States within the country and enjoyed special privileges; the Minister of Economic Affairs is now authorized to exercise supervision over the banks and to change their statutes.

1935, the first year during which the Swiss banks have been working under the provisions of the new general banking law, has been a period of great difficulty. It may be recalled that the big banks doing international business in the six years up to 1930 had experienced a period of unexampled expansion, their balance-sheet totals being nearly doubled. But from 1930 this movement was abruptly reversed and in the five years to the end of 1934 the seven larger banks suffered withdrawals of funds which,

together with other compressions of liabilities, reduced the total of the combined balance-sheet by 50 per cent. This reduction represented an enormous pressure on the banks in a period of falling prices, a proportion of the assets, varying greatly from bank to bank, being frozen abroad. The new law which came into force on 1st March 1935 contains special provisions under which a partial moratorium (prolongation of maturity dates) may be granted by the Federal Council if it is considered that all creditors are in fact covered 100 per cent. by the assets and the interest service can be maintained throughout the moratorium. Two of the larger banks have taken advantage of these stipulations: the Basler Handelsbank was allowed a partial moratorium for two years from 11th June and Leu & Co. for three months from 30th December 1935, the latter period having been prolonged for a further six months. Other smaller banks have also been in difficulties during the year but only one has been granted the special conditions mentioned above. (In April 1936 the Federal Council issued regulations complementary to the Banking Law to facilitate the reorganization of banks of a certain importance in order to avoid ordinary bankruptcy procedure. The validity of these regulations expires at the end of 1937.) The Banking Commission created by the new bank law, which has generally to supervise the carrying out of the law and is particularly responsible to satisfy itself that the accounts of the banks are properly audited, has commenced its functions. Under the law the National Bank was given the power to review increases of interest rates on "Kassenscheine" with the banks but no power to dictate what rates they were to apply. The Annual Report of the National Bank mentions that during the year the withdrawals of funds from the market tended to produce an influence on the rate of interest on "Kassenscheine" and in order to guard against any unjustified increases the National Bank, in accordance with Article 10 of the law, called a meeting of the banks on 13th June to review the question; the majority of banks agreed with the National Bank that the rates fixed in October 1933 should not be exceeded unnecessarily. But the increasing yield on first-class securities made it impossible for a number of banks to maintain the old rates in force. Up to the end of the year the National Bank received notice of 91 increases of interest rates, most of them being, however, of a minor character. As the National Bank remarks, experience has again shown that economic laws are more powerful than any artificial measures which may be applied.

Summing up the developments in commercial banking during the year it may be said that although difficulties are still experienced in some countries there are signs in others of emergence from the troubles of recent years. Symptomatic of the improvement are the repayments made by United States banks to the Reconstruction Finance Corporation, the regained liquidity of the Belgian banks, the rapid repayment of the emergency credit granted to the Skandinaviska Kredit Aktiebolaget in Sweden at the time of the Kreuger crisis and the resumption of dividends by the big German banks for the first time since 1931. In some countries there has also been an increase of advances to industry and commerce reflecting recovery in business and a more active use of bank credit, not only for the purchase of government securities but also the financing of a larger volume of trade and production.

The new laws which have been passed in a number of countries have in general two main purposes. In order to protect the security of deposits, regulations have been made with the aim of preserving the liquidity and solvency of the banks. At the same time, for reasons of general credit policy, advantage has been taken of the passage of the

new laws to give greater power to the central bank or some authority in close connection with the bank for the supervision of the credit machinery. It should be understood that also in a great many countries where no changes in banking laws have been made, an evolution has occurred in the actual practice of the existing credit institutions; the effective position of the central banks has increased in authority and leadership in relation to their markets, and the best-managed commercial banks have observed in their liquidity and investment policy, irrespective of any binding provisions, the principles which the new legislation embodies. More attention is given to these matters, for the experience of the past few years has everywhere made manifest the fundamental importance of having a satisfactorily functioning credit system.

VII. TRUSTEE AND AGENCY FUNCTIONS OF THE BANK.

The development of international political and economic relations has materially affected the functions which, at the outset, were assigned to the Bank in the capacity of trustee or agent and to a large extent these functions have become mainly formal in character. The provisions of the Lausanne Agreement of 9th July 1932 operate to reserve the execution of the annuity payments which were to have been effected by Germany, Hungary, Bulgaria and Czechoslovakia as a result of the terms of the Hague Agreements of January 1930; the Bank is Trustee in respect of these annuity payments. Soon after its inauguration the Bank was appointed Fiscal Agent of the Trustees for the German External Loan 1924 and Trustee for the German Government International 5½ % Loan 1930 but since July 1934 the German Government has suspended the payment to the Trustees of the foreign currencies required for the service of these Loans. The Bank was also appointed Trustee for the Austrian Government International Loan 1930; the service of this Loan has been effected in the manner required by the General Bond securing the Loan and in addition the Bank has been able during the year under review to render useful service as trustee or agent in other directions, for example, in connection with the settlement of the financial questions involved in the transfer of the Saar territory to Germany, a cash distribution under the terms of an agreement providing for the liquidation of the so-called "Live Claims" of the foreign creditors of the Oesterreichische Credit-Anstalt and the first distribution on account of the awards of the Mixed Arbitral Tribunals against the Agrarian Fund (Fund A). The position in connection with these various trustee and agency functions is given in more detail below.

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

The Lausanne Agreement signed on 9th July 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 provisions in Part II 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 below, however, 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 service of both loans in the manner required by the terms of the respective General Bonds was suspended by the German Government as from 1st July 1934.

The execution of the annuity payments of Hungary, Bulgaria and Czechoslovakia was reserved until 15th December 1932, pursuant to the terms of Part III of the Lausanne Agreement. 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 agreed that the reservation of the execution of these annuity payments should be extended until 15th December 1934. Nego-

tiations are also in progress between those Governments with a view to a similar extension until 15th June 1936.

During the year under review, therefore, the Bank has received nothing in respect of the annuity payments of Germany, Hungary, Bulgaria and Czechoslovakia.

Relatively small payments or refunds still occur in connection with the liquidation of old contracts for deliveries in kind and these are included in the Annuity Trust Receipts and Payments Account referred to below. In addition, important payments continue to be effected through the Bank under certain contracts for public works in France. These contracts are financed by the French and German Governments in accordance with arrangements made at the time of the Lausanne Agreement and payments thereunder are effected by the Bank purely as banker and not in its capacity of Trustee of the creditor Governments; they are not, therefore, included in the Annuity Trust Receipts and Payments Account.

The Receipts and Payments Account of the Bank showing its operations as Trustee for the German annuities during the period 1st April 1935 — 31st March 1936, as maintained by the Bank and certified by its auditors, in accordance with Article XVII of the Trust Agreement (Germany), is set forth in Annex VIII.

(b) 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 and from the date of the flotation of the Loan until 1st July 1934 the amounts required for its service were regularly paid to the Trustees or their agent in the currencies of the respective issues.

Since 1st July 1934 the German Government has not furnished to the Trustees, or their Fiscal Agent, any of the funds required in the currencies of the respective issues for the service of the Loan, but as a result of transfer agreements concluded between the German Government and various other Governments, certain groups of bondholders, as specified therein, have obtained payment, in the currency of their country of domicile, of the equivalent of 50 per cent. of the nominal amount of coupons due 15th October 1934 (the first 50 % having been paid out of funds available in the hands of the Trustees) and the equivalent of the full nominal amount of coupons (in certain cases only a proportion thereof) subsequently matured. Moreover, as regards bondholders who are not entitled to receive the full nominal amount of their coupons under any of the agreements referred to, the German Government offered to liquidate the outstanding balances by a payment in reichsmarks calculated at the Reichsbank's official rate of exchange, the employment of such reichsmarks being governed by principles similar to those regulating the use of registered marks. The Trustees for the Loan are not parties to any of these transfer 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.

* 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 action taken by the Trustees when the service of the Loan in the manner required by the General Bond was suspended by the German Government in July 1934, is described on pages 56 and 57 of the Bank's fifth annual report.

On 2nd July 1934 the proceeds of the pledged revenues, which up to that date had always passed through an account at the Reichsbank in the name of the Trustees as required by the terms of Annex XI to the Hague Agreement of January 1930, were blocked in the account to the extent of 4,300,000 reichsmarks representing the approximate equivalent of the foreign currencies required for the service instalment due on 16th July 1934. This amount remains blocked in the Trustees' account at the Reichsbank and it has not been possible to obtain from the German authorities the consent necessary to permit of its conversion into foreign currencies. Since 16th July 1934 none of the proceeds of the pledged revenues have been paid into the Trustees' account.

The whole of the sinking fund monies received by the Trustees were expended in the redemption of bonds through market purchases, so far as possible, or by drawings, except in the case of the American issue where market purchases for sinking fund purposes were suspended when the German Government announced its intention to discontinue the service of the Loan as from 1st July 1934, and an amount of \$ 208,246.87 representing the balance of sinking fund monies then on hand continues to be held in suspense.

The Trustees have not received any of the funds required in the currencies of the respective issues for the service of the Loan since 1st July 1934 and during the last completed Loan year to 15th October 1935 they received only small sums in respect of interest on bank balances and gradually reduced those balances in the part payment or payment in full on presentation of coupons due 15th October 1934 or earlier, respectively, and in the payment of expenses. In these circumstances it has not been considered necessary, at this time, to prepare and submit for audit a Statement of Receipts and Payments for the Loan year to 15th October 1935. The Swiss franc equivalent of the various currencies relating to this Loan which were deposited in the name of the Trustees, as at 31st March 1936, is shown in Annex VII.

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

The Bank was appointed Trustee for the German Government International 5½ % Loan 1930 when the Loan was subscribed and from that date until 1st July 1933 the service instalments were paid to the Trustee in the currencies of the respective issues of the Loan. As from 1st July 1933, the German Government ceased to pay the sinking fund instalments in the currencies of the respective issues but continued to pay the instalments in respect of interest until 1st July 1934 as from which date no further payments in the currencies of the respective issues have been made to the Trustee on account of either interest or sinking fund. The instalments, however, on account of coupons due on 1st June 1933 and thereafter and on account of the sinking fund from May 1933, were calculated without regard to the gold value clause contained in Article VI of the General Bond.

As a result, however, of transfer agreements concluded between the German Government and various other Governments, certain groups of bondholders, as specified

* 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. The action taken by the Trustee when the service of the Loan in the manner required by the General Bond was suspended by the German Government in July 1934, is described on page 59 of the Bank's fifth annual report.

therein, have obtained payment, in the currency of their country of domicile, of the equivalent of five-sixths of the nominal amount of coupons due 1st December 1934 (the first one-sixth having been paid out of funds available in the hands of the Trustee) and the equivalent of the full nominal amount of coupons (in certain cases only a proportion thereof) subsequently matured. Moreover, as regards bondholders who are not entitled to receive the full nominal amount of their coupons under any of the agreements referred to, the German Government offered to liquidate the outstanding balances by a payment in reichsmarks calculated at the Reichsbank's official rate of exchange, the employment of such reichsmarks being governed by principles similar to those regulating the use of registered marks. The Trustee for the Loan is not a party to any of these transfer agreements, has had nothing to do with their execution and has notified the Governments principally concerned that the agreements are incompatible with the General Bond and the international treaties relating thereto.

Reference has been made in earlier reports to the fact that the Bank, as Trustee, had been sued in a Swiss Court by a bondholder of one of the issues of the Loan claiming damages for alleged improper distribution of the funds provided by the German Government on account of the service of the Loan. It will be recalled that during the Bank's fourth fiscal year the German Government failed to provide sufficient funds, in the currencies of the respective issues of the Loan, to give effect to the gold value clause contained in Article VI of the General Bond and 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. The Basle Civil Court of first instance found in favour of the Trustee and dismissed the case with costs. The bondholder appealed to the Basle Court of Appeal which dismissed the appeal with costs and the bondholder has now appealed to the Federal Court of Appeal which is expected to hear the case towards the end of May 1936.

The Trustee has not received any of the funds required in the currencies of the respective issues for the service of the Loan since 1st July 1934. The service instalment received on 15th June 1934, however, was the first monthly instalment in respect of the Loan year to 1st June 1935 and a Statement of Receipts and Payments for that year, as certified by the auditors, is appended as Annexes IVa and IVb.

In addition, the Swiss franc equivalent of the various currencies relating to the Loan which were deposited in the name of the Trustee, as at 31st March 1936, is shown in Annex VII.

(d) AUSTRIAN GOVERNMENT INTERNATIONAL LOAN 1930*.

During the period under review, 1st April 1935 — 31st March 1936, the Bank, which has acted as Trustee for the Austrian Government International Loan 1930 since its flotation, has regularly and punctually received and distributed the monthly service instal-

* 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.

ments required pursuant to the terms of the General Bond. With regard to the sinking fund quota included in such instalments, it is the practice of the Austrian Government to satisfy the obligation, so far as possible, by the cession to the Trustee of bonds of the Loan for cancellation. The balance of the instalments is furnished in cash and is applied by the Trustee in the redemption of bonds by purchase on the market or by drawings. During the year under review bonds of a total nominal value equivalent to about 5,162,000 Swiss francs have been retired through the operation of the Sinking Fund.

The Austrian Government International Loan 1930 is secured by a charge 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 of 1923—1943 and the Czechoslovakian Conversion Loan. The Guaranteed Loan of 1923—1943 has now been redeemed by the Austrian Government so that the Loan of 1930 now enjoys a first charge on the pledged revenues, subject only to the charge in respect of the Czechoslovakian Conversion Loan. During the period under review, 1st April 1935—31st March 1936, the pledged revenues amounted to a total of 436,245,000 Austrian Schillings and the amount required for the service of the Austrian Government International Loan 1930 amounted to the equivalent of 33,357,000 Austrian schillings.

A Statement of Receipts and Payments, as certified by the auditors, for the last completed Loan year to 30th June 1935, 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 31st December 1935. In addition, the Swiss franc equivalent of the funds relating to this Loan which were deposited in the name of the Trustee as at 31st March 1936, is shown in Annex VII.

(e) OTHER AGENCY FUNCTIONS.

The Bank has continued to take its part in the settlement of the financial questions involved in the transfer of the Saar Territory to Germany. The German Government agreed to repurchase the mines, railways etc. in the Saar from France for a lump sum of 900 million French francs on the understanding that payment should be effected (a) by the delivery to the Bank of France, for the account of the French Government, of 95 per cent. of the French francs and other foreign currencies collected in the Saar in exchange for reichsmarks (b) by free deliveries of coal and (c) through the payment by the German Government to the interested parties on behalf of the French Government of sums due by the latter in the Saar Territory for various reasons, e.g. compensation for surface damage, indemnities, taxes etc.

The currencies collected in the Saar in exchange for reichsmarks amounted in all to 288.8 million French francs and this amount was credited to an account in the name of the Bank for International Settlements at the Bank of France. In accordance with the terms of the relative agreements 95 per cent. of this total or 274.4 million French francs was placed at the disposal of the French Government and out of this sum the Government agreed to leave a deposit of 10 million French francs with the Bank for a fixed period of five years. This deposit receives interest at the highest rate paid by the Bank on French franc accounts and is entitled to participate in the distribution of the Bank's profits under

Article 53, para (e) (i) of the Statutes. The remaining 5 per cent. or 14.4 million French francs was credited to an account in the name of the Reichsbank in the books of the Bank for International Settlements to be utilized, in agreement with a referee nominated by the League of Nations, towards the service of certain foreign loans authorized by the former Saar Governing Commission. As at 31st March 1936 the equivalent of 10.3 million French francs had been withdrawn for the service of these Loans and the balance remained deposited with the Bank for International Settlements.

The amounts due from French importers of coal from the Saar are collected by the Bank of France for the account of the Bank for International Settlements which pays them over to the French Government and maintains an account showing the progress made towards the liquidation of the debt of 900 million French francs assumed by the German Government in respect of the repurchase of the Saar mines, railways etc. As at 31st March 1936 this account had been credited with 274.4 million French francs derived from the collection in the Saar of French francs and other foreign currencies in exchange for reichsmarks and 93.0 million French francs in respect of free deliveries of coal, compensation for surface damage, taxes etc. — a total of 367.4 million French francs.

The Franco-German Agreement also provided for the surplus of caution money and reserves of French private insurance companies which had operated in the Saar Territory to be transferred to and held by the Bank for International Settlements for a maximum period of one year ending on 1st March 1936. Securities to a total nominal value of 2,220,000 French francs and 170,000 French francs in cash were placed in the custody of the Bank and were released to the insurance companies concerned in accordance with the terms of the Agreement.

In addition, the French and German Governments agreed to provide for the capitalisation of the pensions of Saar officials of French nationality and for this purpose a deposit of 14.5 million French francs was made with the Bank for International Settlements. This amount had not been drawn upon at 31st March 1936.

The Austrian Government, in conjunction with the Austrian National Bank, in January and February 1936, employed the Bank for International Settlements as intermediary in the payment of the amounts distributed under the terms of an agreement providing for the liquidation of the so-called "Live Claims" of the Oesterreichische Credit-Anstalt. Substantial exchange operations were undertaken by the Bank in this connection and sums in various currencies amounting to the equivalent of about 55 million Austrian schillings were transferred to over 100 banking institutions which are creditors of the Credit-Anstalt.

The Managing Commission of the Agrarian Fund (Fund A) decided to effect a first distribution of about 3,000,000 gold crowns on account of the awards made against the Fund by the Mixed Arbitral Tribunals. The amount disbursed as at 31st March 1936 was the equivalent, in various gold currencies, of about 2,758,000 gold crowns and the Bank provided the necessary currencies for the account of the Fund.

VIII. 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 31st March 1936 examined and found correct by the Bank's auditors, is reproduced in Annex II to the present Report. Its total is very slightly higher than that recorded at 31st March 1935, namely 660.8 million Swiss francs compared with 659.8 million. These totals, however, cannot be taken as reflecting the true development of the Bank's operations during the years in question. In point of fact all departments of the Bank showed a remarkable revival of activity during the past financial year as compared with the preceding year.

The monthly statements published during the year show that the total of our resources remained almost constantly in excess of 660 million Swiss francs, and that on one occasion the total rose above 700 million — a figure not reached in the preceding year.

Among the various categories of deposits those of central banks for their own account, totalling 139 million Swiss francs, show an increase of 7 million as compared with their level at the end of the preceding year, while bank deposits expressed in a weight of gold, at 19 million, show an increase of some 8 million. Almost throughout the year deposits of central banks for their own account exceeded the total recorded at the beginning of the year and even reached 160 millions. Sight deposits (gold) pursued a steady course; during the greater part of the year they maintained a level above 20 million Swiss francs and at one time they almost reached 22 million.

In this connection we would point out that the deposits of this category, the number of which has been almost doubled, show a fairly high degree of mobility. It would even seem as if some depositors, after a period of waiting, now regard these deposits as really active accounts kept for the purpose of procuring, as occasion arises, the various currencies needed. This tendency has been further noticeable on the occasion of the distribution of funds expressed in gold currencies and of payments for the service of loans denominated in various currencies.

The aggregate increase of some 15 million in the two categories of deposits mentioned above is largely offset by the reduction of 11 million in deposits of central banks for account of third parties and of 3 million in the deposits of other depositors. At the time when the Bank for International Settlements received the funds for the settlement of the Live Claims of the Oesterreichische Credit-Anstalt — mentioned in Chapter VII — the latter category of deposits increased in volume to the exceptional figure of 33 million Swiss francs.

On the other hand, the deposits of central banks for the account of third parties have been reduced, but even at the reduced figure the level remains well above the average for the preceding year.

We would add that the reduction in question was registered in the second month of the financial year under review and was caused by the partial conclusion of the operations arising out of the Saar Agreements, to which reference is made in Chapter VII.

On the assets side of the balance sheet the principal change consists in the marked increase in our holdings of bar gold. Having risen from 11 to 23 million Swiss francs, this item at the present time shows a surplus of some 5 million over our commitments

of the same nature. The existence of such a stock of gold for our own account is necessitated by the considerable development during the year of our gold operations, to which reference is made below. Thanks to this working fund we have secured a certain liberty of action indispensable for this branch of our activity. By buying and reselling for our own account gold taken from this stock we have to a certain extent been able to play the part of regulator of gold movements between central banks and thus to render service to the members of our organization.

There has also been an increase of some 6 million Swiss francs in the item "Sundry Bills and Investments" during the year; this progress, like that of our gold holdings, is offset by a decrease of 19 million in our various realisable assets other than gold.

As regards liquidity it may be mentioned that the whole of the short-term and sight deposits in various currencies and the sight deposits (gold) at 31st March represented 26.2 per cent. of the balance sheet total whereas the sight assets, including bar gold, alone amounted to 58.3 per cent. of that total. The resulting ratio is approximately the same as that shown by the figures at 31st March 1935.

Furthermore, the Bank has in principle maintained its well-established policy of effecting investment operations only with or through and on the recommendation of the central banks of the various markets on which its activities are exercised. By this method credit risks are to a great extent eliminated for the majority of our investments. We have continued to avoid creating in the various currencies exchange positions other than those normally produced by the machinery of international payments, such positions being always limited in amount and duration. In order to achieve this result, by which the risk of exchange losses is largely eliminated, the aim has been to maintain, so far as possible, equilibrium between the volume of our assets and of our commitments in a given currency and also to cover a large proportion of our investments by gold clauses. The total of our assets covered by this special guarantee amounted to some 251 million Swiss francs at 31st March 1936.

* * *

The amount of gold "earmarked" for the account of central banks does not appear in the balance sheet. At 31st March 1936 it totalled the equivalent of 268 million Swiss francs; at 31st March 1935 the corresponding figure was 272 million. But here again a comparison between the two figures gives no indication of the volume of the transactions registered during the past financial year. In point of fact the amount of gold held in this form during the year was, on an average, 30 per cent. greater than that held during the preceding year; at a certain moment the figure for deposits of this nature even exceeded 300 million Swiss francs, this being the highest figure ever recorded under this heading. These deposits, like the Bank's gold holdings for its own account, are distributed over five or six different markets, and this often makes it possible to dispense with the actual shipment of gold when the depositor central banks wish to move their deposits from one market to another. In such circumstances physical shipment can frequently be avoided when we have received an order from another central bank for a shipment in the opposite direction, providing an offset for the amount in question. If no such order has been received and we cannot immediately procure one, the shipment of gold can be avoided wholly or in part by the use of the metallic reserves of the Bank itself, which then effects the offset for its own account.

In this connection it may be said that our operations in gold have developed in a more or less logical manner. The progressive abandonment of the application of the

gold exchange standard and the parallel reduction of the foreign exchange reserves of central banks have led to the practice of voluntary or automatic intervention by the latter, in the form of purchases, sales and transfers of gold on the various markets, for the purpose of defending their exchanges or regulating their money markets.

The Bank for International Settlements was formerly the centre in which a certain volume of the foreign exchange reserves in question was administered and employed for intervention purposes. It is therefore only natural that it should now be called upon to effect in gold operations which the central banks previously entrusted to it in foreign exchange.

The large number of orders received for operations in gold has made it easier to find the counter-parties required by our correspondents. The greater advantages which we have thus been able to offer them have led to an increasing recourse to our services and this has enabled us, in our turn, to extend our facilities in a more regular manner and on more favourable terms.

* * *

The various operations which the Bank for International Settlements has been in a position to effect, in the exercise of its functions as Trustee and Fiscal Agent for International Government Loans and in connection with other special settlements (Live Claims of the Oesterreichische Credit-Anstalt, receipt and distribution of funds in execution of the Saar Agreements and various other distribution operations etc.), are reviewed in Chapter VII of the present Report. During its sixth working year the Bank has also carried out a number of other transactions unconnected with the actual administration of its assets and liabilities.

As regards international postal transactions we continue to ensure the regular discharge of payments for a certain number of postal administrations. These operations are effected in accordance with the principles set forth in our preceding Report, namely by transfers between accounts opened in our books in the name of the central banks on behalf of the said Administrations.

As mentioned in our preceding Report negotiations had been entered into with various international institutions, with a view to arranging that the Bank for International Settlements should act as their cashier or, in certain respects, as their banker, chiefly for the purpose of holding their reserves. All these negotiations have been brought to a successful issue. Here again there has been a notable increase in the number of our customers. The field of our activities now includes several central banks on the other side of the Atlantic and we hope that other banks will be led to avail themselves of our facilities.

In conclusion we should add that the volume of exchange operations carried out for account of third parties as a result of transactions in gold or otherwise has also increased considerably.

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 9,193,671.— Swiss francs, the Swiss franc being taken at par. This compares with a figure of 13,046,008.66 Swiss francs for the fifth fiscal year, the reduced net profit in the sixth fiscal year being due to the fact that your Board, having regard to prevailing conditions, has increased the allowance for contingencies. In the balance

sheet as at March 31, 1936, all currencies are valued at or below the least favourable market rate prevailing on that date and all assets are valued at or below market quotations, if any, or at or below cost. During the sixth fiscal year there have been no abnormal exchange gains or losses in connection with depreciated currencies, or otherwise.

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. 459,683.55 Swiss francs (1935: 652,300.43 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 sixth fiscal year. The payment of this dividend requires 7,500,000 Swiss francs (1935: 7,500,000 Swiss francs). The net profits still remaining after the declaration of the dividend would amount to 1,233,987.45 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 provided for by the Statutes, the sum of 246,797.49 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 (1935: 978,741.65 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, to the amount of 493,594.98 Swiss francs (1935: 1,957,483.29 Swiss francs). The aggregate of the Legal, Dividend and General Reserves at the end of the sixth year would then be 22,059,148.36 Swiss francs.

The same article of the Statutes lays down the distribution of the sum finally remaining, namely, 493,594.98 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 the following Governments have these deposits and are entitled, in view of this minimum duration of their deposits, to participate in the residual amount of 493,594.98 Swiss francs (1935: 1,957,483.29 Swiss francs) in the following sums:

Annuity Trust account deposits in accordance with Article IV (e) of the Trust Agreement:—	Swiss francs at par	
	1935/36	1934/35
France	140,409.56	559,890.11
Great Britain	54,868.85	218,792.26
Italy	28,659.75	114,282.18
Belgium	15,503.61	61,821.41
Rumania	2,708.62	10,800.75
Yugoslavia	11,273.01	44,951.68
Greece	928.67	3,703.11
Portugal	1,779.95	7,097.63
Japan	1,779.95	7,097.63
Poland	51.59	205.73
	257,963.56	1,028,642.49
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	128,981.78	514,321.24
French Government deposit (Saar)	3,385.71	1,090.22
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement	103,263.93	413,429.34
	<u>493,594.98</u>	<u>1,957,483.29</u>

The accounts of the Bank and its sixth 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.

During the business year the Board of Directors, to its great regret, lost its two original American members — Mr. Gates W. McGarrah and Mr. Leon Fraser, who have now both returned to their home country after many years of work in Europe. Mr. McGarrah and Mr. Fraser contributed largely to the organic development of the Bank in its early years; both held the office of President, Mr. McGarrah for three years during which time Mr. Fraser was his alternate and thereafter Mr. Fraser himself became President for a period of two years. The Bank owes them a debt of gratitude for the great services they have rendered it, and their friends, appreciating their high personal qualities, are glad to remain in as close contact with them as distance permits.

Among the alternates of members of the Board, Mr. Paul van Zeeland, called to the high office of Prime Minister in his own country, resigned in May 1935 and was replaced by Mr. Albert Goffin. In January 1936 Mr. H. A. Siepmann, on taking over new duties in the Bank of England, resigned and Mr. Cameron Cobbold was appointed to serve in his stead. Both Mr. van Zeeland and Mr. Siepmann were closely connected with the Bank from the very beginning, having taken part in the preparatory work in Baden-Baden. At a number of meetings of the Board Mr. E. Hülse served as alternate for Dr. Schacht; the Bank was glad to welcome to Basle again its former Assistant General Manager. A change is impending in the executive staff of the Bank, Mr. R. H. Porters having resigned to take up other work. The Bank regrets the loss of his services, which have been particularly valuable on account of his experience of banking in many countries.

The Bank has also to register the loss by death of a former member of its Board of Directors, Mr. Emile Francqui, Ministre d'Etat. Mr. Francqui was not only a great servant of his country but an outstanding personality in the sphere of international co-operation. He was one of the earliest supporters of the proposal to found an international bank and from the outset placed his wide experience at the disposal of this institution which, as a member of the Board, he served for a number of years with great distinction. His memory will always be held in the highest esteem at the Bank for International Settlements.

IX. CONCLUSION.

The past year has been one of great difficulties and many disappointments but it has not been without its more hopeful side. A greater degree of exchange stability has been maintained than at any time since 1931. International trade has shown signs of increasing and prices of primary products which had fallen to unprecedented low levels have again begun to rise under the influence of reviving demand. The depression with which we have been struggling these seven years has created difficult problems, particularly with regard to unemployment; but it has also helped to solve certain problems which caused great concern only a few years ago. International indebtedness both at long and short term has been greatly reduced; interest rates, with some temporary exceptions, are lower than they have been since the war; and gold production has risen to a degree eliminating all fears of a scarcity and even creating the prospect of an abundance, which, on account of its magnitude and possible repercussions, will need careful watching and handling.

Technically the situation holds out hopes of better times. But will these hopes materialise? We all know that purely economic and financial considerations are alone not decisive but that the turn of affairs will be very largely influenced by political developments. In practically every country there is a rising tide of expenditure, leading to increased taxation where the burden is shouldered immediately, and, where the mounting charges are met by borrowing, resulting in an increasing weight of debt, which mortgages the future and may have an adverse influence on the position of the capital and money markets. The increase in expenditure is largely for armaments and is the consequence of the tense situation which weighs so heavily on the minds of the peoples. Absence of international agreement threatens to retard an improvement in economic conditions which otherwise might be reasonably expected; a number of outstanding economic and financial problems, thorny though they may be, are capable of solution, given a better spirit of understanding between the nations. It must be clearly realised that the technical machinery of which the Bank for International Settlements is a part cannot render full service so long as political tension creates an atmosphere in which no effective progress can be made towards an improvement of the monetary and economic conditions of the world.

Respectfully submitted,

L. J. A. TRIP

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.		24,197,930.37	3.7
II—CASH			
On hand and on current account with Banks		9,601,338.86	1.4
III—SIGHT FUNDS at interest. . .		12,960,221.65	2.0
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	150,250,355.81		22.7
2. Treasury Bills	188,278,604.66		28.5
		338,528,960.47	
V—TIME FUNDS at interest			
Not exceeding 3 months		36,032,633.33	5.5
VI—SUNDRY BILLS AND INVEST- MENTS			
1. Treasury Bills.	100,005,765.24		15.1
2. Railway and Postal Adminis- tration Bills and Sundry In- vestments	126,837,819.84		19.2
		226,843,585.08	
VII—OTHER ASSETS			
1. Guaranty of Central Banks on Bills sold	6,235,386.67		0.9
2. Sundry items.	6,383,198.83		1.0
		12,618,585.50	
NOTE — 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 currencies of the deposits or in currencies free from exchange restrictions, and of the long term commitments the French Government Deposit (Saar) (Item III — 3) is similarly covered, while the French Government Guarantee Fund (Item III — 4) is represented by assets available, in accordance with Article XIII of the Trust Agreement, in currencies which are free and based upon the gold or gold exchange standard. The remaining long term commitments (Items III — 1 and 2) which are recorded in a restricted currency (although Item III — 1 may possibly be claimed to be repayable on some other basis), are covered by assets of the same currency, the gold value of a substantial part of which is specially guaranteed.			
The Capital, Reserves and Surplus are represented partly by assets in free currencies but principally by assets in countries where exchange restrictions now prevail and do not permit of free conversion of their currencies into gold or other currencies; however, as to these assets an important part is secured by special contracts guaranteeing their gold value and in one case specifically permitting their transfer. 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".			
		660,783,255.26	100.0

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, April 30, 1936.

AS AT MARCH 31, 1936

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	3,324,345.55		
2. Dividend Reserve Fund . . .	5,844,908.94		
3. General Reserve Fund	11,689,817.85		
		20,859,072.34	3.2
III—LONG TERM COMMITMENTS			
1. Annuity Trust Account			
Deposits	154,340,000.—		23.4
2. German Government Deposit	77,170,000.—		11.7
3. French Government Deposit (Saar)	2,030,500.—		0.3
4. French Government Guarantee Fund	61,930,084.72		9.4
		295,470,584.72	
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	113,277,046.41		17.1
(b) Sight	26,019,716.10		3.9
2. Central Banks for the account of others:		139,296,762.51	
(a) Not exceeding 3 months	2,984,831.20		0.5
(b) Sight	11,334,223.40		1.7
3. Other depositors:		14,319,054.60	
(a) Not exceeding 3 months	83,355.—		0.0
(b) Sight	812,526.73		0.1
		895,881.73	
V—SIGHT DEPOSITS (Gold) . . .		19,087,670.06	2.9
VI—MISCELLANEOUS			
1. Guaranty on Commercial Bills sold	6,278,346.51		0.9
2. Sundry Items	30,382,211.79		4.6
		36,660,558.30	
VII—SURPLUS			
Profit for the financial year ended March 31, 1936		9,193,671.—	1.4
		660,783,255.26	100.0

of the Bank for the financial year ending March 31, 1936, 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, 1936

	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	11,877,733.88
Commissions earned:—	
As Trustee (or Fiscal Agent to Trustees) for International Loans	274,225.91
In connection with special credits	30,457.50
Transfer fees	645.40
	<u>12,183,062.69</u>
Costs of Administration:—	
Board of Directors — fees and travelling expenses	305,696.56
Executives and staff — salaries and travelling expenses	2,164,931.67
Rent, insurance, heating, light and water	184,940.39
Consumable office supplies, books, publications	85,228.38
Telephone, telegraph and postage	67,702.12
Experts' fees (Auditors, interpreters, etc.)	31,822.88
Cantonal taxation	50,214.50
Tax on French issue of Bank's shares	50,000.04
Miscellaneous	48,855.15
	<u>2,989,391.69</u>
NET PROFIT:—	<u>9,193,671.—</u>

APPROPRIATION ACCOUNT

	Swiss francs at par
NET PROFIT FOR THE FINANCIAL YEAR ENDED MARCH 31, 1936	9,193,671.—
Applied in accordance with Article 53 (a) (b) (c) and (d) of the Statutes, as follows:—	
To the Legal Reserve Fund — 5 % of 9,193,671.—	459,683.55
	8,733,987.45
Dividend at the rate of 6 % per annum on paid-up capital	7,500,000.—
	1,233,987.45
To the Dividend Reserve Fund — 20 % of 1,233,987.45	246,797.49
	987,189.96
To the General Reserve Fund — 50 % of 987,189.96	493,594.98
Remainder	493,594.98

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

	Swiss francs at par
Annuity Trust Account deposits in accordance with Article IV (e) of the Trust Agreement:—	
France	140,409.56
Great Britain	54,868.85
Italy	28,659.75
Belgium	15,503.61
Rumania	2,708.62
Yugoslavia	11,273.01
Greece	928.67
Portugal	1,779.95
Japan	1,779.95
Poland	51.59
	257,963.56
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	128,981.78
French Government deposit (Saar)	3,385.71
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement	103,263.93
	493,594.98

TRUSTEE FOR THE GERMAN GOVERNMENT

Statement of Receipts and Payments for the Fifth

Receipts

	German Issue R. M.	American Issue \$
1. FUNDS ON HAND as at June 2, 1934.	717,708.94	1,200,487.24
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—		
Interest coupons	156,310.90	418,484.—
Adjustments effected between Paying Agents for the value of coupons paid in currencies other than the currency of issue	188,625.78	— 39,549.07
Bond redemption	—	—
Expenses	910.58	1,089.20
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	872.42	504.62
4. CURRENCY CONVERSIONS (NET) — to effect adjustments in respect of coupons paid in currencies other than the currency of issue and to meet general expenses	320,356.35	— 102,287.91
	1,384,784.97	1,478,728.08

Payments

1. INTEREST		
Matured coupons paid	835,125.74	1,529,461.48
Adjustments required between Paying Agents for the value of coupons paid in currencies other than the currency of issue	509,602.50	— 125,784.98
2. EXPENSES		
Commission and expenses of Paying Agents	3,359.92	8,701.05
Commission of Trustee	—	—
3. FUNDS ON HAND as at June 1, 1935, held in respect of the items shown on Annex IVb	36,696.81	66,350.53
	1,384,784.97	1,478,728.08

NOTE — The German Government has not furnished to the Trustee in the currencies of the respective issues of the payments since July 1, 1934, and as a consequence, during the fifth Loan year the Trustee only received, in the 1933, the German Government has continued to ignore the "gold value" clause (Article VI) of the General Bond. As regards the remaining instalments in respect of sinking fund since July 1, 1933 and interest since July 1, equivalent of such currencies, without regard to the "gold value" clause, has been paid into special accounts. For the fulfilment of the German Government's obligations under the General Bond, it was impracticable service of the Loan.

Having regard to all the provisions of the General Bond and the respective definitive Bonds and the coupons due on June 1, 1933, December 1, 1933 and June 1, 1934, but the coupon due on December 1, 1934 could only be

With regard to the coupon due on December 1, 1934, certain transfer and clearing agreements, to which the in which the Loan was issued, except the United States of America, whereby holders entitled under the various also made provision for the payment to bondholders entitled thereunder of the coupons due on June 1, 1935, outstanding five-sixths of the nominal amount of the December 1, 1934 coupons and the full nominal amount of The German Government has withdrawn from the special Reichsmark accounts, referred to in the second paragraph

Certain holders claim that the aggregate funds available for the coupons due on December 1, 1933 and Basle Civil Court of first instance has disallowed this claim and an appeal against this decision has been filed.

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 certificates obtained from the depositaries.

BASLE, October 15, 1935.

INTERNATIONAL 5 1/2 % LOAN 1930**Loan Year (June 2, 1934 to June 1, 1935)**

Belgian Issue Bgs.	French Issue Fr. Fr.	British Issue £	Dutch Issue Fl.	Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.
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
149,583.50	10,857,774.60	51,215.10.10	309,913.10	476,222.10	469,727.50	393,369.20
— 14,249.08	— 631,139.70	— 4,349. 7. 4	3,071.46	— 10,587.50	— 126,472.50	194,372.25
—	—	—	—	—	—	—
388.26	42,363.10	134. 7. 3	889.16	1,917.05	1,015.52	14,600.34
1.98	87,592.90	160.12.11	3,273.20	1,179.35	25.71	2,368.90
— 9,648.56	— 363,033.37	1,706.12. 5	— 207,122.48	8,979.60	— 134,172.64	509,005.73
1,042,038.01	76,924,099.76	354,932.17.10	1,196,719.56	3,380,518.27	3,998,118.43	3,537,581.55

1,045,813.92	76,009,917.—	352,232. 6. 2	1,392,897.35	3,326,841.32	2,177,233.38	2,766,916.09
— 18,235.57	— 620,007.56	— 807.17. 3	— 242,238.24	10,525.43	— 196,077.25	570,363.94
2,906.88	291,514.28	884.19. 1	4,975.29	14,716.63	6,560.03	9,554.08
—	—	—	—	—	—	153,661.44
11,552.78	1,242,676.04	2,623. 9.10	41,085.16	28,434.89	2,010,402.27	37,086.—
1,042,038.01	76,924,099.76	354,932.17.10	1,196,719.56	3,380,518.27	3,998,118.43	3,537,581.55

Loan (1) any of the instalments for sinking fund purposes since July 1, 1933, and (2) any of the instalments for interest currencies of the respective issues, one instalment for the interest. Moreover, following the practice adopted in May when remitting funds to the Trustee.

1934, which the German Government has not provided in the currencies of the respective issues, the Reichsmark at the Reichsbank.

to have recourse to the collateral security, which is constituted in Reichsmarks, and covers only two-thirds of the attached thereto, the Trustee applied the available funds in the payment of the nominal amount of coupons of all issues paid to the extent of one-sixth of the nominal values.

Trustee was not a party, were concluded between the German Government and the Governments of the countries agreements were assured payment of the full nominal amounts of their December 1, 1934 coupons. Similar agreements As regards bondholders who do not benefit under the agreements, the German Government offered to liquidate the the June 1, 1935 coupons by a payment in registered marks, calculated at the Reichsbank's official rate of exchange. above, the countervalue of all the payments it has effected pursuant to these arrangements.

subsequently should have been distributed pari passu amongst all bondholders on a "gold value" basis but the

CERTIFICATE

5 1/2 % Loan 1930 for the fifth fiscal year ending June 1, 1935 and certify that the above Statement of Receipts sets forth the transactions for that year. We have also verified the funds on hand at June 1, 1935 by

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE GERMAN GOVERNMENT

Statement of Funds in the hands of

	German Issue R. M.	American Issue \$
The Funds on hand as at June 1, 1935 were held in respect of:—		
1. Unpresented matured coupons	20,501.76	52,796.17
2. Expenses accrued to June 1, 1935, but not claimed until thereafter	53.28	1,246.98
3. Adjustments not yet effected between Paying Agents in respect of the payment of coupons in currencies other than the currency of issue	— 608.58	66.10
Funds on hand for the liquidation of accrued or accruing liabilities	19,946.46	54,109.25
4. Bond redemption account	77.62	25.75
5. Other funds on hand	16,672.73	12,215.53
Total funds on hand as per Statement of Receipts and Payments — Annex IVa	36,696.81	66,350.53

Statement of Bonds outstanding

Nominal value of bonds issued	36,000,000	98,250,000
Less: Nominal value of bonds redeemed during:—		
1. First four Loan years	1,895,800	6,944,400
2. Fifth Loan year	—	—
Nominal value of bonds outstanding as at June 1, 1935	34,104,200	91,305,600

INTERNATIONAL 5½% LOAN 1930

Depositories as at June 1, 1935

Belgian Issue Bgs.	French Issue Fr. Fr.	British Issue £	Dutch Issue Fl.	Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.
7,956.66	542,768.52	753.10.—	20,509.62	18,253.82	1,995,350.53	17,291.99
19.94	2,602.70	5. 5. 9	53.21	69.07	4,988.52	43.23
42.28	— 12,240.75	134. 6.10	109.58	—	—	762.26
8,018.88	533,130.47	893. 2. 7	20,672.41	18,322.89	2,000,339.05	18,097.48
37.95	245.40	28.15. 5	4.78	26.62	81.61	1.—
3,495.95	709,300.17	1,701.11.10	20,407.97	10,085.38	9,981.61	18,987.52
11,552.78	1,242,676.04	2,623. 9.10	41,085.16	28,434.89	2,010,402.27	37,086.—

as at June 1, 1935

35,000,000	2,515,000,000	12,000,000	73,000,000	110,000,000	110,000,000	92,000,000
2,363,600	146,031,000	825,700	5,382,600	6,097,000	7,514,000	6,174,000
—	—	—	—	—	—	—
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 AUSTRIAN

Statement of Receipts and Payments

Receipts

	American Issue \$	British and Dutch Issues £
1. BANK BALANCES as at July 1, 1934	837,904.05	115,675.14. 2
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT in respect of:—		
Interest coupons		
In cash	1,543,923.64	217,874. 2. 1
Accrued in bonds ceded for cancellation (see below)	9,191.15	1,184. 5. 3
Bond redemption		
In cash	1,734.14	472.19. 1
In bonds ceded for cancellation (see below)	542,773.86	75,113.—.11
Expenses	3,852.—	1,003. 8. 4
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	1,135.25	307. 7. 2
	2,940,514.09	411,630.17.—

Payments

1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,572,109.12	221,823.14. 8
Accrued interest on bonds ceded by the Austrian Government (see above)	9,191.15	1,184. 5. 3
2. REDEMPTION		
Drawn bonds reimbursed	—	—
Bonds purchased for redemption	1,844.50	490. 7.10
Bonds ceded by the Austrian Government (see above)	542,773.86	75,113.—.11
3. EXPENSES		
Commission and expenses of Paying Agents and fees and expenses of Trustee	4,496.85	1,213.17. 1
4. BANK BALANCES as at June 30, 1935, held in respect of the items shown on Annex Vb	810,098.61	111,805.11. 3
	2,940,514.09	411,630.17.—

NOTE — The definitive bond of the American Issue of the Loan contains a "gold coin" clause but the Austrian

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 14, 1935.

GOVERNMENT INTERNATIONAL LOAN 1930

for the Fifth Loan Year (July 1, 1934 to June 30, 1935)

Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.	General Expenses	
				£	Sw. Fr.
3,323,204.64	516,869.33	842,759.96	2,173,597.02	—	—
6,296,856.09	658,351.26	1,572,208.29	4,023,272.13	—	—
38,740.35	—	8,570.91	—	—	—
54,282.36	190,400.—	14,106.36	1,346,201.62	—	—
2,035,187.64	—	515,993.64	—	—	—
31,018.—	2,953.75	7,738.—	18,569.04	300.—.—	26,007.04
9,385.61	3,816.66	2,331.78	10,848.72	—	—
11,788,674.69	1,372,391.—	2,963,708.94	7,572,488.53	300.—.—	26,007.04

6,376,608.—	667,660.—	1,593,510.50	4,106,325.56	—	—
38,740.35	—	8,570.91	—	—	—
—	179,220.—	—	—	—	—
53,698.—	—	13,400.—	1,346,175.—	—	—
2,035,187.64	—	515,993.64	—	—	—
34,339.15	3,555.80	8,108.73	23,755.68	300.—.—	26,007.04
3,250,101.55	521,955.20	824,125.16	2,096,232.29	—	—
11,788,674.69	1,372,391.—	2,963,708.94	7,572,488.53	300.—.—	26,007.04

Government, following the practice adopted in July 1933, has not provided the sums necessary to give effect thereto.

CERTIFICATE

Loan 1930 for the fifth fiscal year ending June 30, 1935 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, 1935

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE AUSTRIAN

Statement of Funds in the hands

The Bank Balances as at June 30, 1935 were held in respect of:—

1. (a) Unpresented matured coupons
- (b) Interest coupons maturing on July 1, 1935
2. Expenses accrued to June 30, 1935, 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 Va.

Statement of Bonds outstanding

Nominal value of bonds issued

Less: Nominal value of bonds redeemed during:—

1. First four Loan years
2. Fifth Loan year

Nominal value of bonds outstanding as at June 30, 1935 (see note below)

NOTE: When drawn for redemption,

GOVERNMENT INTERNATIONAL LOAN 1930

of Depositaries as at June 30, 1935

American Issue \$	British and Dutch Issues £	Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.
19,036.50	898. 5. 5	29,405.25	—	14,630.—	43,662.50
769,786.50	108,356.10.—	3,122,770.—	327,740.—	778,400.—	2,002,331.52
2,021.15	—, 1. 4	15,835.18	1,870.08	3,967.12	10,011.71
790,844.15	109,254.16. 9	3,168,010.43	329,610.08	796,997.12	2,056,005.73
121.06	55.15.11	837.26	190,660.—	813.42	80.68
19,133.40	2,494.18. 7	81,253.86	1,685.12	26,314.62	40,145.88
810,098.61	111,805.11. 3	3,250,101.55	521,955.20	824,125.16	2,096,232.29

as at June 30, 1935

25,000,000	3,500,000	100,000,000	10,000,000	25,000,000	50,000,000
2,364,400	321,800	8,144,000	462,000	2,146,000	4,171,000
641,700	82,300	2,634,000	174,000	614,000	1,134,100
21,993,900	3,095,900	89,222,000	9,364,000	22,240,000	44,694,900

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, 1935	21,696,300.—

Receipts

1. BANK BALANCES as at July 1, 1935	810,098.61
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT in respect of:—	
Interest coupons	
In cash	746,995.72
Accrued in bonds ceded for cancellation (see below).	4,418.18
Bond redemption	
In cash	413.81
In bonds ceded for cancellation (see below)	294,299.69
Expenses	1,521.60
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	555.78
	1,858,303.39

Payments

1. INTEREST	
Matured coupons paid and accrued interest paid on bonds purchased for redemption	771,433.64
Accrued interest on bonds ceded by the Austrian Government (see above) . .	4,418.18
2. REDEMPTION	
Bonds purchased for redemption	455.—
Bonds ceded by the Austrian Government (see above)	294,299.69
3. EXPENSES	
Commission and expenses of Paying Agents and fees and expenses of Trustee	1,936.54
4. BANK BALANCES as at December 31, 1935, in respect of:—	
Interest coupons maturing on January 1, 1936	759,370.50
Bonds drawn for payment on January 1, 1936	—
Matured coupons unrepresented	17,395.—
Bond redemption	79.87
Miscellaneous items (of which Sw. Fr. 5,609.80 is deposited with a bank formerly a Paying Agent, which has suspended payments)	8,914.97
	1,858,303.39

GOVERNMENT INTERNATIONAL LOAN 1930

Payments for the half-year ended December 31, 1935

Sterling	Lire	Swedish Crowns	Swiss Francs	Schillings
3,500,000.—	100,000,000.—	10,000,000.—	25,000,000.—	50,000,000.—
3,055,700.—	87,868,000.—	9,364,000.—	21,931,000.—	44,145,000.—

111,805.11. 3	3,250,101.55	521,955.20	824,125.16	2,096,232.29
105,362. 4. 1	3,024,186.04	326,347.88	755,356.54	1,963,546.44
597.17.10	20,392.35	—	4,505.67	—
119. 7. 6	2,194.60	98,245.—	3,474.16	723,908.48
40,554. 2. 6	1,134,730.40	—	283,065.84	—
642.12. 6	15,311.25	1,465.—	19,457.70	9,090.15
149.13.—	4,626.03	2,185.57	1,147.04	—
259,231. 8. 8	7,451,542.22	950,198.65	1,891,132.11	4,792,777.36

108,329.18.—	3,100,860.—	327,740.—	776,123.25	2,012,415.32
597.17.10	20,392.35	—	4,505.67	—
90.17.—	—	—	4,165.—	723,935.95
40,554. 2. 6	1,134,730.40	—	283,065.84	—
744.10. 8	16,731.67	1,638.70	19,600.74	11,781.52
106,949.10.—	3,075,380.—	327,740.—	767,585.—	1,977,696.—
—	—	190,550.—	—	—
926. 5. 5	51,315.25	—	17,010.—	43,955.16
84. 6. 5	3,031.86	98,355.—	122.58	53.21
954.—.10	49,100.69	4,174.95	18,954.03	22,940.20
259,231. 8. 8	7,451,542.22	950,198.65	1,891,132.11	4,792,777.36

INTERNATIONAL LOANS

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

Funds on hand as at March 31, 1936

	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	645,693.93	764.88	120,771.98	767,230.79
Interest in respect of the next coupon falling due	—	—	3,471,230.93	3,471,230.93
Drawn bonds not yet presented for re- demption	4,172.68	—	—	4,172.68
Interest coupons due but unrepresented	172,525.71	280,933.35	221,488.52	674,947.58
Miscellaneous items	475,964.83	174,298.29	23,482.71	673,745.83
TOTALS . .	1,298,357.15	455,996.52	3,836,974.14	5,591,327.81

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

Summary of Receipts and Payments
for the period from April 1, 1935 to March 31, 1936

(EXPRESSED IN REICHSMARKS)

RECEIPTS		Reichsmarks
I—Balances as at April 1, 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.—
II—From German producers, for the account of France, in reimbursement of advances received under deliveries in kind contracts not fully executed		139,099.20
III—From Yugoslavia, being interest allowed on deliveries in kind account but not withdrawn		1,422.38
	Total	125,774,503.56
PAYMENTS AND BALANCES		Reichsmarks
I—In respect of deliveries in kind in accordance with Article VII of the Trust Agreement:		
For the account of: France	42,624.44	
Yugoslavia	161,000.—	203,624.44
II—Balances as at March 31, 1936:—		
(a) Held in special interest-bearing accounts in accordance with Article IV (f) of the Trust Agreement, reserved for payments for deliveries in kind		570,879.12
(b) Balance of the Annuity Trust Account being minimum deposits in accordance with Article IV (e) of the Trust Agreement		125,000,000.—
	Total	125,774,503.56

NOTE— Although the "Transitional Measures" contained in Part II of the Lausanne Agreement of July 9, 1932, provide that the service of market loans shall not be affected by the reservation, as from July 1, 1932, of the execution of the payments due by Germany under the New Plan, 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 the following considerations applied:—

German External Loan 1924—The definitive bond of the American issue contains a "gold coin" clause but the German Government has effected the service of this issue on the basis of its nominal value in current legal tender.

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, 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.

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, 1936.

BASLE, April 30, 1936.

PRICE, WATERHOUSE & Co.
Chartered Accountants.

BOARD OF DIRECTORS

Dr. L. J. A. Trip, Amsterdam	Chairman.
Prof. Alberto Beneduce, Rome	} Vice-Chairmen.
Marquis de Vogüé, Paris	
Dott. V. Azzolini, Rome.	
Prof. Dr. G. Bachmann, Zurich.	
Baron Brincard, Paris.	
Louis Franck, Brussels.	
Alexandre Galopin, Brussels.	
Hisakira Kano, London.	
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.	

Alternates

Cameron Cobbold, London.	
Pierre Fournier or	} Paris.
R. Lacour-Gayet	
Albert Goffin, Brussels.	
Dott. Pasquale Troise, Rome.	
Dr. Wilhelm Vocke or	} Berlin.
Ernst Hülse	

EXECUTIVE OFFICERS

Dr. L. J. A. Trip	President.
Dr. J. W. Beyen	Alternate of the President.
Pierre Quesnay	General Manager.
Paul Hechler	Assistant General Manager.
R. H. Porters	Manager.
R. Pilotti	Secretary-General.
Marcel van Zeeland	Manager.