

BANK FOR INTERNATIONAL SETTLEMENTS

FOURTH ANNUAL REPORT

APRIL 1, 1933 — MARCH 31, 1934

BASLE

May 14, 1934

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FOURTH ANNUAL REPORT
TO THE GENERAL MEETING OF THE
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE, May 14, 1934.

Gentlemen :

I have the honor to submit herewith, as required by the Statutes, the Annual Report of the Bank for International Settlements for the fourth fiscal period, beginning April 1, 1933, and ending March 31, 1934 :

These twelve months have been striking ones in the financial history of the modern world. They have witnessed the dramatic episodes in the United States of America, culminating first in the abandonment of the gold standard, with its worldwide economic and monetary repercussions, and then, after a series of novel currency experiments, and a profound change in the banking and central banking structure, in the devaluation of the dollar and a qualified return to the standard abandoned. They have witnessed the high hopes aroused on every continent by the convocation of the London Monetary and Economic Conference, which was to find joint solutions for financial ills and economic difficulties and to prepare the way for a reconstituted international monetary system — hopes which were dashed to the ground when this vast assembly met and promptly discovered that it was either in disaccord on fundamentals (especially as regards early currency stabilisation) or, if in agreement on some fundamentals (for example on the economic side), in disharmony as to the ways and means of reaching the agreed objectives. They have witnessed, as a consequence, the formation, in the monetary field, of the "gold bloc", determined to preserve the status quo in their monetary system based on the classic gold standard, and in the financial and economic field, a retreat from the direction of internationalism toward a self-reliant, self-contained but ominous nationalism. In international financial and monetary relations the twelve months have seen a series of retrograde developments — more moratoria, more transfer impediments, more artificial clearings, more gold hoarding than during any year on record, more conversion of foreign balances and their repatriation into the home currency, or in gold, by private and central banks, an almost complete cessation of new long-term lending abroad and a further limitation or reduction of the volume of short-term credits. But in the national field, marked progress has been made. Indeed, as world conditions stand to-day, it may well turn out that the shortest, though hardest, route back to the healthy and stimulating financial and economic internationalism which existed almost unnoticed in so widespread a degree before the war will be found to pass first through an area of nationalism, in which each country endeavors to liquidate the past by its own efforts and strives for national reconstruction by isolated endeavor. In a considerable number of countries, national indices have begun to show signs of improvement: a recovery in industrial production, a great decline in unemployment, a brisker movement of goods to consumers, a strengthening in raw material prices, a lowering of the rates at which credit and capital are available, a firmer tendency on the stock markets, and an adjustment of production costs and prices — in other words evidences that equilibrium is being gradually reestablished thanks to thousands of individual

economies and efforts, and to those deep forces which determine the cyclical movements in economic life. Important, extensive and successful internal public debt conversions have been effected in many quarters of the globe, such as Italy, Australia, Holland, Belgium and Japan. The domestic banking structure has been submitted to extensive modification and review in many markets. A half dozen countries have created or are in course of creating for the first time central banks for the regulation of credit, the issue of notes, and the pooling of private bank reserves. In Great Britain, a budgetary surplus and equilibrium in the international accounts have been attained. In the United States, reform and recovery are being simultaneously essayed with boldness and authority. In France, the problem of the public finances is being grasped with a vigorous hand. In Germany, unemployment has been greatly diminished by aggressive effort. Some progress has been made in several nations, commonly called debtor, in clearing up blocked currency positions by the issuance of scrip employable for exports, or by consolidation schemes, as has occurred on a large scale in the Argentine. The instances of national improvement to date could be multiplied, but it would be necessary, in order to keep a proper perspective, to indicate in how many cases this slow restoration of a degree of internal equilibrium has been realised in part at the cost of one's neighbor, sometimes by deliberate reduction of imports, sometimes by the disregard of contractual obligations, and nearly always by the erection of barriers to restrict the free movement of goods and capital across the frontiers. Reconstruction by the process of self-preservation is painful; but once the method of individual national restoration has borne fruit, and a sound recovery seems attained, especially in some of the great consuming and capital markets, a new basis will have been laid for the resumption of normal international relations. Prosperity cannot be penned up in any one region. Just as bad economic or financial conditions in an important area cause injurious reactions throughout the world, and rapidly — as the past has shown —, so an improved situation in a given land will inevitably be of benefit to other parts of the world, although its spread is customarily less swift. This much at least the international mind has grasped from the events of the recent years and the deliberations of the London Conference, namely, that the world is financially and economically interdependent in fact, that the problems of one are the problems of the other — witness unemployment — and there has come to be a much fuller understanding of the close interconnection between economic, monetary and financial questions, domestically and externally.

While the twelve months period has witnessed, therefore, the further growth of nationalism and a seeming check in international effort, nevertheless in one important problem in the international realm the year has seen slow but sure progress toward the general acceptance of the views expressed by the Board of Directors of the Bank for International Settlements on July 11, 1932, to the effect that "the gold standard remains the best available monetary mechanism" and that its reestablishment between the nations is a necessity. At first glance, this statement that there has been progress may seem paradoxical when one observes that although nearly two years have elapsed since the Board's resolution, an international monetary system based on gold is still wanting. But on closer analysis it is evident that there has been a real advance on the part of public opinion, on the part of governments, and on the part of Central Banks in appreciating how indispensable is the restoration of the gold standard — an opinion which by no means implies that continuous efforts are not and will not be necessary and desirable with a view to improving its functioning and to correcting its demonstrated defects. The

London Conference reaffirmed the essential position of gold in the monetary system, and the representatives of the 64 countries agreed in their Report dated July 27, 1933, that "it is in the interest of all concerned that stability in the monetary field be obtained as quickly as practicable" and that "gold should be reestablished as the international measure of exchange values, the time and parity being for each country to determine". The important group of business men which assembles in the International Chamber of Commerce unanimously approved a resolution in March 1934, also calling for the stabilisation of currencies without further delay and the restoration of a monetary system based on gold. It is indeed significant that the monetary authorities in countries such as Great Britain and the United States (among others), where there has been much discussion about altering the basis of the monetary system, should today be the possessors of greater gold reserves than either have ever held in their entire history. And when Czechoslovakia and the United States chose to devalue their currencies, the new parities established were not only fixed in relation to gold, but the pre-existing application of the gold standard was continued with little modification in the former case, though considerably modified in the second. As for the widespread popular belief in gold, this has been only too clearly visible during the last twelve months from the vast hoarding of the metal itself. There is no evidence of the authorities in any nation showing the slightest distrust of the position which will continue to be assigned to gold in the future monetary system, although there is of course a general desire that such improvements should be made in the working of the standard and in the relationships between the markets and the central banks as may be found to be practicable.

The Bank for International Settlements has followed closely, or participated in, or been directly affected by, all the manifold incidents in the financial and monetary domain during the year under review, of which some have been mentioned above, and others will be referred to below. In particular, it has devoted time and thought to ways of improving the future operation of the international gold standard. In this connection, it took an active part in the deliberations of the London Conference, to which it was invited to send a representative in an advisory capacity, — particularly in the committees which examined this vital question. These committees more nearly reached unanimous technical agreement as to how this question should be dealt with than has been commonly recognised, because their findings were eclipsed by the failure of the Conference to reach decisions on the more immediate larger issues which were before it. Throughout the active year, the monthly gatherings of the Governors and Directors in Basle have proved of inestimable value in permitting them to follow together the swift changes that have occurred, and currently to exchange counsel and opinion concerning the new difficulties and problems which have arisen, as to their reactions in the respective markets, and as to the best methods for coping with them. On the material business side, the activities of the Bank have decreased in volume, because deposits have fallen as the natural result of the continued currency chaos, intensified by the experimentation with the dollar which caused an immediate shrinkage of 200 million Swiss francs in deposits, and as a normal consequence of growing nationalism; but the realised net profit for the year is but a little lower than for the third period. As regards the functions of the Bank as Trustee for international loans, they have been unusually arduous in a time of defaults or incomplete fulfilment of the provisions of loan contracts, to which allusion will be made below.

After a year of stress in monetary affairs, the Bank for International Settlements looks forward with faith and fortitude. At no period has it been so continuously in touch with the ever changing financial problems of the world markets at almost every point. During no time have so many proposals been made by publicists, bankers and men of affairs of various nationalities as to the possible lines of activity or utility to which it might address itself in the domain of financial reconstruction and monetary science. From the experience to date, one conclusion is perfectly clear, without in any way excluding the many opportunities for service in other directions, namely, that the international monetary system based on gold, which is bound to be reinstated, needs, if it is to operate more successfully than heretofore, a common center of contact, of counsel and of collaboration, in order that it may be international in fact as well as in name. The truth is that since the war there has been anarchy in the international operation of the gold standard in that, speaking broadly, each country considered that the mere fact that its currency was tied to gold with effective gold import and export points was all-sufficient to make it part of the international system, and that in every other respect it could freely disregard its neighbors and the effect upon them and their currencies of a succession of violent changes in tariff policy, in credit policy, and even in the gold content of the national currency itself. In reality, therefore, the policies followed have been local and isolated, as distinguished from collaborative, and even more than that, they have frequently overlooked the fact that a successful national policy in currency matters cannot be maintained without regard to its consequences abroad or to the effect of one's neighbor's policy upon oneself, because of the mutual interdependence of the financial, currency, and economic system. Some order out of this anarchy must be evolved, in the national advantage in the first place, and in the international interest in the second place. Some rules of the gold standard must be established, recognised, and followed, and some common agency must be used to permit coordination. The 64 nations represented at the London Conference unanimously expressed the view that "the Bank for International Settlements constitutes an essential agency designed to harmonise conflicting views and for joint consultation. This instrument should continue to be employed . . . and should continuously examine the application and principles of the working of the gold standard and study such modifications thereof as experience may prove desirable".

The Report that follows deals with some of the monetary questions of the future, with the London Conference and the Bank, with developments in central banking during the year, the supply and movement of gold, the situation as regards international short-term credits and the trend of interest rates, with the special developments at the Bank on its business side including the new feature of "gold deposits", with its activities as Trustee or Agent under international agreements and international loans, and as a center for central bank collaboration, as well as with certain other factors of a financial and monetary character that have developed during the year under review.

II. THE BANK AND THE MONETARY PROBLEMS BEFORE THE LONDON CONFERENCE.

The Bank for International Settlements was invited to name two members to that section of the Preparatory Committee which was to prepare the monetary questions for the Annotated Agenda of the World Monetary and Economic Conference, and it duly accepted this invitation. The Bank was further invited to send two persons to the Conference itself, who were to serve in a consultative capacity. In view of the fact that seven members of the Board of Directors attended the Conference deliberations in one capacity or another, it was determined to designate one representative only, who served as rapporteur for the sub-committee on permanent measures for the reestablishment of an international monetary standard. Whereas the Conference made no headway on the monetary problems before it relating to the immediate, or at least temporary, stabilisation of the principal currencies, nevertheless it led to two major steps in the monetary sphere. In the first place, the events which occurred during the proceedings brought about three formal declarations of contemporaneous monetary policy, not only of historic importance, but so vital for an understanding of the year's currency developments that they will be given below; they were, the June declarations by President Roosevelt of the then monetary policy of the United States; the pronouncement made by the "gold bloc" at the time of its creation in July, which led to the prompt conclusion of collaborative technical arrangements between the Central Banks of the countries concerned with a view to making effective the common policies of their respective governments; and the declaration also made in July by the nations of the British Commonwealth, which necessarily carries with it implications for the rest of the sterling area. Secondly, in the matter of fixing some of the framework of a long-range monetary policy for the world in general after the immediate difficulties shall have been surmounted, the sub-committee of the Conference on permanent measures achieved a considerable measure of progress by reporting five resolutions which the Conference adopted.

The first of these resolutions called for currency stability as rapidly as possible in the interest of all concerned. The second declared that gold should be reestablished as the international measure of exchange values. The third dealt with measures for economising gold and securing its maximum utility. It recommended, therefore, against the internal circulation of gold coins or gold certificates, stating that the primary object of gold in the monetary system was to meet international payments. With the same view to economy of gold, and greater elasticity in its use, the resolution urged that the minimum ratio of gold coverage should be altered from the habitual one third to not more than 25 per cent. The fourth resolution advanced a step beyond the methods for economising gold, to ways of improving the operation of the gold standard itself by concerted action. It stated that for this purpose central bank collaboration was necessary (which presupposed the existence of a Central Bank in every developed country); and it expressed the view that the Bank for International Settlements should play an increasingly important part as an instrument for common action. The fifth resolution then dealt with some of the fundamental aspects of the functioning of the gold standard about which the Central Banks were to collaborate. The resolutions contained the following statements of agreement:

- "I. That it is in the interest of all concerned that stability in the international monetary field be attained as quickly as practicable.
- "II. That gold should be re-established as the international measure of exchange values, time and parity being for each country to determine.
- "III. (1) That under modern conditions monetary gold is required not for internal circulation but as a reserve against Central Bank liabilities and primarily to meet external demands for payments caused by some disequilibrium on the foreign account. It is consequently undesirable to put gold coins or gold certificates into internal circulation.
- (2) That in order to improve the working of a future gold standard greater elasticity should be given to Central Bank legal cover provisions; for instance, in so far as the system of percentage gold cover is applied a minimum ratio of not more than twenty-five per cent. should be considered as sufficient; similar elasticity should be achieved by appropriate measures where other systems are applied. However, such changes must not be taken as an excuse for unduly building up a larger superstructure of notes and credits; in other words the effect of this resolution should be to increase the free reserve of Central Banks and thereby to strengthen their position.
- "IV. The Conference considers it to be essential, in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent Central Banks with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate Central Banking institution.
- The Conference wishes to reaffirm the declarations of previous conferences with regard to the great utility of close and continuous co-operation between Central Banks. The Bank for International Settlements should play an increasingly important part not only by improving contact but also as an instrument for common action.
- "V. (1) The proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining Central Bank policy.
- (2) Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.
- (3) While gold should be allowed freely to flow out of and into the countries concerned, Central Banks should always be prepared to buy gold at a publicly announced fixed price expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.
- (4) Central Banks should obtain from their markets the fullest possible information concerning the demands that might be made upon their reserves.

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

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

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

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

All the foregoing resolutions with respect to permanent principles of monetary policy, which are in effect reaffirmations or elaborations of the Board's declaration on an international monetary system adopted in July, 1932, were unanimously adopted by the full Conference, except that the delegates from the United States of America stated that they considered the discussion of the fifth resolution then to be premature, but that the Federal Reserve System would be ready at the appropriate time to take up with other Central Banks and the Bank for International Settlements the problems of a technical character raised thereby. The fifth resolution is of course of prime significance. It marks a definite advance by publicly stating some of the essential rules of the application of the gold standard. Any such rules cannot be inflexibly binding, in a legal sense; for monetary policy is a living, dynamic thing and must be reexamined from time to time in the light of progressive experience and changing economic and world conditions. Yet, as a guiding declaration on certain agreed aims and methods, the last resolution, if accepted and applied by Central Banks, opens the way to a much more efficient operation of a monetary system.

The Annotated Agenda provided for an examination of the gold exchange standard and the modifications necessary to cure its revealed shortcomings. The sub-committee of the Conference considered that a further study of this problem should be referred to the Bank for International Settlements. As and when effective progress is made in the international restoration of the gold standard itself, it will be possible for the Bank to deal with the subordinate topic of the future working, on a restricted, controlled and centralised scale, of the gold exchange standard, which is especially helpful to certain types of economies, and in permitting and hastening their participation in an international standard, when resumed.

While dealing with permanent monetary policy and the functions and position of the Bank for International Settlements, the President of the Austrian National Bank, who was Chairman of the sub-committee on permanent measures, drew attention, as the committee minutes record, — “to the fact that a number of Governments had not yet acceded to the agreement concluded on 20th January 1930, between the Governments of Belgium, the United Kingdom, Canada, Australia, New Zealand, the Union of South Africa, India, France, Germany, Greece, Italy, Japan, Poland, Portugal, Roumania, Czechoslovakia and Yugoslavia. Article 10 of the agreement, which was substantially reproduced in the charter (granted by Switzerland) of the said Bank, read as follows:

‘The Bank (for International Settlements), its property and assets, and also the deposits or other funds entrusted to it, on the territory of, or dependent on the administration of, the Parties shall be immune from any disabilities and from any restrictive measures such as censorship, requisition, seizure or confiscation, in time of peace or war, reprisals, prohibition or restriction of export of gold or currency and other similar interferences, restrictions or prohibitions.’

“In view of the fact that the Second Sub-Commission, on the Sub-Committee’s proposal, had adopted a resolution on the function of the Bank for International Settlements, it would be well to remind Governments which had not yet acceded to that agreement of the desirability of as many countries as possible acceding to it. A letter on the subject would be addressed by the appropriate body to the Governments concerned.”

In the interim since adjournment, the Secretary General of the Conference communicated this extract from the minutes to the Governments represented at London which had not already accorded the above-mentioned immunities to the Bank for International Settlements. These immunities when granted to the common agency, are in fact granted to all the Central Banks of the world, for the reason that each Central Bank can secure for itself the advantage of them by effecting its operations through the central agency. The conception that the reserves of Central Banks when held abroad should be granted special immunities and privileges has for a long time been a matter of agreement between central bankers. The generalisation of such a measure constitutes a concrete step in the direction of mutual collaboration, of strengthening the operation of an international monetary system, and of encouraging the creation of a gold settlement fund and the centralisation of foreign devisen held by Central Banks. So far the following nations have responded to the letter of the Secretary General of the London Conference by granting the immunities in question or by stating that they are prepared to grant them and are in course of taking the necessary steps:— China, Danzig, Esthonia, Holland, Hungary, Luxemburg. Several other states have reported that the matter is under

favourable consideration and that a definite answer will be given later. The United States of America in November 1933 replied that the grant of the immunities was not in accord with the then existing orders concerning the import and export of gold, but that when circumstances changed they would be ready to reconsider their position.

While these subjects, primarily of a technical character, were being dealt with in the committees, decisions of moment were being taken outside the Conference by groups of countries which separately met to state their position or views on monetary matters, as they were indeed obliged to do by the uneasiness of world public opinion when the Conference threatened to break up because of the failure to agree on immediate measures in the currency field, due primarily to the unexpectedly changed attitude of the United States:

On July 3, 1933, the following statement was issued by the representatives of Belgium, France, Holland, Italy, Poland and Switzerland, which have been popularly denominated the "gold bloc":

"The undersigned governments, convinced that the maintenance of their currencies is essential for the economic and financial recovery of the world and of credit and for the safe-guarding of social progress in their respective countries, confirm their intention to maintain the free functioning of the gold standard in their respective countries at the existing gold parities and within the framework of existing monetary laws. They ask their central banks to keep in close touch to give the maximum efficacy to this declaration."

In order to demonstrate that this was no idle diplomatic gesture, five days later the Governors of the Central Banks of the six nations concerned met at the Bank of France, with the President of the Bank for International Settlements present as an observer, to examine those practical measures which could be taken in common to combat exchange speculation, to protect their respective currencies, and to carry into effect the pronouncement of their Governments. As a consequence of this gathering and of the conclusions reached, the six exchanges strengthened forthwith, domestic confidence was reassured, and the gold drain which had commenced was not only arrested, but contrary gold movements set in immediately.

After the declaration and action of the gold bloc came a second announcement of policy of a fundamentally different but remarkable character. This was the joint declaration of the Governments of Great Britain, Canada, India, Australia, New Zealand and the Union of South Africa, readhering to the statement of monetary principles previously adopted at Ottawa, but restating the position in detail as follows:

"At the Ottawa Conference the governments represented declared their view that a rise throughout the world in the general level of wholesale prices was in the highest degree desirable, and stated that they were anxious to co-operate with other nations in any practicable measures for raising wholesale prices. They agreed that a rise in prices could not be effected by monetary action alone, since various other factors which combined to bring about the present depression must also be modified or removed before a remedy is assured.

"It was indicated that international action would be needed to remove the various non-monetary factors which were depressing the level of prices.

"In the monetary sphere the primary line of action towards a rise in prices was stated to be the creation and maintenance within the limits of sound finance of such conditions as would assist in the revival of enterprise and trade, including low rates of interest and an abundance of short-term money. The inflationary creation of additional means of payment to finance public expenditure was deprecated, and an orderly monetary policy was demanded with safeguards to limit the scope of violent speculative movements of commodities and securities.

"Since then the policy of the British Commonwealth has been directed to raising prices. The undersigned delegations note with satisfaction that this policy has been attended with an encouraging measure of success. For some months indeed it had to encounter obstacles arising from the continuance of a downward trend of gold prices, and during that period the results achieved were in the main limited to raising prices in Empire currencies relatively to gold prices. In the last few months the persistent adherence of the United Kingdom to the policy of cheap and plentiful money has been increasingly effective under the more favourable conditions that have been created for the time being by the change of policy of the United States, and by the halt in the fall of gold prices.

"Taking the whole period from June 29, 1932, just before the assembly of the Ottawa Conference, a rise in sterling wholesale prices has taken place of 12 per cent. according to the 'Economist' index. The rise in the sterling prices of primary products during the same period has been much more substantial, being in the neighbourhood of 20 per cent.

"The undersigned delegations are of opinion that the views they expressed at Ottawa as to the necessity of a rise in the price level still hold good and that it is of the greatest importance that this rise which has begun should continue. As to the ultimate level to be aimed at they do not consider it practicable to state this in precise terms. Any price level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonises the burden of debts and fixed charges with economic capacity. It is important that the rise in prices should not be carried to such a pitch as to produce an inflated scale of profits and threaten a disturbance of equilibrium in the opposite direction. They therefore consider that the governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established, and that thereupon they should take whatever measures are possible to stabilise the position thus attained.

"With reference to the proposal which has been made from time to time for the expansion of government programmes of capital outlay, the British Commonwealth delegations consider that this is a matter which must be dealt with by each government in the light of its own experience and of its own conditions.

"The Ottawa Conference declared that the ultimate aim of monetary policy must be the restoration of a satisfactory international monetary standard, having in mind, not merely stable exchange rates between all countries, but the deliberate

management of the international standard in such a manner as to ensure the smooth and efficient working of international trade and finance. The principal conditions precedent to the re-establishment of any international monetary standard were stated, particularly a rise in the general level of commodity prices in the various countries to a height more in keeping with the level of costs, including the burden of debt and other fixed and semi-fixed charges, and the conference expressed its sense of the importance of securing and maintaining international co-operation with a view to avoiding, so far as may be found practicable, wide fluctuations in the purchasing power of the standard of value.

"The undersigned delegations now reaffirm their view that the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard under which international co-operation would be secured and maintained with a view to avoiding, so far as may be found practicable, undue fluctuations in the purchasing power of gold. The problem with which the world is faced is to reconcile the stability of exchange rates with a reasonable measure of stability, not merely in the price level of a particular country, but in world prices. Effective action in this matter must largely depend on international co-operation, and in any further sessions of the World Economic and Monetary Conference this subject must have special prominence.

"In the meantime the undersigned delegations recognise the importance of stability of exchange rates between the countries of the Empire in the interests of trade. This objective will be constantly kept in mind in determining their monetary policy, and its achievement will be aided by the pursuit of a common policy of raising price levels. Inter-Imperial stability of exchange rates is facilitated by the fact that the United Kingdom government has no commitments to other countries as regards the future management of sterling and retains complete freedom of action in this respect. The adherence of other countries to a policy on similar lines would make possible the attainment and maintenance of exchange stability over a still wider area.

"Among the factors working for the economic recovery of the countries of the Commonwealth, special importance attaches to the decline in the rate of interest on long-term loans. The undersigned delegations note with satisfaction the progress which has been made in that direction as well as in the resumption of oversea lending by the London market. They agree that further advances on these lines will be beneficial as and when they can be made.

"The undersigned delegations have agreed that they will recommend their governments to consult with one another from time to time on monetary and economic policy with a view to establishing their common purpose and to the framing of such measures as may conduce towards its achievement."

This important profession of faith on the subject of monetary policy, made by the principal countries of the British Commonwealth, and laying emphasis on commodity price levels and relative stability in the purchasing power of gold, followed the declaration of the gold area laying emphasis on stability in the exchanges. Both were preceded by the declarations of the President of the United States with respect to the then objectives of his monetary policy transmitted in two messages to the Conference, from which the following extracts are presented:

"The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations.

". . . . Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

"Our broad purpose is the permanent stabilisation of every nation's currency. Gold or gold and silver can well continue to be a metallic reserve behind currencies, but this is not the time to dissipate gold reserves. When the world works out concerted policies in the majority of nations to produce balanced budgets and living within their means then we can properly discuss a better distribution of the world's gold and silver supply to act as a reserve base of national currencies.

"The revaluation of the dollar in terms of American commodities is an end from which the government and the people of the United States cannot be diverted. We wish to make this perfectly clear: we are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate concern. The exchange value of the dollar will ultimately depend upon the success of other nations in raising the prices of their own commodities in terms of their national moneys and cannot be determined in advance of our knowledge of such fact."

In the months that have passed since the London Conference adjourned, the most outstanding monetary event has been the adoption in January 1934 of the Gold Reserve Act in the United States, by which the value of the dollar was again linked to gold. When transmitting this measure to Congress President Roosevelt revealed how extensively his opinions had evolved since his messages to London when he emphasised the desirability of "some greater degree of stability to foreign exchange rates in the interest of our people"; and the Gold Reserve Act itself in Section 10a made the following provision: "For the purpose of stabilising the exchange value of the dollar the Secretary of the Treasury . . . is authorised for the account of the fund established in this section to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section". Moreover, the Secretary of State explained in a speech on April 23, 1934, that "we should favor a policy that will result as early as may be practicable in permanent exchange stabilisation and permanent monetary arrangements".

The qualified return to gold and the more definite and clear statement of future American policy reopens the door to international discussions between the nations principally concerned as to the time of definitive stabilisation and as to the permanent parity of their respective currencies. Indeed, as will be stated in the conclusion to this Report, many factors of progress have developed in the direction of correcting or mitigating the causes of the breakdown of the international monetary system, of reducing the difficulties of restoring the gold standard between the principal countries and in

the direction of agreeing upon improvement in the technique of its operation, so that the time is approaching when effective resumption of an international monetary standard based on gold can become an established fact. One further effect of the currency action in the United States was an extraordinary increase in the volume of gold movements, which also took place to a large degree during the course and as a consequence of the London Conference. Some account of these exceptional gold movements is contained in the succeeding chapter.

III. A RECORD YEAR IN GOLD PRODUCTION, GOLD MOVEMENTS AND GOLD HOARDING.

Far from reflecting a diminishing belief in gold as a standard of value, or as an instrument of international payments, or as a suitable monetary medium, because of an inadequate supply, the records of the Bank for International Settlements for the year 1933 show that in no year to date has the new production of gold been so great, or its international movements of such magnitude, or the volume of private demand for hoarding so extensive. Hoarding has been one of the most marked features of the year; indeed, as appears later on page 20, fresh hoarding of gold during the year 1933 alone amounted to about 3,000 million Swiss francs. This figure would have been larger except for the energetic campaign in the United States to force hoarders to restore gold to the Reserve Banks. Thanks to this and to the large amounts of new gold which became available from production and other sources, the huge private demand was not only satisfied, but at the end of 1933 the reserves of Central Banks and Treasuries were some 200 million Swiss francs higher than they had been at the beginning.

(a) THE SUPPLY AND HOARDING OF GOLD.

The total gold production of the world in 1933, valued at about 2,600 million Swiss francs, slightly exceeded the record figure of the previous year, as appears from the following table which gives the comparative output for over a decade:

Year	Union of South Africa	U. S. A.	Canada	Other producing countries	Total for the world	
	Thousands of ounces of fine gold					Millions of Swiss francs
1915*	9,096	4,888	918	7,692	22,594	2,420
1923	9,149	2,503	1,233	4,901	17,786	1,905
1924	9,575	2,529	1,525	5,421	19,050	2,041
1925	9,598	2,412	1,736	5,285	19,031	2,039
1926	9,955	2,335	1,754	5,325	19,369	2,075
1927	10,122	2,197	1,853	5,274	19,446	2,083
1928	10,354	2,233	1,891	5,105	19,583	2,098
1929	10,412	2,208	1,928	5,037	19,585	2,098
1930	10,716	2,286	2,102	5,646	20,750	2,223
1931	10,878	2,396	2,694	6,238	22,206	2,379
1932	11,559	2,449	3,044	7,174	24,226	2,595
1933	11,012	2,537	2,938	8,233	24,720	2,648

* Record year before 1932 and 1933.

Gold production in both the Union of South Africa and Canada, which had increased uninterruptedly for over ten years up to and including the year 1932, showed a slight decline during 1933. This decline has been the result of deliberate policy on the part of the mining companies. When the price for gold increased consequent upon depreciation of the national currencies, it became profitable to exploit poorer ores, and

the companies found it to their interest to devote part of their activities to ore which previously it had not paid to mine. Though the weight of the gold output fell, the profits, thanks to the higher price, were increased, and more high grade ore was reserved — a process which prolongs the life of the mines, and incidentally tends to make the world's future gold supply somewhat better assured.

The decrease in South Africa and Canada has been more than counterbalanced by a continuous advance in the amount derived from other gold producing countries for which the aggregate figure, as recorded in the above table, has risen by about 12 per cent. during the year. A notable increase is reported from Russian mines. Mention should be made in particular of an increase in the gold obtained from alluvial deposits; naturally the payment of a higher price for the metal in domestic currency has tended to attract more people to search for gold, especially in a period of great unemployment. Chile gives perhaps the most outstanding example of this development, for in that country about 35,000 workers were reported at the beginning of 1934 to be occupied by alluvial gold washing.

The monetary changes in the United States have not been without their influence on that country's gold production. The partial embargo on gold exports decreed by the President on March 4, 1933, prevented the American producer from receiving the world price; he had for the time being to sell his produce to the United States Treasury at the old parity. As a result the American gold production declined distinctly in April and the following months until, by decree of August 29, 1933, the President permitted foreign sales of newly-produced gold. Mining activity immediately responded, and during the last three months the output was sufficient not only to offset the reduction already sustained but to bring the total figure for the year above that for 1932.

While the total gold production has continued at a record rate, gold exports from India and China have been slowing down by comparison with the peak year, 1932; shipments from India amounted to 653 million Swiss francs compared with about 1,000 millions in 1932, and from China were 161 million Swiss francs instead of 200 millions. For the last quarter of 1933 the total of Indian and Chinese gold exports was at the rate of but 40 per cent. of what it had been in the corresponding period of the previous year. It would appear from preliminary figures available for the first quarter of 1934 that there may be a certain recovery in the volume shipped, particularly from India.

The amount of gold available from current production and from India and China amounted in 1933 to about 3,460 million Swiss francs, which is some 300 millions less than in the previous year, the decline being due to the smaller shipments from the two eastern countries. On the other hand, the deduction to be made on account of gold consumed by the arts, should probably be put not higher than 120 million Swiss francs, or about half of the previous year's figure. There seems to have been a very substantial recovery of old gold from which industrial requirements have, in the first place, been met. In the United States the reclaimed gold is estimated at 27 million gold dollars, as compared with a fresh demand from the arts amounting to 20 million in 1932. The "net" supply of monetary gold should thus be in the neighbourhood of 3,340 million Swiss francs as shown in the following table:

1933	Gold production	Gold from India and China	Gold absorbed by arts (estimated)	Net total
	Millions of Swiss francs			
1st quarter . . .	650	253	— 30	873
2nd „ . . .	645	221	— 30	836
3rd „ . . .	668	194	— 30	832
4th „ . . .	685	146	— 30	801
	2,648	814	—120	3,342

The increase in production which took place in the latter half of the year tended to counterbalance the falling off in the gold deliveries from India and China. It would appear to be a sufficiently close approximation if the net amount of gold available after meeting industrial requirements be taken at an average of at least 270 million Swiss francs per month. A comparison between this latter figure and the monthly variations in the gold holdings of Central Banks and Governments gives a picture of the various tendencies during the year for monetary reserves to rise or fall and, in particular, discloses how gold flowed into and out of hoards. Although complete data are not available (as for instance with regard to possible gold holdings of the English Exchange Equalisation Account), the picture given by the following table is believed to be reasonably accurate :

1933	Changes in gold reserves of U. S. A.	Changes in reserves of 49 other countries*	Total changes for 50 countries	Deducting net total of new gold available	Dehoarding (+) or hoarding (—)
	Millions of Swiss francs				
January . . .	+ 150	— 5	+ 145	— 270	— 125
February . . .	—1,379	+425	— 954	— 270	—1,224
March	+ 560	+466	+1,026	— 270	+ 756
April	+ 316	—129	+ 187	— 270	— 83
May	+ 73	—519	— 446	— 270	— 716
June	+ 31	—161	— 130	— 270	— 400
July	+ 21	+430	+ 451	— 270	+ 181
August	+ 41	+265	+ 306	— 270	+ 36
September . .	+ 10	+265	+ 275	— 270	+ 5
October	—	+ 36	+ 36	— 270	— 234
November . . .	+ 5	—518	— 513	— 270	— 783
December . . .	—	—161	— 155	— 270	— 425
	— 172	+400	+ 228	—3,240	—3,012

* Including all with gold reserves of any consequence.

It is an instructive lesson in public psychology to analyse this chronological table against the background of simultaneous political and financial events to which gold movements are highly, and almost immediately, sensitive — especially when these events are of an alarming character. Thus the spectacular monetary gold loss of the United States in February 1933 followed directly upon the outbreak of the banking crisis that month.

Foreign-owned funds were withdrawn and a flight of capital set in, through which, on balance, gold for about 173 million dollars went into foreign hands. At home the banks became exposed to a run for currency and also for gold. The note circulation went up by 900 millions, while the amount of new gold coins issued was about 92 millions.

On March 2, 1933, the Roosevelt administration came into power and was ready within a few days to carry out radical changes in the monetary field. One of its first acts was to obtain authorisation from Congress for the Secretary of the Treasury to require any person in the country to hand over, against payment in dollar currency, gold coins, gold bullion and gold certificates which he possessed; as a result the public surrendered some 200 million dollars in gold before the end of March. Although 100 million dollars were earmarked for foreign account, the aggregate gold reserves increased by some 110 million dollars. In the following month another 30 million dollars were relinquished by the public, but the return flow then gradually fell off, the amounts remitted becoming more and more insignificant. In addition to the recovery of gold coin 250 millions of gold certificates were withdrawn from circulation during March 1933 and replaced by Federal Reserve notes.

In Europe, however, gold movements showed no signs of subsiding. The tendency to hoard received a new impetus when on April 19, 1933, the United States officially abandoned the gold standard and the dollar started to depreciate. The figures in the last column of the above table for the months of April, May and June give a total of more than 1,000 million Swiss francs as the amount of gold hoarded; and if the compulsory return of gold in the United States be left out of account, the net hoarding in the second quarter of the year would have been at least 500 million Swiss francs higher.

During the month of June the feeling of unrest became accentuated, and hoarding therefore increased, when it proved impossible at the London Conference, which had met on June 12, 1933, to arrive at an agreement on immediate currency policy. In a statement dated July 3, the countries of the "gold bloc" confirmed their intention to retain the free functioning of the gold standard at the existing gold parities; and five days later the Governors of the Central Banks concerned met to consult on methods of collaboration. The prompt reaction of the various markets was such that the movement of hoarding was reversed, and Central Banks were able to increase their reserves by the full amount of the new gold from current production and from the East, as well as by some gold which came out of hoards during the months of July and August, 1933.

If the markets remained comparatively calm in the third quarter of the year, the fourth quarter, replete with incidents of a dramatic character in both the political and monetary fields, witnessed a strong recrudescence of nervousness. Germany withdrew from the Disarmament Conference and the League of Nations on October 14. On October 22, President Roosevelt announced his intention of obtaining a rise in American commodity prices, and of bringing about this rise in particular through the establishment of a Government market for gold in the United States. To that end the Reconstruction Finance Corporation was authorised to buy and sell gold on the world markets at the current price, while on the internal American market it was to buy gold at a price to be determined from time to time after consultation with the Secretary of the Treasury and the President. Through the gradual increases which were made in the price for gold, the administration made manifest its wish to bring about a further depreciation of the

dollar. Although the amounts actually bought abroad up to the end of 1933 were so limited as to be of no significance, the fact that the policy pursued was not understood introduced another disturbing element into the world monetary situation. At the same time a great divergence of views was found to exist in the French Parliament with regard to the question of balancing the budget, and a succession of Governments within a short period tended to cause uncertainty.

Under the influence of these diverse developments there was again a sharp increase in hoarding, estimated for the last quarter of the year at something over 1,400 million Swiss francs.

The summary results of these various gold movements for the year were :

(i) The gold reserves of the United States, though profiting by the public's enforced surrender of bullion and coin, did not fully recover the losses sustained in the heavy drain during the months of February and March, 1933; the net loss over the calendar year was, however, limited to the moderate figure of 33 million gold dollars, or less than 1 per cent. of the country's monetary gold stocks.

(ii) The gold reserves in the hands of Central Banks and Governments in countries other than the United States increased by 400 million Swiss francs.

(iii) This result was achieved in spite of the fact that the net amount of gold hoarded during the year easily surpassed all previous records, amounting to something like 3,000 million Swiss francs as compared with a net hoarding of about 500 million Swiss francs in the previous year.

There are various ways of estimating the total amount of gold in private hands. Through a comparison of the results obtained by the different methods, it may be concluded that at the beginning of 1934 it was at least 7,000 million Swiss francs, or more than two and a half times the value of the current annual gold production. The existence of this "hidden reserve", some of which will become available when confidence returns, is of great importance in connection with monetary reconstruction.

In addition to gold, notes have also been hoarded on a large scale in recent years, particularly notes of the higher denominations. The circulation of the Swiss National Bank which rose steeply in 1931 from around 1,000 million Swiss francs to a level of 1,500 million remained unchanged during 1932 but, in the autumn of 1933, fell to 1,400 million chiefly as a result of the return of notes hoarded abroad, the greater part coming from Germany after the passing of the law requiring German nationals to repatriate foreign funds. In France an increase in the note circulation by 8,000 million French francs in 1930 and 9,000 million francs during 1931 gives a clear indication of hoarding having taken place, but in 1932 this movement was checked and in 1933 there is evidence of a reflux. Within the United States considerable hoarding of notes also occurred; in addition substantial amounts of dollar notes have been held in foreign countries representing in many cases the remittances of emigrants. Already in 1932 a considerable volume of these notes was returned and this movement was accelerated in 1933. It is estimated that in the latter year 90 million dollars (net) of United States paper money returned to the country of origin.

(b) GOLD MOVEMENTS BETWEEN DIFFERENT MONETARY CENTERS.

The exceptionally large movements of gold which occurred during the year roughly corresponded in their successive phases to the different periods of gold hoarding and dehoarding :

(i) The first phase was characterised by an exodus of funds from the United States consequent upon the accentuation of the banking crisis during the first months of 1933. The fears for the maintenance of the dollar's gold value brought about a flight of domestic capital. This was the really new element in the situation, for the further withdrawals of foreign-owned funds represented a repetition of movements that had gone on spasmodically during the past three years, as may be seen from the following figures of American short-term liabilities on foreign account :

End of year figures:	1930	1931	1932	1933
	Millions of dollars			
Deposits	1,640	1,025	715	389
Advances and overdrafts	36	26	30	20
Short-term loans and investments	1,046	394	115	63
Acceptance credits	15	20	10	15
Total	2,737	1,465	870	487

(ii) In April 1933 the suspension of the gold standard in the United States, followed in June by the clash of opinions at the London Conference, led to gold losses in the principal countries still on gold, which were not arrested until the formation of the "gold bloc". The Swiss National Bank reports that in the course of a few months it paid out 759 million francs in gold or gold exchange. The withdrawals from the Dutch market amounted to some 400 million Swiss francs, while the Bank of France, after an outflow of 500 million Swiss francs in gold during the first quarter of 1933, was able to show a slight net increase in the following months. The quotation of the guilder and the Swiss franc in Paris during this period appears to some extent to have been indirectly influenced by the operations of the English Exchange Equalisation Account, which by dealing specifically in French francs at times created an exceptional supply of, or demand for, this currency.

(iii) The heaviest strain to which the monetary structure was put was sustained in October and the following months when a period of tension in international politics coincided with the inauguration of President Roosevelt's gold buying policy, budgetary difficulties in France, and a pronounced weakness of sterling due largely to seasonal conditions. In this situation of general uncertainty the shifting of funds from one currency to another did not assume great proportions but large amounts were converted into gold, so that all the gold from current production, from India and China, and also some 670 million Swiss francs from the reserves of Central Banks, went into hoards during the last two months of 1933. The same tendency prevailed in January 1934. In the latter half of that month a new element of major importance was added by the decision taken in the United States to limit the maximum alteration in the gold content of the dollar to between 50 and 60 per cent. of the old value, and to fix the gold price at \$ 35 per fine ounce reserving the right to make further changes within these limits.

Under the influence of the low gold content given to the dollar and the persistent demand for dollars on the markets the exchange kept at a level at which export of gold from Europe to the United States was profitable; in fact, so heavy were the shipments to New York from European centers that a rise occurred in the cost of transport and insurance with the result that for several weeks the effective gold points for export of the metal to the United States were established at an exceptionally great distance from the new parity. The additions to the gold stocks of the United States during February and March 1934 reached 660 million dollars (\$ 35 to the ounce); of this amount more than 90 per cent. was effectually shipped over the ocean, and the transports which thus took place constitute records both as to the total gold movements and for individual shipments. At the end of March 1934 the gold stock of the United States, if measured by weight (instead of by dollar value), had been raised to the highest amount ever reached in any year except 1931; while the dollar value of the gold stock reflecting the effects of revaluation (at \$ 35 to the ounce) as well as the recent gold inflow was more than 60 per cent. above the high point of 1931 and more than double the highest figure ever reached prior to 1922.

The movement of the exchange rates in conjunction with the demand for gold for export to the United States increased the price of gold paid on the London market with the effect that considerable amounts of gold were brought out from the hoards of private individuals and firms. Such operations as were not fulfilled by the open gold market naturally centred by arbitrage in Paris where the Bank of France freely converted francs into gold; thus the flow of funds from Switzerland and Holland to the United States took place largely over Paris. The Bank of France applied the orthodox measure of increasing its bank rate and tightening the money market. By the end of March 1934 the gold losses had come to an end and the Bank of France added to its gold holdings during the following weeks. The restrictive policy was the more easily made effective as the amount of foreign-owned balances on the French market, which in the late summer of 1933 were still estimated at something like 9,000 million French francs, had by the beginning of February dropped to perhaps half that figure. It is also reported that the amount of foreign funds on the Dutch market had been considerably reduced, while the successive outbursts of withdrawals from Switzerland have naturally brought about the liquidation of those balances which were most sensitive.

The changes in Central Bank reserves over the 15 months' period from January 1, 1933, to March 31, 1934, illustrate in a remarkable way the results of the extraordinary monetary episodes in the United States. The following table (page 25) includes three groups of countries: those in which the gold reserves fell during this period (Group 1); those in which there was no change in the magnitude of the reserves (Group 2); and those in which an increase occurred (Group 3).

The rise which has taken place in the gold holdings of certain countries has been due to a variety of causes:

(i) Some Central Banks have continued to convert their foreign exchange into gold. This largely explains, for instance, the increase in the gold holdings of the National Banks of Austria and Czechoslovakia, the Bank of Greece, the Bank of Italy and the Bank of Portugal.

(ii) Some few countries have been able to increase their gold and foreign exchange holdings as the result of a surplus in the balance of payments.

Gold reserves of Central Banks and Governments	January 1, 1933	March 31, 1934	Loss (—) Gain (+)
	Millions of Swiss francs		
Group 1:			
France	16,857	15,150	—1,707
Switzerland	2,471	1,746	— 725
Germany	1,083	383	— 700
Netherlands	2,151	1,638	— 513
Australia	214	13	— 201
Siam	144	0	— 144
Argentina	1,285	1,235	— 50
Canada	710	668 ⁽¹⁾	— 42
Hungary	88	71	— 17
Norway	200	187	— 13
Poland	292	280	— 12
Egypt	171	168	— 3
Total	25,666	21,539	—4,127
Group 2:			
Denmark	185	185	0
Yugoslavia	161	161	0
India	840	840	0
Japan	1,098	1,098	0
Philippines	16*	16*	0
Straits Settlements	10	10*	0
Algeria	43	43*	0
Belgian Congo	9	9*	0
Ecuador	15	15 ⁽²⁾	0
Peru	57	57 ⁽²⁾	0
Venezuela	77	77*	0
Other Central American Countries	45*	45*	0
New Zealand	110	110*	0
Total	2,666	2,666	0
Group 3:			
Bulgaria	57	58	+ 1
Albania	5	7	+ 2
Finland	40	42	+ 2
Morocco	20	22 ⁽³⁾	+ 2
Lithuania	25	28	+ 3
Spain	2,259	2,262	+ 3
Estonia	21	28	+ 7
Danzig	22	30	+ 8
Latvia	36	44	+ 8
Chile	53	62 ⁽⁴⁾	+ 9
Turkey	51	62	+ 11
Colombia	62	74 ⁽⁵⁾	+ 12
Uruguay	250	263 ⁽⁶⁾	+ 13
Rumania	295	310	+ 15
Netherlands Indies	216	234	+ 18
Austria	109	138	+ 29
Belgium	1,871	1,945	+ 74
Portugal	124	199	+ 75
Czechoslovakia	262	341	+ 79
Greece	40	122	+ 82
Mexico	21	104 ⁽⁷⁾	+ 83
U. S. S. R.	1,906 ⁽⁸⁾	2,079 ⁽⁸⁾	+ 173
Sweden	286	519	+ 233
South Africa	201	450	+ 249
Italy	1,593	1,875	+ 282
United Kingdom	3,021	4,819	+1,798
U. S. A.	20,964	23,555	+2,591
Total	33,810	39,672	+5,862
Grand Total	62,142	63,877	+1,735

* Provisional figures. (1) February 1934. (2) December 1933. (3) January 1934. (4) August 1932. (5) June 1933.

(iii) The reserves of the Bank of England have been strengthened by an increase of £ 70 million (gold), primarily as a result of capital repayments to London and of the pronounced movement of foreign capital to that center. On current account, the figures in the British balance of payments showed no surplus.

(iv) In a number of countries funds originally invested abroad have been repatriated, both by individuals and such institutions as insurance companies which have their liabilities expressed in the home currency and therefore in a period of possible monetary surprises tend to transfer their assets to the same currency.

(v) The increase in the United States is due to the recovery of gold from the public and the inflow following the devaluation of the dollar at the end of January 1934.

During the 15 months' period up to the end of March 1934 the net imports of gold to Great Britain were, according to Customs statistics, equal to about 4,500 million Swiss francs, while the increase in the holdings of the Bank of England was only about 1,750 million Swiss francs; the difference may to some minor extent represent an increase in the holdings of the Exchange Equalisation Account, but by far the larger portion appears to have gone into private hoards. Indeed, out of 7,000 million Swiss francs, at which the total amount of gold hoarded has been estimated, it would appear that perhaps one third was held in England by persons who, as a rule, were non-residents.

An examination of import and export statistics of recent years reveals that between two given centers gold has often been shipped first in one direction and then back again, in response to the currents of liquid funds. The magnitude of these costly shipments has already been reduced to some extent by earmarking in the names of the Central Banks acquiring the gold (or through the Bank for International Settlements). The Bank holds substantial quantities of gold in safe custody for the account of Central Banks. A system of gold deposit accounts has also been inaugurated during the year, as is more fully explained later in dealing with the topic of "Deposits", and, on March 31, 1934, 28 million Swiss francs in gold had been so deposited.

Under the terms of Article 24 of its statutes, the Bank for International Settlements may enter into special agreements with Central Banks to facilitate the settlement of international transactions between them; it is expressly stated that for this purpose it may arrange with Central Banks to have gold earmarked for their account and transferable to their order and to open accounts through which Central Banks may transfer their assets from one currency to another. Only experience can show whether such a system of gold deposits will constitute the beginning of a practical solution of these intricate problems. In this connection it would be of value if statutory amendments were made, in those cases where it appears necessary, so that Central Banks might everywhere be empowered to include gold deposits with the Bank for International Settlements as part of their primary gold cover, even if their statutes do not allow them to keep foreign exchange as such cover.

IV. THE VOLUME OF INTERNATIONAL SHORT-TERM INDEBTEDNESS AND THE TREND OF INTEREST RATES.

(a) International Short-Term Indebtedness.

When during the liquidity crisis of 1931 one European market after the other sustained sweeping withdrawals of short-term balances, the dangers involved in a superabundance of international short-term lending became strikingly apparent. It was then felt that measures might have been taken to moderate the increasing indebtedness if the stupendous growth of liabilities had been known in time. During the years which have passed since 1931 Central Banks and other authorities have proceeded to collect regular information regarding the short-term assets and liabilities of their respective markets, and although the material thus gathered together has not all been made available for examination, the broad facts of the situation are much better known.

In the second Annual Report, it was estimated that the gross amount of short-term international indebtedness at the beginning of 1931 aggregated more than 50,000 million Swiss francs. On the basis of the data now to hand, it is possible to indicate that this figure was too low if the total gross liabilities of the different countries are added together and no deduction made for offsetting foreign assets, arising for example in the relations between affiliated firms or through one market relending abroad funds which it has itself obtained from abroad. A revised estimate is shown in the following table, in which the figures include financial credits and deposits with banks and similar institutions and also ordinary commercial lending; it should be noted that these statistics refer to the liabilities of European countries and the United States only:—

At end of 1930	70,000	million	Sw. frs.
“ “ “ 1931	45,000	“	“
“ “ “ 1932	39,000	“	“
“ “ “ 1933	32,000	“	“

These totals must be taken to indicate only approximately the main developments that have occurred. It will be seen that the total indebtedness is now distinctly less than half of what it was in 1930, calculated in gold values, and that two-thirds of this reduction took place during 1931. Of the 32,000 million Swiss francs outstanding at the end of 1933 about 11,500 millions is estimated to be blocked through currency regulations, standstill agreements and similar measures.

The different ways in which this volume of short-term international commitments has been reduced, in addition to realised losses due to insolvency, are the following:

(a) By employment of monetary reserves in gold and foreign exchange.

At some time or other practically every country has had to use part of its monetary reserve to meet capital withdrawals and repayments. In the second half of July 1931 the gold reserve of the Bank of England was depleted by £ 30 million. At the end of March 1931, the holdings of gold and foreign exchange of the Reichsbank stood at RM. 2,511 million; three years later they were only RM. 245 million. While the United States acquired gold in 1931, it had to sell gold in the spring of 1932 and again during 1933 in order to meet withdrawals of foreign funds. During 1931 and 1932 the countries later united in the “gold bloc” were, for various reasons, in a

position to increase their gold holdings (partly by the conversion of foreign exchange into gold), but when the intermittent waves of distrust spread over Europe, and the propensity to hoard made itself felt, these countries experienced some losses of gold.

- (b) By employment of other assets on capital account. Gold and foreign exchange held by commercial banks and other credit institutions have been employed in times of pressure to meet withdrawals of funds; in some instances the monetary authorities have insisted that private institutions should in the first place utilise the assets at their disposal before the Central Bank reserves were drawn upon. As a result of repayments on capital account from various sources, the London market was enabled to pay off a large proportion particularly of the continental European short-term claims upon it. European repurchases of securities from the United States have largely reduced the volume of liabilities of the American market to foreigners.
- (c) By employment of a surplus on the current (or income) account. In 1931 Germany realised an export surplus of RM. 2,872 million, which was available for debt service and reduction. As the export surplus vanished, special arrangements have been made for payments through so-called additional exports and tourist expenditure. Similar methods have to some extent been employed in Austria and Hungary.
- (d) By consolidation. Arrangements have been made with creditors, as in the agreement regarding the liabilities of the Austrian Credit-Anstalt; in various agreements regarding blocked balances in the Argentine; and in respect of the Central Bank credits to the National Bank of Hungary. Consolidation has also been achieved through loans taken up by new lenders from the proceeds of which short-term credits were repaid (as for example the Austrian International Loan floated in August 1933). Under the Standstill Agreements with Germany, the possibility of using blocked marks for long-term investment is another type of consolidation.
- (e) Finally, by depreciation of the currencies in which the debts are expressed. Great Britain and the United States being the largest creditor nations in the world, the depreciation of sterling and the dollar has brought about an immediate accounting reduction in the gold value of international indebtedness.

* * *

During 1933 London was the only market in which balances and other short-term assets held by foreigners increased to any appreciable extent (although there were certain increases in other countries of the sterling area), whereas in other centers the movements towards liquidation of foreign short-term liabilities continued with undiminished strength. For the London market the increase was partly due to the larger holdings of sterling exchange in the reserves of the note issuing institutions within the sterling area. As primary or secondary cover South Africa, Australia, India and Egypt and the four Scandinavian countries held foreign exchange the equivalent of approximately £100/110 million at the end of the years 1929 and 1930, but by the end of 1931 their holding had been reduced to £50 million (of which about one-half belonged to India); at the end of 1932 the total had grown to £75 million and by the end of 1933 to £120 million — an aggregate amount which, expressed in sterling, was larger than that before the depression.

Calculated in sterling total foreign short-term funds held in the London market now appear to be in the neighborhood of the 1930 level; if calculated on a gold basis these liabilities would be somewhat less than two-thirds of the 1930 figure.

In the United States the volume of short-term foreign indebtedness was reduced by about 2,000 million Swiss francs during the year; at the end of 1933 the total liability was, in dollars, only one-fifth to one-sixth of what it was in 1930. Of the "gold bloc" countries France, Holland and Switzerland were subject to heavy withdrawals at different periods during the year but it would appear that, on balance, the amount which left these three markets was less than 1,500 million Swiss francs. Among the debtor countries, the short-term liabilities of Germany decreased in 1933 by about 3,000 million Swiss francs (partly as a result of currency depreciation), and are now appreciably less than one half of what they were in 1930. Austrian statistics reveal a reduction of about 700 million Swiss francs, of which 400 millions are attributable to consolidation under the arrangement regarding the Credit-Anstalt; 200 millions were repaid from the proceeds of the International Loan of 1933, and a further accounting reduction is due to the dollar depreciation. In fact the country's short-term foreign indebtedness has been reduced to so small a figure that it was possible to free the foreign exchange market almost completely from the regulations which had been in force since October 1931. In other countries of Central and South-Eastern Europe, some progress has also been made towards a clearing up of frozen positions: in Hungary, the short-term indebtedness was reduced by some repayment and the consolidation of the remainder of the credits extended by this institution and several Central Banks during 1931; increased uses there for blocked balances, especially for additional exports, appear to have permitted the liquidation of current charges so that the blocked position has not augmented. An important reduction has been made in the foreign short-term commitments of the U. S. S. R. which are reported to have declined by nearly one half in 1933. An improved balance on short-term account is further reported from Finland, Greece and Portugal. Not only in Europe but also in other parts of the world this slow movement of liquidation has been going on. Especially remarkable have been the agreements for the defreezing of external short-term debts by the Argentine and Brazil.

On the whole these often inconspicuous but distinctly favourable results have been achieved by the efforts of the debtor countries working at their own problems; it is only in exceptional cases (e. g. Austria and the Argentine) that new loans and credit arrangements have contributed. As, however, the improvement which has been taking place in the position of many countries normally in need of foreign capital continues, the way may be opened to a gradual renewal of international lending, which would again promote trade and facilitate agreements with regard to the settlement of outstanding financial commitments.

(b) Trend of Interest Rates.

A strong downward movement of both long and short-term interest rates was a characteristic feature of 1932 and the same tendency has been predominant, though not quite so uniform, in the year under review.

The official discount rates in a number of countries have either reached the lowest level quoted in the history of their Central Banks (e. g. in Italy, Sweden, Switzerland and the United States) or have equalled the previous low record (e. g. Denmark, England

and Norway). Some Central Banks have moreover taken the opportunity to bring the rates applicable to advances and other loans more into conformity with the discount rate. The Swiss National Bank, for instance, while retaining its rate of discount unchanged at 2 per cent., reduced the rate for advances on securities from 3 to $2\frac{1}{2}$ per cent. The Bank explained in its Annual Report for 1933 that it believed it could render short-term credit available on more favourable conditions through the granting of advances on securities to individuals and firms not in possession of commercial paper and thus unable to utilise discount facilities.

The only bank rate increases which have taken place during the year under review have occurred in creditor countries and have been due to the Central Banks employing the classical means of making discounting more expensive when their markets have been exposed to withdrawals of funds. The bank rate was thus raised in New York from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent. on March 3, 1933, at the time of the large outflow of funds in the midst of the banking crisis, but the rate was reduced by successive steps to 2 per cent. before the end of the year, and on February 2, 1934, to the record level of $1\frac{1}{2}$ per cent., which is the lowest rate ever quoted by any Central Bank in the history of the world; in Holland two increases during May and June 1933 reflected the pressure on the florin before the formation of the "gold bloc" at the London Conference, but by the end of the year the rate was back to the previous level of $2\frac{1}{2}$ per cent.; in France the rate of $2\frac{1}{2}$ per cent. which came into force in October 1931 remained unchanged until February 9, 1934, when it was raised to 3 per cent.

The rates quoted in the open markets by the commercial banks and other financial institutions have in many cases declined even more steeply than the official discount rates. In London the Treasury Bill rate on September 22, 1933, fell to slightly less than $\frac{1}{4}$ per cent.; towards the end of the year it rose above 1 per cent. and has remained between $\frac{3}{4}$ and 1 per cent. during the first quarter of 1934. In New York the large excess reserve balances at the disposal of the member banks of the Federal Reserve System exerted extraordinary pressure on the rates for short-term paper, with the result that a rate as low as $\frac{1}{4}$ per cent. was quoted for 90 days' prime bankers' acceptances in September and October 1933. Such rates show that short-term funds were practically unlendable and give evidence of the abnormality of market conditions.

In the field of long-term rates the movement towards a downward adjustment, which was started by the large conversion of British War Loan in July 1932, has gathered momentum. In Great Britain itself further conversion operations have been successfully undertaken by the Government, by local authorities and by a great many private firms. Moreover the Governments of Australia, Canada, India, New Zealand and South Africa were able to convert their obligations from comparatively high yield to low yield bases. The case of Australia is typical: from October 1932 to February 1934 seven conversions of Commonwealth and State Government loans took place affecting capital to the extent of £ 110 million sterling, and reducing interest rates from a 4—6 per cent. to a $3\frac{1}{2}$ —4 per cent. basis.

Of the three large conversion operations that have been launched since the last Annual Report the scheme affecting the debts of German municipalities and municipal associations which was announced in September 1933, covered a total indebtedness amounting to nearly RM. 3,000 million. The sums outstanding were mainly due to savings banks which were prejudiced in their liquidity position by this large volume of local indebtedness. Under the plan that was drawn up for the reorganisation of

the municipal finances, the local bodies which could not meet their obligations were to offer their creditors a State-guaranteed long-term conversion loan with interest at $4\frac{1}{2}$ per cent. and a 3 per cent. amortisation fund, the loan being issued by a "Conversion Association" to which all municipalities in financial difficulties adhere. On October 12, 1933, the United States Government called for repayment on April 15, 1934, \$ 1,875 million out of a total of \$ 6,268 million $4\frac{1}{4}$ per cent. Liberty loan, and at the same time the Treasury offered \$ 500 million of the new $3\frac{1}{4}$ per cent. 10—12 year bonds for cash at $101\frac{1}{2}$ and also offered for exchange at par an unlimited amount of $3\frac{1}{4}$ per cent. bonds for obligations of the $4\frac{1}{4}$ per cent. Liberty loan issue, whether it belonged to the called portion or not. The conversion involving the largest amount was the Italian action in February, 1934, when by a single operation 61,400 million lire of 5 per cent. consolidated stock was converted to a $3\frac{1}{2}$ per cent. basis, the reduction in interest to be effective from January 1, 1937, from which date the stock in question was callable. Besides these outstanding operations conversions of comparatively important size have been carried out also in Austria, Belgium, Denmark, Egypt, Finland, Japan, Sweden and Switzerland.

In order to facilitate the adjustment of interest rates to lower equilibrium levels, certain countries have taken steps of a legislative or other official character:

The new Banking Act in the United States, which came into force on June 16, 1933, contained a provision imposing a prohibition on the payment of interest on sight deposits by member banks of the Federal Reserve System, exceptions being allowed only in the case of deposits made by savings banks and certain similar institutions. Moreover, the code of fair competition for bankers of October, 1933, stipulated that the rules and regulations provided by clearing house associations should contain a similar provision as regards all their members.

In Czechoslovakia a Government Ordinance of May 29, 1933, fixed the maximum rates of interest which would be valid between various classes of debtors and creditors according to the nature of the debts and claims, and according to certain geographical divisions of the country. These rules, which apply not only to banks but to all other creditors and debtors as well, provide inter alia that the rate for loans and advances imposed by banks, insurance companies and similar institutions shall vary with the discount rate of the National Bank.

In Germany the Reichsbank, acting under the enlarged powers granted it in October, 1933, purchased about RM. 350 million of public securities, with a view to lowering the rate of interest and preparing the way for conversion operations. The long-term rate in Germany, which in the first quarter of 1932 stood as high as $9\frac{1}{2}$ per cent. on fixed interest-bearing securities, was reduced to around $6\frac{1}{2}$ per cent. at the end of 1933. The change in the Reichsbank Law was but one of many important legal amendments which affected central banking developments during the year.

V. DEVELOPMENTS AFFECTING CENTRAL BANKING DURING THE YEAR.

At the Directors' meeting of June 5, 1933, the question of Central Banking institutions being required in countries with developed economies as guardians of currency and credit policy was considered by the Board of the Bank for International Settlements, and this resolution was adopted:

"The Board of the Bank for International Settlements, when dealing with the question of the principles to be observed in the working of the gold standard, has also considered through what organ these principles could be most effectively applied, both in the national markets and in the international field. The Board considers it to be of the greatest importance, in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent Central Banks, with the requisite powers and freedom to carry out an appropriate currency policy, should exist in all developed countries."

Attending the London Conference as representative of the Bank for International Settlements, your President offered the following resolution, which was unanimously voted:

"The Conference considers it to be essential, in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent Central Banks, with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate Central Banking institution."

In those countries where the establishment of a Central Bank has been under consideration, the foregoing text has been extensively quoted on the platform, in the press and in the parliaments. One of the arguments everywhere put forward in favor of creating a Central Bank is the necessity, under an international, or even under a national, monetary standard, of close and continuous contact with other Central Banks and the Bank for International Settlements.

In New Zealand, following the recommendations of the Niemeyer Report of July 1931, a law providing for an independent Central Bank was passed in November 1933 and the first Governor was appointed in January 1934.

In Canada an exhaustive enquiry into the banking system of the country was undertaken by a Royal Commission under the chairmanship of Lord Macmillan, including as members Sir Charles Addis, formerly Vice-chairman of the Board of the Bank for International Settlements, and three Canadians. The report of this commission was published in November 1933, the majority being strongly in favor of the immediate establishment of a Central Bank. The Canadian Government decided to act upon the advice of the majority and placed before Parliament a bill for this purpose, which is still under consideration.

In connection with the Third Round Table Conference a Committee composed of Indian and British Experts was appointed to report on the question of a Reserve Bank for India. The Report of the Committee made a general recommendation for the establishment of a Central Bank and gave a series of modifications to the text of the 1928 Reserve Bank Bill, necessitated partly by the fact that India had suspended the gold standard. The Bill in its new form has been passed by the Indian Legislative Assembly and has recently been approved by the Council of State.

In these three countries the organisation of a Central Bank involves the creation of a completely new institution. Elsewhere, a different development has been taking place. In Australia, for instance, the Commonwealth Bank, established in ~~1901~~¹⁹¹¹ as a State-owned commercial bank to carry out all the various kinds of ordinary banking business, has gradually become more and more concentrated on the functions proper to a Central Bank, and also achieved an ascendancy over the other credit institutions in the country. It may also be reported that during the year new banking establishments provided with the privilege of note issue have been organised in Afghanistan and Arabia.

In the statutes which have been adopted in New Zealand and India, as well as those which have been submitted to Parliament in Canada, the Central Banks are authorised to own shares in the Bank for International Settlements, as an exception from the general prohibition on the holding of shares. These statutes further permit the inclusion in their legal cover of exchange balances held with the Bank for International Settlements.

The year under review has witnessed legislative action in several countries profoundly affecting permanent features of the monetary structure. The most outstanding developments of this nature are the incisive changes in the monetary legislation of the United States.

The gold standard was suspended by Executive Order of the President dated April 20, 1933, the export of gold being prohibited, except gold previously earmarked for account of the Bank for International Settlements or of Central Banks. In the following months several modifications to the monetary system were introduced. Section 43 of the Agricultural Relief Act of May 12 provided for open market operations to be conducted by the Federal Reserve Banks in certain circumstances up to an aggregate sum of \$ 3,000 million in addition to the obligations already held by them and further gave power to the President to devalue the dollar to a level not lower than 50 per cent. of its former value. The Bank Act of June, 1933, followed by the banking code in October, more clearly defined the various functions of banking organisations; new regulations of the Federal Reserve Board were issued in August with regard to open market operations and the relation of Federal Reserve Banks to foreign banks and bankers; and executive orders in August and October relating to the sale and export of gold, and similar matters, foreshadowed the series of measures which in the second half of January 1934 linked the dollar to gold and introduced several distinctly new elements into the financial organisation of the United States.

In order to lay down for the future the limits of permissible revaluation, the Gold Reserve Act which came into force on January 31, 1934, fixed the future gold content of the dollar at a maximum of 60 per cent. and minimum of 50 per cent. of the old dollar; the President, exercising the powers conferred upon him, proceeded to determine the content of the gold dollar at 59.06 per cent. of its previous weight, corresponding to a purchase price for gold of \$ 35 per fine ounce, while reserving the right to alter this price subject to the limit of 50 per cent. devaluation.

The gold holdings of the Federal Reserve System passed into the possession of the United States Treasury, payment at the old nominal value being made to the Reserve Banks

in a new form of gold certificates. The cover provisions requiring reserves (in gold certificates) of 35 per cent. against deposits and 40 per cent. against notes in actual circulation were not altered. The book profits of \$ 2,800 million which resulted from the revaluation were taken to increase the cash holdings of the Treasury, of which \$ 2,000 million were earmarked to form a stabilisation fund for dealings in gold and foreign exchange, and also for the purchase of Federal securities. The fund was established for a period of two years from January 31, 1934, but the President was given power to extend this period for one additional year if he recognises by proclamation the continuance of the existing emergency.

No gold will hereafter be coined and all gold is withdrawn from circulation. It is an essential part of the new system that currency notes will not be redeemed in gold; but in order to maintain the exchange value of the dollar, provisions have been made for gold to be employed by the Federal Reserve Banks for the purpose of settling international balances. Under the present regulations gold is sold for export at the price of \$ 35 per fine ounce, on condition that the gold export point towards some currency effectively on the gold standard has been reached and that the gold is delivered to some foreign Central Bank. In his message to Congress on January 15, 1934, President Roosevelt stated: "The title to all gold being in the Government, the total stock will serve as a permanent and fixed metallic reserve which will change in amount only so far as necessary for the settlement of international balances or may be required by a future agreement among the nations of the world for the redistribution of the world stock of monetary gold".

In Czechoslovakia the currency was devalued by law on February 17, 1934, the gold content of the crown being reduced by $16\frac{2}{3}$ per cent. from its previous parity. The increase in the nominal value of the gold reserves which resulted from the change in the monetary unit made possible a reduction of the State debt to the National Bank by Kc. 430 million. Simultaneously with the devaluation certain modifications were made in the statutes of the National Bank, the most important being a reduction in the cover percentage: while under the old provisions total sight liabilities were to be covered by 30 per cent. in gold and foreign exchange (of which at least 15 per cent. in gold), the new statutes fixed a cover of 25 per cent. in gold, foreign exchange to be held in the future only as secondary cover for the note issue.

Steps have also been taken in other nations to achieve greater elasticity in the minimum cover requirements held against Central Bank liabilities. In the last Annual Report mention was made of the changes which had been introduced into the statutes of the Bank Polski and the National Bank of Austria. Similar action has now been taken elsewhere. In Sweden, by the law of June 26, 1933, the fiduciary issue was raised from Kr. 250 million to Kr. 350 million, the amount of notes in circulation in excess of the 350 millions to be covered by 50 per cent. in gold. These requirements correspond to a percentage cover ratio of only about 20 per cent. (minimum) when the note issue stands at Kr. 580 million as was the approximate level in April 1934. In Hungary the monetary legislation of 1924 provided for a gradual rise in the minimum cover. In 1934 there should have been an increase from 24 to 28 per cent., but such an increase was considered to be unduly hampering in the circumstances and it was decided to maintain the validity of the 24 per cent. ratio for a further period of four years. In Denmark, by a law of May 20, 1933, greater freedom was given to the Bank of Issue in the utilisation of its gold reserves to meet foreign payments without thereby incurring the provisions of the penalty clause.

In the Third Annual Report, reference was made to the suspension by the German Government during September, 1932, for a period of two years, of the application of the provisions of Article 29 of the Reichsbank Law, prohibiting the reduction of the discount rate below 5 per cent., as long as the percentage of the reserve eligible as cover for currency notes was below 40 per cent, and to the fact that the Board of Directors of the Bank for International Settlements had decided not to object to this proposal which had been submitted to it by the German Minister of Finance. Under the terms of the Hague Agreements, the Board has the right to object to proposals for amendments to certain of the more important articles in the Reichsbank Law, by referring the question to arbitration, provided, in the opinion of the Board, the subject matter of the suggested amendments is incompatible with the New Plan. During September 1933 the Board received a further communication from the Finance Minister of the Reich informing it that the Government of the Reich intended to make additional amendments to the Reichsbank Law, the text of which was transmitted, with the request that the Board take a decision as soon as possible, acting under the terms of Annex Va to the Hague Agreement. The powers and duties of the Board in this respect are of a specifically limited nature and do not involve any decision upon the merits or demerits of the proposed amendments, but merely require the expression of an opinion as to whether the changes are incompatible with the New Plan. At the October meeting, the proposed amendments were examined by the Board. They were of a more extensive and fundamental character than the change submitted a year previously. In the first place, that amendment, which was to have been operative for two years only, was to be made permanent. In addition, the General Council of the Reichsbank was to be abolished and the method of the selection of the Reichsbank President consequently altered. Besides, and especially important, the Reichsbank was to be empowered to enter upon open market operations and to purchase certain classes of longer term securities enumerated in the Reichsbank Law, which could be employed as supplemental cover for the issuance of currency notes. While realising the fundamental character of the changes involved, the Board decided that in all the circumstances there was nothing therein incompatible with the New Plan and it consequently determined not to resort to the procedure provided by the Hague Agreements. This opinion was conveyed to the German Minister of Finance and the proposed amendments were promulgated in a law, dated October 27, 1933.

Apart from these statutory modifications in Germany and elsewhere the most important change affecting Central Banks' monetary reserves in the year under review was a marked movement from the holding of reserves in foreign exchange towards their replacement by metallic gold. Thus, during 1933 the Bank of France reduced its foreign exchange holding from 4,200 million francs to less than 1,000 million; in Italy the foreign exchange reserve has been reduced from 1,300 million lire to 300 millions; in Holland the final disappearance of the Nederlandsche Bank's sterling holding from the balance sheet took place in the summer of 1933, when the amount of sterling held was sold to the Government of the Dutch East Indies to which the Bank at the same time granted an advance in guilders. Consequent upon the devaluation in Czechoslovakia and the change then made in the cover regulations, the whole of the primary reserve was put

into gold, about Kc. 500 million of foreign exchange previously included in the cover being converted in February 1934. To mention some other examples: the statements of the Reichsbank report a fall in the foreign devisa from RM. 115 million to RM. 9 million during the year; while the National Bank of Austria converted the whole of its cover exchange into gold early in December 1933. In contradistinction, however, to this movement monetary authorities in countries which belong to the so-called sterling area have in several instances increased their holdings of foreign exchange, particularly of sterling, during 1933. This applies not only to the British Dominions and India, but the foreign exchange holdings of the Sveriges Riksbank increased over the year by Kr. 235 million and those of the Bank of Finland by FM. 580 million.

VI. TRUSTEE AND AGENCY FUNCTIONS OF THE BANK.

Article 3 of the Statutes provides that one of the objects of the Bank for International Settlements is "to act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned".

Throughout its fourth fiscal year the Bank has continued to act as trustee or agent in connection with three international loans and four inter-governmental financial settlements that provided for annuity payments.

Owing to the prevailing interruption of inter-governmental debt payments, which has continued almost without exception since the inception of the Hoover moratorium of July 1, 1931 — originally designed to operate for one year only — the Trustee functions with respect to governmental financial settlements have, during the present business period, been primarily of a formal character involving only an incidental handling of relatively small sums. The Bank's duties with respect to the international loans have been, on the contrary, more active than ever before, in consequence of the growing complications which have arisen during the year in the discharge of international indebtedness, due to transfer reductions or moratoria, difficulties concerning the interpretation and application of gold clauses, and to the steadily increasing strain of reconciling contractual obligations with economic possibilities. Whereas the year under review reveals a record of a steadily increasing number and volume of defaults in the service of international loans, the Bank is able to report that, subject to non-compliance with the relative gold clauses, the current interest on all three of the international loans for which it acts as Trustee or Agent has been regularly paid in full, and the sinking funds paid in full in the case of two loans and in part as regards the third. The position of these loans is summarized below.

GOVERNMENT INTERNATIONAL LOANS.

(1) THE GERMAN EXTERNAL LOAN 1924.

The German External Loan 1924 was issued for the purpose of putting into effect the Plan embodied in the Report, dated April 9, 1924, of the First Committee of Experts ("Dawes Committee"), set up to "consider the means of balancing the budget and the measures to be taken to stabilise the currency of Germany". The Bank for International Settlements in May 1930, at the time of its inauguration, was appointed fiscal agent of the Trustees for this Loan.

The Loan was issued during October 1924 and was expressed in dollars, sterling, lire, Swedish crowns and Swiss francs in a nominal amount equivalent, at the par of exchange, to approximately 967 million reichsmarks, and the nominal amount of the Loan outstanding as at March 31, 1934, was the equivalent, without allowance for currency depreciation, of 648.7 million reichsmarks. If allowance be made for the existing depreciation of sterling and Swedish crowns by about 40 per cent of their respective par values, the nominal amount of the Loan outstanding as at March 31, 1934, was the equivalent of 502.6 million reichsmarks; if, as explained later in this section, effect is not given to the "gold coin" clause contained in the definitive bond of the American issue, and dollars are also taken as depreciated by about 40 per cent of their par value, the total nominal amount outstanding was the equivalent of 399.9 million reichsmarks. In other words, computed on

this basis, though fewer than ten years have elapsed since the issue of this twenty-five year loan, the original aggregate of 967 million reichsmarks has already been reduced by 567 million reichsmarks, or 58.6 per cent. Of this reduction, 249 million reichsmarks is attributable to the depreciation of about 40 % in dollars, sterling and Swedish crowns; and 318 millions to the normal operation of the sinking fund through drawings or purchases on the market below the call price.

The service of the German External Loan 1924 is a direct and unconditional obligation of the German Reich, chargeable on all its present and future assets and revenues. For the amounts required there was constituted as collateral security a specific first charge on the gross revenues from the customs and from the taxes on tobacco, beer and sugar and from the net revenue of the German Government from the spirits monopoly. In addition, and of prime importance, the German Government and the Reparation authorities agreed "for the purpose of providing the necessary foreign currencies for the service of the Loan, that funds required to be sent abroad shall have an absolute right of remittance which right shall have priority over the remittance of funds required to be remitted in discharge of reparation payments or other liabilities,"— which at that time constituted a first charge on the assets and revenues of the German Reich.

The Experts' Plan of 1924 was superseded by the New Plan of 1930. The New Plan was temporarily modified by the London Protocol of August 1931 and will be superseded by the Lausanne Agreement of July 1932, if the latter receives the necessary ratifications. In each of these Agreements the signatory Governments have expressly declared that nothing therein diminishes or varies the rights of the bondholders or the nature and extent of the German Government's prior obligations and engagements securing the German External Loan 1924. Moreover, as an essential part of the "Transitional Measures" as a result of which the execution of Germany's reparation payments is reserved during the interim period between the date of signature and of the ratification of the Lausanne Agreement, it is provided that the service of market loans will not be affected by such reservation.

The absolute right of remittance of the service of the German External Loan 1924 received practical recognition in connection with the method of application of the German Law of June 9, 1933, providing for the postponement of transfer of certain obligations payable abroad. The provisions of the law were not applied to the German External Loan 1924, the service of which has been continued throughout the year in the respective foreign currencies without any interruption. The method of application of this Law, and the meeting of the representatives of the holders of long term German bonds in connection therewith held in London in June 1933, during which the German External Loan 1924 was represented by one of the three Trustees of the Loan, Mr. Gates W. McGarragh, is referred to below in connection with the German Government International 5½% Loan 1930.

The definitive bond of the American issue of the German External Loan 1924, contains the conventional clause providing for payment of principal and interest "in gold coin of the United States of America of the standard of weight and fineness existing on October 15, 1924". No other tranche of the Loan has any gold or gold value clause. On May 10, 1933, the Finance Minister of the German Reich informed the Trustees of the Loan, through their Fiscal Agent, that, having regard to the fact that the Government

of the United States of America had taken the position that obligations expressed in dollars and containing a gold clause are payable at their nominal value in current legal tender without regard to such clause, it was the intention of the German Government to effect future payments in respect of the American issue, in legal tender current in the United States at the nominal dollar amount of the coupons and bonds outstanding. The Trustees of the Loan immediately notified the German Government that the proposed method of payment did not appear to them to correspond to the strict terms of the definitive bond of the American issue and that they reserved all the rights of the bondholders.

During the year now under review, April 1, 1933—March 31, 1934, the Bank, as Fiscal Agent of the Trustees for the German External Loan 1924, has received in respect of the American issue, current legal tender dollars in sums sufficient to pay matured coupons and to meet the sinking fund obligations at the respective nominal dollar amounts. Subject to the position as regards the "gold coin" clause, the Bank has regularly and punctually received and distributed the full monthly payments required by the General Bond. The cost of the service of this Loan, for the year to March 31, 1934, was 57.3 million reichsmarks, of which the sinking fund contribution amounted to 24 million reichsmarks. A Statement of Receipts and Payments, as certified by the auditors, for the last completed Loan year to October 15, 1933, 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 April 15, 1934. This Interim Statement has not been audited, but the period covered thereby will be included in the Statement that will later be certified by the auditors, in respect of the completed Loan year to October 15, 1934. In addition, the funds relating to this Loan which were deposited in the name of the Trustees, as at March 31, 1934, are shown in Annex XI.

(2) GERMAN GOVERNMENT INTERNATIONAL 5½% LOAN 1930.

An essential aspect of the Hague Agreements of January 1930, was a provision for the issue on the international markets of a long term loan to yield the effective net equivalent of 300 million dollars in the proceeds of which the German Reich was to participate for its own account in the proportion of one-third and the interested creditor Governments in the proportion of two-thirds. The sum of approximately 100 million dollars allocated to the Reich was to be utilized for the German Railway Company and the German Post Office and Telegraphs. The sum of approximately 200 million dollars, allocated to the creditor Governments (France \$ 132,215,000, British Empire \$ 50,000,000, Italy \$ 13,105,000, Japan \$ 2,060,000, Yugoslavia \$ 1,872,000, Portugal \$ 748,000) represented a partial mobilisation, as envisaged by the New Plan of 1930, of the non-postponable annuities fixed thereby.

The Loan was expressed in reichsmarks, dollars, belgas, French francs, sterling, florins, lire, Swedish crowns and Swiss francs in a nominal amount equivalent, at the par of exchange, to approximately 351 million gold dollars*, the difference between the gross amount and the realized net amount of approximately 302 million gold dollars being

* The gold dollar referred to above, and elsewhere in this Report, is the American dollar which before the recent devaluation, was defined by law as containing 23.22 grains of fine gold.

attributable to the issue price of 90, commissions, and sundry expenses of the operation. The nominal amount of the Loan outstanding, as at March 31, 1934, was the equivalent, also at par, of 327.8 million gold dollars. If, however, as is explained later in this section, effect is not given to the gold value clause contained in the General Bond, and dollars, sterling and Swedish crowns are taken as depreciated by about 40 % of their respective par values, the nominal amount of the Loan outstanding, as at March 31, 1934, was the equivalent of 258.6 million gold dollars.

As regards the two-thirds of the service monies which were provided out of the non-postponable annuities the German Government constituted as collateral guarantee for the annuities a special tax payable by the German Railway Company and undertook, subject to the charge securing the German External Loan 1924, to reserve free from any charge securing any loan or credit in priority to, or *pari passu* with, the said annuities, the proceeds of the customs, the tobacco taxes, the beer tax and the tax on spirits.

The New Plan which was modified by the London Protocol of August 1931, will be superseded by the Lausanne Agreement of July 1932, if the latter receives the necessary ratifications. In these agreements it was expressly declared that nothing contained therein shall diminish or vary the rights of the bondholders of the German Government International 5½ % Loan 1930 and that the service of the Loan shall continue to be effected punctually and duly in conformity with the provisions of the General Bond and other agreements securing it. Moreover, as an essential part of the "Transitional Measures" in consequence of which the execution of Germany's reparation payments is reserved during the interim period between the date of signature and of the ratification of the Lausanne Agreement, it is provided that the service of market loans will not be affected.

Pursuant to the provisions of Article VI of the General Bond securing this Loan, bondholders are entitled to be paid in respect of the principal and interest of each bond as nearly as possible the same gold value, at the due date, in the currency of the country where the bonds were issued, as the amount of the face value of the bond or coupon had at the date of the issue of the Loan, or the equivalent thereof in the local currency on any foreign market where any of the bonds are quoted. These provisions became operative and were duly observed in the case of the British and Swedish issues of the Loan when the pound sterling and the Swedish crown left the gold standard. The coupons of those issues due on December 1, 1931, and June 1 and December 1, 1932, were paid on a gold value basis. On May 10, 1933, however, the United States dollar having also left the gold standard, the Finance Minister of the German Reich informed the Trustee that in view of the decisions of certain English courts to the effect that the interest and principal of bonds expressed in sterling and containing a gold clause are nevertheless payable in current legal tender sterling, in the nominal amount of the coupon or bond, and having regard, also, to the fact that the Government of the United States of America had taken the position that obligations expressed in dollars and containing a gold clause were payable at their nominal value in current legal tender without regard to such clause, it was the intention to effect future payments in respect of the American, British and Swedish issues of the German Government International 5½ % Loan 1930 in current legal tender dollars, sterling and crowns, respectively, in amounts sufficient to pay coupons and to meet the sinking fund obligations at the respective nominal amounts, only. The Trustee informed the German Government that it could not agree to the proposed method of payment on a nominal value basis instead of on a gold basis and that

it considered such a procedure contrary to the obligations undertaken in the General Bond. The Trustee, therefore, requested the obligor to continue to comply with the terms of the General Bond as it had done up to that date; and reserved all the rights of the bondholders.

The German Government, however, in respect of the monthly service instalment due on May 15, 1933, provided (a) on account of the sinking fund, a normal monthly instalment, except that for the American, British and Swedish issues payment was made on the nominal currency value basis and not on a gold value basis and (b) on account of interest, sums which when added to the amounts in the various currencies already in the hands of the Trustee and available for the payment of coupons due June 1, 1933, were sufficient to pay such coupons, including those of the American, British and Swedish issues, at their respective nominal amounts, only. The Trustee had thereupon to decide as to the manner in which the funds provided by the German Government should be distributed among the various issues of the Loan, having regard to the provisions of the General Bond and the respective definitive bonds and the coupons attached thereto. The problem before the Trustee was whether the total amount in hand, particularly for the interest service, should be pooled for the entire Loan and mathematically divided pro rata between each coupon holder, on a gold value basis, with the result that a holder of a French franc coupon, for example, would receive less than the nominal amount of the coupon, and less than its gold value, whereas the holder of a Swedish crown coupon, for example, would receive more than the nominal amount of the coupon, but also less than the value in gold crowns, or whether instead of such a procedure, which would have given the proper gold value to none, and less than the nominal value to the majority, the Trustee should be governed by the provisions of the General Bond and the language of each interest coupon in each tranche to the effect that each holder should receive gold value, "but not less than the nominal amount of the principal and interest specified". After taking legal advice the Trustee decided that it was necessary, in the circumstances, while reserving the rights to the unpaid amount computed on a gold value basis, at least to pay the coupons of all issues of the Loan at their respective nominal amounts, thereby exhausting the service funds actually received from the debtor. Certain paying agents have expressed dissatisfaction with the method of distribution followed by the Trustee, taking the position that the aggregate service should have been pooled, and divided pro rata on a gold value basis. They have indicated that a competent judicial ruling might be sought.

On June 9, 1933, a law was enacted in Germany providing for the postponement, as from July 1, 1933, of the transfer of certain liabilities to foreign creditors and for the payment in reichsmarks of the debts in question into a Konversionskasse, the Reichsbank being empowered to determine at what time and in what manner transfers out of the reichsmark deposits could be made. Negotiations as to the method of application of this law took place in London during the month of June 1933 between representatives of the Reichsbank and of the long term creditors of Germany. The Trustees of the two Reich international loans were invited to attend, and were represented at the meeting by Mr Gates W. McGarrah, for the Loan of 1924, and by the President of the Bank for International Settlements, for the Loan of 1930. The period of postponement of transfer proposed by the German authorities was limited in the first instance to six months ending December 31, 1933, but at the latter date it was prolonged, after the introduction of certain modifications, until June 30, 1934. After discussion and by common consent the German

External Loan 1924 was excluded from the operation of the proposed transfer postponement, and, subject only to the question which has arisen as regards the "gold coin" clause in the American issue, the full service thereof has been regularly paid in the manner stipulated by the General Bond. With respect to the Loan of 1930, a divergence of view at first arose in the creditors' meeting as to whether this Loan enjoyed a second rank as regards transfer and payment in foreign currencies. The Trustee claimed a special transfer privilege, relying, in part, on the statements in the Experts' Plan ("Young Plan") to the effect that the "non-postponable annuities", as distinguished from the "postponable annuities", were payable without any right of transfer postponement of any kind. The President of the Reichsbank took the view that no contractual transfer priority existed. Without reaching any formal decision on the question of principle involved it was finally determined, the creditors' committee unanimously agreeing, that having regard to the exceptional character of the German Government International 5½% Loan 1930, the interest service thereon should be continued in full for the period in question in the respective foreign currencies, but that the Trustee be invited to consider the possibility of assenting to a temporary suspension of sinking fund instalments. The Trustee replied that any such assent was outside its prerogative. The Reichsbank thereupon decided that sinking fund instalments would not be transferred in the respective foreign currencies but that their equivalent, in reichsmarks, would be deposited in a special account, in the name of the Trustee, not in the Konversionskasse but at the Reichsbank. The Trustee considers these monthly payments to the special account, in reichsmarks, not as satisfaction of the debt, but as special collateral security for the ultimate payment of the corresponding instalments in the respective foreign currencies and the Finance Minister of the Reich has confirmed to the Trustee that no currency transfers will be effected from the amounts accumulated in the Konversionskasse, in respect of postponed sinking fund payments for other foreign loans, before payment of the sinking fund instalments for the German Government International 5½% Loan 1930, has been resumed in the respective foreign currencies. The Trustee advised the German Government that the suspension of the transfer of the sums required for the sinking fund service of the Loan was incompatible with the General Bond, and reserved all the rights of the bondholders.

The manner in which the service of the German Government International 5½% Loan 1930, has been effected during the year under review, April 1, 1933—March 31, 1934, may now be summarised as follows: The service instalment due and paid on April 15, 1933, was a normal monthly instalment in full accord with all the provisions of the General Bond. The instalment of May 15 as regards the sinking fund was a normal monthly instalment, except that for the American, British and Swedish issues it was effected on a nominal currency value basis instead of on a gold value basis, and as regards interest was of such an amount as, together with funds already in the hands of the Trustee and available to meet the coupons due on June 1, 1933, was sufficient to pay such coupons, including those of the American, British and Swedish issues of the Loan, at their respective nominal amounts. The monthly service instalments for the American, British and Swedish issues, paid from June 15, 1933 to March 15, 1934, have all been effected on a nominal currency value basis instead of on a gold value basis. Subject to this important reservation, all of the instalments in respect of interest have been punctually paid each month in the currencies of the respective issues of the Loan. The sinking fund instalment due on June 15, 1933, was also paid in the currencies of the respective issues, but those due from July 15, 1933 to March 15, 1934, inclusive, were not paid in such currencies; the

reichsmark equivalent of the currencies has, however, been placed to the credit of a special account in the name of the Trustee at the Reichsbank, Berlin. The coupons of the American, British and Swedish issues of the Loan, due on June 1 and December 1, 1933, have therefore been paid (or will be paid on presentation) on a nominal value basis. The cost of the service of this Loan, for the year to March 31, 1934, was 66.3 million reichsmarks, of which the three sinking fund instalments paid in the currencies of the respective issues of the Loan amounted to the equivalent of 4.3 million reichsmarks.

A Statement of Receipts and Payments in respect of the Loan, as certified by the auditors, for the last completed Loan year to June 1, 1933, is appended as Annexes VIIa and VIIb. In order to show the position to the last interest coupon due date, there is also appended, as Annex VIII, an Interim Statement of Receipts and Payments for the half year to December 1, 1933. This Interim Statement has not been audited, but the period covered thereby will be included in the Statement that will later be certified by the auditors in respect of the complete Loan year to June 1, 1934. In addition, the funds relating to this Loan which were deposited in the name of the Trustee, as at March 31, 1934, are shown in Annex XI.

(3) AUSTRIAN GOVERNMENT INTERNATIONAL LOAN 1930.

The Austrian Government International Loan 1930, for which the Bank for International Settlements was appointed Trustee, was placed in July 1930 and was expressed in dollars, sterling, lire, Swedish crowns, Swiss francs and schillings in a nominal amount equivalent, at the par of exchange, to approximately 439 million gold schillings; the nominal amount of the Loan outstanding as at March 31, 1934, was the equivalent, also at par, of 402.9 million gold schillings. If allowance be made for the existing depreciation of sterling and Swedish crowns by about 40 per cent of their respective par values, the nominal amount of the Loan outstanding as at March 31, 1934, was the equivalent of 351.4 million gold schillings; if, as explained later in this section, effect is not given to the "gold coin" clause contained in the definitive bond of the American issue and dollars are also taken as depreciated by about 40 per cent of their par value, the nominal amount outstanding was the equivalent of 286.6 million gold schillings. It should be noted, however, that the Austrian schilling is itself depreciated by about 22 per cent of its par value so that this amount of 286.6 million gold schillings is equivalent, under present circumstances, to about 367 million current legal tender schillings.

In the third Annual Report, it was recorded that in June 1932, the Austrian Government notified the Bank, Trustee, to the effect that in view of the economic situation of the country, it was compelled to interrupt the machinery of payment into the special schilling account of the Trustee at the Austrian National Bank, of the remainder of the proceeds of the charged revenues which is payable to the Trustee's account after satisfying the prior charges thereon in favour of the Austrian Government Guaranteed Loan 1923—1943 and the Czechoslovakian Conversion Loan. The purpose and effect of this step was the suspension as from July 1, 1932, of the monthly transfers to the Trustee of the foreign currencies required for the service of the Loan. The Austrian Government, however, paid into an account at the Austrian National Bank in the name of the Staatszentalkasse, but blocked in favour of the Bank for International Settlements, Trustee, sums in schillings equivalent, at the National Bank's official exchange rates, to the amounts in the various foreign currencies which should have been transferred. The suspension of the monthly transfers of foreign currencies to the Trustee continued until the month

of August 1933 but the Austrian Government eventually furnished, immediately before the respective due dates, the foreign currencies necessary for the payment of the coupons due on January 1 and July 1, 1933.

During the month of August 1933, the Austrian Government Guaranteed Loan, 1933—1953, was issued in England, France, Italy and Switzerland and some months later in Belgium, Holland and Czechoslovakia, in a total amount equivalent to about 250 million schillings. This operation enabled the Austrian Government, among other things, to deal with the accumulated arrears in respect of the service of the Austrian Government International Loan 1930, as well as to regularize the service requirements of the Austrian Government Guaranteed Loan 1923—1943. Immediately upon the issue of the new loan, the Austrian Government paid, in foreign currencies, the monthly instalments in respect of interest which fell due on July 1 and August 1, 1933 for the 1930 Loan. At the same time the Government liquidated the whole of the arrears in respect of the monthly sinking fund instalments which fell due from July 1, 1932 to August 1, 1933, inclusive, by the cession of bonds of the Loan or by payment in foreign currencies. The machinery of payment of the balance of the charged revenues into the special schilling account of the Trustee was again set in motion during the month of August. Commencing with the instalment due on September 1, 1933, the regular service of the Loan by monthly instalments in foreign currencies was resumed, in accordance with the terms of the General Bond. The cost of the service of the Austrian Government International Loan 1930, in respect of the year to March 31, 1934, was 37.3 million schillings, of which the sinking fund contribution amounted to 8.3 million schillings.

The monthly service instalments in schillings in respect of the Austrian issue of the Loan have never been interrupted but, although the definitive bond of that issue contains a "gold value" clause, the monthly instalments up to and including that of June 1, 1933, were not paid to the Trustee on a gold value basis. On July 1, 1933, however, the Austrian Government paid to the Trustee a supplementary sum in schillings sufficient to give effect to this clause in so far as the coupon due on that date was concerned. Since July 1933 the monthly service instalments for this issue have included a supplementary payment, estimated to be sufficient to give effect to the "gold value" clause on the coupon due date and the coupons of the Austrian issue due on January 1, 1934 were therefore also paid on a gold basis. The definitive bond of the American issue of the Loan provides for the payment of principal and interest "in gold coin of the United States of America of the standard of weight and fineness existing on the first day of July 1930". Having regard, however, to the fact that legislation in the United States of America declares that obligations expressed in dollars and containing a gold clause are payable at their nominal value in current legal tender without regard to such clause, the Austrian Government has not provided the funds necessary for the service of the American issue on a gold basis. The Trustee for the Loan has notified the Austrian Government that payment of the American issue on a nominal value basis does not appear to be in accordance with the obligations undertaken by the Government, pursuant to the terms of the definitive bond of the American issue; and has reserved all the rights of the bondholders. The position taken by the Austrian Government in this connection has been challenged by an Austrian bondholder in a Vienna court. The court has recently found in favour of the Government, largely on the ground that under Austrian legislation the debtor Government was entitled to rely on the American gold clause enactment. It is understood that the question at issue will be re-argued before another court.

Subject to this reservation in connection with the American issue, the Austrian Government, during the year under review, April 1, 1933—March 31, 1934, has liquidated the whole of the arrears in the service of the Loan, both in respect of interest and the sinking fund, and since September 1, 1933, the Bank has regularly and punctually received and distributed the monthly service instalments required, pursuant to the terms of the General Bond. A statement of Receipts and Payments in respect of the Austrian Government International Loan 1930, as certified by the auditors, for the last completed Loan year to June 30, 1933, is appended as Annexes IX a and IX b. In order to show the position to the last interest coupon due date, there is also appended as Annex X an Interim Statement of Receipts and Payments for the period from July 1 to December 31, 1933. This Interim Statement has not been audited, but the period covered thereby will be included in the Statement that will later be certified by the auditors in respect of the complete Loan year to June 30, 1934. In addition, the funds relating to this Loan which were deposited, in the name of the Trustee as at March 31, 1934, are shown in Annex XI.

GOVERNMENT ANNUITY PAYMENTS.

(1) THE ANNUITY PAYMENTS OF THE GERMAN REICH.

Germany's obligation to pay certain graduated annuities in final settlement of all reparation claims as provided by the New Plan adopted at the Hague Conference of January 1930, was modified by the Lausanne Agreement of July 9, 1932. This Agreement stipulated that upon coming into force, it "will put to an end and be substituted for the reparation régime provided for in the agreement with Germany, signed at The Hague on the 20th January, 1930, and the agreements signed at London on the 11th August, 1931, and at Berlin on the 6th June, 1932; the obligations resulting from the present Agreement will completely replace the former obligations of Germany comprised in the annuities of the 'New Plan'."

The Lausanne Agreement has not been ratified by any of the interested parties but the interim period between the date of its signature and of its ratification is covered by the provisions for "Transitional Measures" contained in Part II of the Agreement. As a result of these provisions the execution of Germany's obligations under the New Plan is reserved subject to the understanding that the "service of market loans" will nevertheless continue to be effected.

During the year under review, April 1, 1933—March 31, 1934, the Bank, as Trustee for the German annuity payments, has received from the German Government only the amounts provided by it in respect of the "service of market loans", namely

	Reichsmarks
(a) In respect of the service of the German External Loan 1924 . . .	57,342,112.74
(b) In respect of two-thirds of the service of the German Government International 5½% Loan 1930	44,660,982.30*

The above amounts were transferred immediately upon receipt to the Trustees of the respective Loans. A summary of the receipts and payments of the Bank in respect

* This amount does not include provision for the service of the American, British and Swedish issues on a gold value basis, as required by Article VI of the General Bond, nor for the monthly sinking fund instalments, for all issues, due from July 15, 1933 to March 15, 1934, inclusive — see pp. 39—43.

of the German annuity during the period April 1, 1933—March 31, 1934, including the small transactions which have taken place in connection with the liquidation of old contracts for deliveries in kind, is set forth in Annex XII in the form approved and certified by the auditors.

(2) THE ANNUITY PAYMENTS OF HUNGARY.

The annuity payments to be effected by Hungary in settlement of the charges incumbent on her by virtue of the Treaty of Trianon and Agreements supplementary thereto were fixed by the Paris Agreement of April 28, 1930; for the year April 1, 1933—March 31, 1934, they were to amount to 10,000,000 gold crowns. The execution of Hungary's annuity payments, however, was reserved, until December 15, 1932, pursuant to the terms of Part III of the Lausanne Agreement of July 1932. The parties to that Agreement recommended that a committee be set up to consider the group of questions known as "non-German reparations" and cognate topics, viewing them within the framework of a general settlement. The committee has not been constituted and the interested Governments have agreed that the reservation of the execution of Hungary's annuity payments shall be extended until June 15, 1934.

During the year April 1, 1933—March 31, 1934, the Bank has, therefore, received no Hungarian annuity payments. In the third Annual Report reference was made to a sum of pengö 380,182.69, being the equivalent of the annuity payment due on June 30, 1932, in the amount of gold crowns 327,150.— which had been paid in Hungarian currency but which had not been converted into foreign devisa, because the President of the Hungarian National Bank had exercised his right to postpone conversion if, in his opinion, such postponement be necessary in order to avoid depreciation of the Hungarian currency. The sum of pengö 380,182.69 still remains to the credit of the account of the Trustee at the Hungarian National Bank.

(3) THE ANNUITY PAYMENTS OF BULGARIA.

The annuity payments to be effected by Bulgaria in settlement of her obligations arising out of the Treaty of Neuilly, were fixed by the Hague Agreement of January 20, 1930; for the year April 1, 1933—March 31, 1934, they were to amount to 10,000,000 gold francs. But the execution of Bulgaria's annuity payments was reserved pursuant to the terms of Part III of the Lausanne Agreement, the dates therein stipulated having been subsequently prolonged, until June 15, 1934, by arrangement between the interested Governments.

During the year April 1, 1933—March 31, 1934, the Bank consequently received no Bulgarian annuity payments.

(4) THE ANNUITY PAYMENTS OF CZECHOSLOVAKIA.

The annuity payments to be effected by Czechoslovakia in settlement of her liberation obligations undertaken by an Agreement, dated September 10, 1919, were fixed by the Hague Agreement of January 20, 1930; for the year April 1, 1933—March 31, 1934, they were to amount to 10,000,000 gold marks. The execution of Czechoslovakia's annuity payments, however, was also reserved by the terms of Part III of the Lausanne Agreement, as later extended until June 15, 1934, by arrangement between the interested Governments.

Therefore, during the year April 1, 1933—March 31, 1934, the Bank received no Czechoslovakian annuity payments.

VII. DEPOSITS AND INVESTMENTS; CENTRAL BANK CREDITS; SHARE CAPITAL;
NET PROFIT; COMPOSITION OF BOARD OF DIRECTORS.

DEPOSITS, INVESTMENTS, CENTRAL BANK CREDITS.

From the business as well as the monetary viewpoint the outstanding event during the Bank's fourth fiscal year was the departure of the dollar from the gold standard. This factor, with the shock it gave to confidence in currencies in general, is the main reason for the reduction in the total of the Bank's balance sheet from 941 million Swiss francs on March 31, 1933 to 668 million Swiss francs on March 31, 1934. The balance sheet is reproduced in Annex III.

When the export of gold from the United States was prohibited in April 1933, during that month, alone, the short term and sight deposits with the Bank were reduced by about 187 million Swiss francs. Of this total about 140 millions represented deposits effected in dollars. During May 1933, deposits further declined by about 30 million Swiss francs. In view of the fact that the Bank is permitted by its Statutes to conduct operations for its own account only in currencies which in the opinion of the Board satisfy the practical requirements of the gold or gold exchange standard, and that, in the existing circumstances, central banks restrict their holdings of foreign exchange to the absolute minimum, it is inevitable that the financial resources of this Bank should suffer diminution. However, a substantial proportion of the currency reserves held on deposit with the Bank were converted into gold by the depositor and the gold acquired was left with the Bank to be held under earmark. This gold is not included in the monthly balance sheets but its amount and value has been greater during the current, than in any preceding year. Furthermore, during its fourth fiscal period the Bank has for the first time received deposits in metallic gold. The first such deposits, amounting to some 5 million Swiss francs, were made in July 1933. By the close of the year, March 1934, they had risen to some 28 million Swiss francs. In respect of these deposits, the Bank is obligated to deliver, on demand at an agreed place, metallic gold of similar fineness, to the amount of the total number of ounces or grammes of gold deposited. Full legal title to the gold deposited passes to the Bank, thereby distinguishing this operation from the case of gold held under earmark where the property remains vested in the central bank entrusting the gold to the central agency for custody. The development of deposits in gold is regarded as opening the way to extensive developments in more normal times in that, among other things, it may eventually lead to the possibility of the introduction of a gold clearing or gold settlement fund contemplated by Article 24 of the Statutes. In this way gold claims or obligations of central banks could be settled by means of credits or debits to the settlement fund in the books of the Bank for International Settlements and the physical movement of gold could be reduced or pro tanto avoided. The number of transactions of various kinds in connection with gold has continued to increase and on many occasions the Bank has found it possible to avoid the necessity for the physical movement of gold by acting as intermediary between two central banks desiring to move gold between the same two points of deposit, but in opposite directions. In such cases the Bank, usually through the gold held by it under earmark for their account, has been able to offset these transactions and effect the necessary small cash adjustments through the accounts of the central banks in its books. In this manner appreciable unnecessary gold movements have been avoided.

The assets of the Bank have been administered at all times with particular regard to the maintenance of liquidity; they are held in prime investments, to a large degree in guaranteed commercial paper or short term Treasury Bills. Throughout the fourth fiscal year the assets available on demand have been continuously in the neighbourhood of 60 % of total assets; as at March 31, 1934, such assets represented 59.2 % as against sight liabilities representing only 12.2 % of the total. A year ago, the assets not available on demand included the Bank's participation in the monetary credits which were granted in 1931 to the central banks of Germany, Austria, Hungary and Yugoslavia, amounting in all on March 31, 1933, to 169 million Swiss francs. The situation regarding these credits has undergone great change during the fiscal year now under review, 131 million Swiss francs having been paid off.

In Austria a new Loan granted under the auspices of various Powers to the Austrian Government was concluded in 1933, and as a result the Austrian National Bank was enabled finally to repay, by September 8 of that year, the entire balance due in respect of the Bank's credit, namely 51 million gold schillings, as well as the balances due to all the central banks which had participated in the advances to Austria, made after the collapse of the Oesterreichische Kreditanstalt.

The credit granted to the National Bank of Yugoslavia which, on April 1, 1933, amounted to 750,000 gold dollars* had been reduced to 650,000 gold dollars by January 28, 1934, and, although renewed until April 28, 1934, was repaid in full on March 12, 1934.

The situation in Hungary called for special consideration and a study of the position in that country was made by the Bank in the summer of 1933. As a result it was decided by the Board of Directors to consolidate the Bank's short term credits and to propose similar action to the eleven central banks participating in the Hungarian advances. Subject to certain agreed capital repayments, the participants agreed to consolidate in the form of cash certificates maturing three years from October 18, 1933, an amount of 19,307,000 gold dollars at a nominal rate of interest, this amount being the unpaid balance of the short term credits which originally aggregated 26,000,000 gold dollars. In taking this action the attitude of the Board was influenced by the consideration that the realities of the situation in Hungary should be faced, and by the desire, in the interest of central bank cooperation, to take a lead in assisting the Hungarian authorities and the Hungarian National Bank to bring about a reorganisation of their internal situation, and to plan a comprehensive programme of reconstruction. Inspired with the same spirit of cooperation, the Reichsbank, which had independently made a special advance to the Hungarian National Bank in the equivalent of 21,777,000 reichsmarks, consented to consolidate its credit in a like manner and for the same period.

The previous Annual Report recorded the fact that the Reichsbank repaid before maturity during April 1933, the amount of 70,000,000 gold dollars representing the full balance of the credit to it then outstanding, in which the Bank of England, the Federal Reserve Bank of New York, the Bank of France and the Bank for International Settlements shared equally.

As a result of the changes outlined above, the only remainder of the central bank credits, originally granted in 1931, held by the Bank for its own account, on March 31,

* The gold dollar referred to above, and elsewhere in this Report, is the dollar which, before the recent devaluation, was defined by law as containing 23.22 grains of fine gold.

1934 was its participation in the three year cash certificates of the Hungarian National Bank, in an amount of 7,346,065.61 gold dollars. A capital reduction of this sum was made April 18, 1934, equivalent to 56,360.63 gold dollars.

Out of the total of sight and short term deposits held by the Bank on March 31, 1934, 63 per cent. were in French francs, 15 per cent. in gold and the remainder in various currencies. The obligation in gold was covered by an identical quantity of the metal held amongst the Bank's assets; the whole of the remaining sight and short term commitments were much more than covered by liquid assets immediately available to satisfy these commitments on demand. The long term deposits represented 40.6 per cent. of the total liabilities whereas investments of a maturity longer than three months represented only 20.8 per cent. of the total assets.

SHARE CAPITAL.

The entire authorised capital of the Bank is now taken up, namely, 500,000,000 Swiss gold francs, divided into 200,000 shares of equal nominal value, on which 25 per cent. (125,000,000 Swiss gold francs) has been paid up. The remaining 75 per cent., or any part thereof, may be called for payment by the Board of Directors upon three months' notice to the shareholders. A table showing the distribution of the shares on twenty-six national markets, where, in general, they are held by the respective central banks, is given in Annex I to this report. In the case of Japan and the United States, the shares were acquired and are retained by banking groups and banking institutions other than central banks. In the case of France, Belgium, Great Britain, Denmark and Danzig, a portion of the shares allocated to these markets is held outside the central bank, either by private banking or financial institutions or industrial concerns or, in the case of France, Belgium and Danzig also by the public. The rights of representation at the Annual General Meeting and of voting do not follow the ownership of the stock, however, but are reserved by the Bank's statutes, and the terms of the share certificates, to the central bank of the country where the shares were issued, or its nominee, or, if the central bank does not desire to exercise its rights, some financial institution appointed by the Board of Directors.

The Bank's statutes state that in distributing the share capital, the directors shall give consideration to the desirability of associating with the Bank the largest possible number of central banks, but that no part of the shares may be subscribed in any country, the currency of which at the time of issue does not satisfy the practical requirements of the gold or gold exchange standard. Several central banks desirous of becoming member banks in the Bank for International Settlements have so far been ineligible because their national currencies did not satisfy these requirements. With a view to permitting these central banks, and others, to acquire shares and thereby become members, an amount of 26,400 shares has been reserved for subsequent transfer to them. These shares are now held in equal proportions by the seven central banks or banking groups having guaranteed the subscription of the capital stock, under an agreement to retrocede, upon the request of the Board of Directors at any time prior to June 1, 1937, at the price paid by them, namely par, such number of shares up to 26,400 as may be needed for allocation to additional central banks applying for membership, as and when they become eligible.

On the paid-up capital, there is payable out of net profits remaining after the statutory contribution to the Legal Reserve Fund, a dividend at the rate of six per cent. per annum, which is cumulative. This dividend has been regularly paid since the opening of the Bank. A supplemental dividend, which is non-cumulative, may be paid to shareholders in the discretion of the Board (with the approval of the General Meeting), if net profits permit in any year, up to a maximum of a further six per cent. No supplemental dividends have been paid and the Board has followed the policy of placing sums which might have been so distributed to a Dividend Reserve Fund for use in maintaining the cumulative six per cent. dividend, or for subsequent distribution to the shareholders. The Dividend Reserve Fund, after the appropriation for the year ending March 31, 1934, shall have been voted as recommended below, will amount to 4,866,167.29 Swiss gold francs, or about four per cent. on the paid-up capital.

NET PROFITS; RESERVES; DIVIDEND; OTHER DISTRIBUTIONS.

It is for the present General Meeting to consider the declaration of a dividend and to make appropriations to reserves. The net profit for the year, after making allowance for contingencies, is 13,007,072.82 Swiss francs (1933: 14,064,488.93 Swiss francs), the Swiss franc being taken at par. In the Balance Sheet as at March 31, 1934, all currencies are valued at or below the least favorable market rate prevailing on that date and all assets are valued at or below market quotations, if any, or at or below cost. In computing the above profits no account has been taken of exchange gains arising by reason of the Bank happening to be short in any depreciated currency; whereas exchange losses have been written off. During the second half of the year steps were initiated to reduce the personnel and to reduce salaries. These measures did not become effective until the beginning of the fifth fiscal year, April 1, 1934, but as from that date they are expected to yield a saving of about 25 per cent. in the annual expenditure for salaries.

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. 650,353.64 Swiss francs (1933: 703,224.45 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 fourth fiscal year. The payment of this dividend requires 7,500,000 Swiss francs (1933: 7,335,000 Swiss francs). The net profits still remaining after the declaration of dividend would amount to 4,856,719.18 Swiss francs, the appropriation of which is fixed by Article 53 of the Statutes.

Exercising the discretion vested in it by paragraph (c) of Article 53 of the Statutes, the Board of Directors has determined to place to the credit of the Special Dividend Reserve Fund, for use in maintaining the cumulative 6 per cent. dividend provided for by the Statutes, or for later distribution to the shareholders, the sum of 971,343.84 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 (1933: 1,205,252.90 Swiss francs).

After making provision for the foregoing items, you are requested, from the balance still remaining, to make an appropriation to the General Reserve Fund in the manner stipulated by paragraph (d) of Article 53, in the amount of 1,942,687.67 Swiss francs (1933: 2,410,505.79 Swiss francs). The aggregate of the Legal, Dividend and General Reserves at the end of the fourth year would then be 17,270,546.97 Swiss francs.

The same article of the Statutes lays down the distribution of the sum finally remaining, namely, 1,942,687.67 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 1,942,687.67 Swiss francs (1933: 2,410,505.79 Swiss francs). One of these deposits, the French Government Guarantee Fund, is expressed in the books of the Bank in dollars and the participation of the Fund in the residual amount is shown below on the basis of the average gold value of such dollars during the fourth fiscal year. The French Government and the Bank have agreed to submit to the decision of an independent third party the question of whether the Bank's liability in respect of the Fund is limited to the amount shown in the Bank's books or whether, having regard to the provisions of the Trust Agreement, it should be computed on some other basis. Pending such decision it is not possible to allocate the whole of the residual amount of 1,942,687.67 Swiss francs among the interested Governments but the provisional distribution is as follows:—

	<u>Swiss francs at par</u>	
	<u>1933/34</u>	<u>1932/33</u>
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement — allocated on the basis of the average gold equivalent of the amount at which the Fund stood in the Bank's books during the year	339,388.27	552,646.98
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	499,446.03	619,286.27
Creditor Government minimum deposits in accordance with Article IV (e) of the Trust Agreement:—		
France	543,696.94	674,155.03
Great Britain	212,464.34	263,444.38
Italy	110,976.91	137,605.41
Belgium	60,033.41	74,438.21
Rumania	10,488.36	13,005.01
Yugoslavia	43,651.58	54,125.62
Greece	3,596.01	4,458.86
Portugal	6,892.36	8,546.15
Japan	6,892.36	8,546.15
Poland	199.78	247.72
	<u>1,837,726.35</u>	
Remainder of the amount available for distribution among the above mentioned deposits, the allocation of which cannot be effected until the amount of the Bank's liability in respect of the French Government Guarantee Fund has been determined	104,961.32	
	<u>1,942,687.67</u>	<u>2,410,505.79</u>

The accounts of the Bank and its fourth Annual Balance Sheet have been duly audited by Messrs Price, Waterhouse & Co, Chartered Accountants, Paris. The Balance Sheet will be found in Annex III, 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 notes 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 IV.

COMPOSITION OF BOARD OF DIRECTORS.

The administration of the Bank is vested in the Board of Directors, which is composed of the Governors of the central banks of Belgium, France, Germany, Great Britain, Italy and the Bank of Japan (who acts through his nominee), ex officio directors, of eight persons qualified in financial and commercial matters appointed by the foregoing Governors, and of two additional central bank Governors and two persons of American nationality representative of finance respectively elected as provided by the statutes, thus making a present total of eighteen. The maximum authorized membership of the Board is twenty-five. As those members of the Board other than the ex officio directors hold office for three years only, but are eligible for re-election, new appointments and elections took place during the month of May 1933, the Bank having opened for business in May 1930. However, no changes occurred in the identity of the persons then chosen to serve.* Furthermore, since the last Annual Meeting, there has been no alteration in the composition of the Board or among the alternates of the ex officio directors, except that former Deputy Governor Charles Farnier of the Banque de France, who served as alternate for Governor Clément Moret, in consequence of his resignation from the Banque de France, has been replaced by Deputy Governor Pierre Fournier of the Banque de France. M. Farnier, whose exceptional acquaintance with matters of public and private finance was of great assistance to the Bank, has taken the post of Administrateur of the Comptoir National d'Escompte de Paris. At the May elections, Prof. Alberto Beneduce, of Rome, and Dr. L. J. A. Trip, of Amsterdam, were re-elected Vice-Chairmen. After the declination of Mr. Gates W. McGarrah, President and Chairman since the inception of the Bank, to accept the pressing invitation to remain Chairman of the Board, the choice fell upon the undersigned, but Mr. McGarrah, who continued as a regular member, was also unanimously elected Honorary President. During the present year, the Bank suffered a great sorrow in the death of a retired Vice-Chairman, Dr. Carl Melchior, whose services to international finance were well known and highly respected throughout the world.

* For list of directors as of May 1, 1934, see reverse of back cover page.

VIII. CONCLUSION.

Looking backward over the year, the Bank for International Settlements observes a gradual advance by many of the important consuming and producing regions of the globe in slowly emerging from the world crisis, and toward the attainment of a new equilibrium, economic and financial, on the basis of adjusted levels of price and of cost. But this advance is by no means universal and it is not complete. More amelioration, relatively, has taken place in the internal national economies than has occurred in international financial and commercial relations. This has been due in part to the greater ease necessarily inherent in arranging, agreeing, or if necessary decreeing, changes in those factors which make up the structure of prices locally, or affect the burden of internal debts or the measure of home public expenditure. But external problems of a similar character are multiplied and rendered more difficult of handling because, upon the internal decision and action to be taken in at least two different economic entities, there is superimposed the need either of general or multipartite international understandings to secure solutions. The Bank for International Settlements persists in the view that mankind will suffer fewer hardships if the problems forced upon it by the world crisis be dealt with by common counsel and joint accord among those primarily concerned. Great efforts have lately been made in this direction of mutual collaboration, but the extent of the practical results, so far, have not inspired assurance as to its immediate efficacy, although the consequences of its lack have reinforced the view that international cooperation constitutes the true desideratum of the situation which ought to be applied, even though in practice it is not. But we must take facts as we find them and live in this world of realities, while fully retaining our aspiration that public opinion may come to appreciate more clearly the long-range permanent advantage to the world community, and to its every member, in reaching a higher plane internationally and in adopting those joint measures requisite to attain and maintain such an altitude. This is true in the economic, in the monetary and the financial field. It is believed that the essays at economic nationalism now so current will demonstrate that when this process has reached its maximum, that will not be enough, — and that human life and relationship cannot enjoy its fullest realization intellectually, scientifically, artistically, economically, or financially unless there be rebuilt on solid and restored national foundations that richer, wider and more profitable interchange between the nations which seemed almost a matter of course before the economic debacle.

For the purpose of promoting trade, normal movements of capital and world economic recovery, there needs must be a monetary system working internationally on the same fundamental basis, namely, gold. It is only then, or simultaneously, that a move toward lowering of tariff barriers and the suppression of quotas and import prohibitions can be undertaken with any hope of success. While the year just closed records but limited general progress in the international field, at least in the domain of monetary problems much clarification has been achieved. Not only does prevailing public and governmental opinion preponderantly support the conclusion that the gold standard constitutes the best available monetary mechanism, but many of the impediments which have prevented or delayed its restoration have been removed or lessened, and some of the factors necessary for its improved application and operation have been substantially agreed upon. No single plan, however ingenious, can give the world an ideal monetary system. Having admitted the vital need of a common standard, it is important to

remember that there is no wisdom in being deprived of the advantages of employing the best standard available, while endeavoring to better its technique, for the reason that it is not absolutely perfect, may not be universal in its application, and may not be applied in identically the same fashion in the principal national economies which do adopt it. The essential point is that the great and predominating commercial and financial nations of the earth, and as many more as possible, though not necessarily all simultaneously, shall revert to the common standard or continue to maintain it. Furthermore, there is plenty of room and plenty of possibility for variations as heretofore, speaking internationally or even nationally, in the exact manner in which the gold standard is applied on the basis of parities fixed or to be fixed. The essence of the matter, from the international point of view, is not so much whether currency notes are or are not freely convertible internally into gold upon demand, or whether gold is sent abroad only for delivery to other central banks or the Bank for International Settlements, or instead to all and sundry, but whether, if and when the exchanges of the country claiming to be a member of the international monetary system based on gold attain the outgoing gold point, ascertainable on the basis of the legal gold content of the currency, gold or available stocks of foreign exchange are readily and promptly released (or accepted, in the contrary case) for the purpose of keeping the currency stable, within the gold points, in relation to other currencies also on the international gold standard.

The gold standard is not an end in itself. It is a machinery and a medium for permitting, facilitating, and enhancing the exchange of goods, capital and services, internally and externally. Hence those who seek the reestablishment of a common standard are not seeking some fetish or intellectual abstraction, but are searching for the better economic welfare which inevitably flows from the increasing movement of goods, services and funds, which presupposes, in turn, some trustworthy measure and medium of value and exchange to enable them to move.

Furthermore, the gold standard does not work in a vacuum. It has to operate within the framework of some given economic and financial structure. If that structure is fundamentally faulty, either as regards the international balance of accounts or because of inadequate economic equilibrium in the internal economy or insufficient coordination of the credit system, then the fundamental faultiness of the economic and financial structure will prevent or break down the operation of the gold standard or any other standard. A sound monetary system presumes a sound economic system and vice versa. One of the encouraging signs of the times is the persistent effort being made in every economy to rectify its shortcomings and to restore equilibrium, but more steps should be taken in the international relationship, also.

There can be no doubt about a general return to gold as the basis for the monetary system. The real question is whether definite steps will be adjourned for some time to come, or whether by common effort or as a result of the patent necessities disclosed by the failure of common effort, an early attempt will be made to achieve a general settlement in the monetary and financial fields, thus leading the way to a restoration of the monetary system and to completing economic recovery. Certain special features which largely contributed to the post-war strain and to the break-down and discontent with the gold standard system, have now diminished in their intensity. The vast network of financial liabilities arising out of the War has not yet been finally adjusted, but the tendency toward a recognition of their effects and of the practical probabilities of their discharge is being more and more accepted as time goes on. The hazard attendant

upon the excessive volume of short-term indebtedness, the existence of which particularly imperilled the secure working of an international monetary standard, not only on account of the volume itself, but because of the ignorance as to the extent of that volume, has been largely corrected by progressive liquidation and by the establishment of the facts of the situation through statistical reports, which seem likely to be continued in the future with a view to controlling this particular danger. The burden of debt and the necessity for its adaptation to current economic conditions is being more frankly recognized and faced, as shown by the steps to reduce its weight in various ways taken in many countries. The fear of a scarcity of gold has not been supported by the steadily increasing production, the continuous devices for its economy, or the latent supply contained in hoards which will presumably reappear as business conditions improve. The price level, which has especial importance in the matter of debts, and is also a prime factor in the maintenance of a stable monetary standard internally and externally, is progressively coming into equilibrium, by internal adjustments in each national economy and by the processes popularly called deflation or inflation, or in some instances by a partial combination of both. While much has been said, and truly, of the sharp diminution in international trade, with its consequent creation of international disequilibrium on the foreign account, with a resultant strain upon or collapse of the gold standard, nevertheless the fact remains that, measured in terms of volume, the quantity of goods exported and imported in world trade during 1933 was about the same as that in 1923 to 1924, was fully up to the level of 1913, and was approximately 25 per cent. below the peak of 1929. This means, therefore, that despite the barriers and restrictions placed upon the free movement of goods and of the funds necessary to pay therefor, nevertheless human wants and the supplies for those wants continue with little abatement. The problem of recovery is largely a problem of the value of the volume of commodities that are moving and being consumed, and of price adjustment, which may come about either by a rise in prices or by such cost savings that goods may still be sold, even on a low price level, with a margin of profit as an incentive and a reward. To this complex problem of prices in its relation to the monetary standard, the currency and governmental authorities are not blind, as is amply demonstrated by those principles concerning the functioning of the gold standard reproduced in the fifth resolution on monetary matters of the London Conference quoted in Chapter II above, wherein the limits and extent of the intervention of the monetary authorities, within the measure of their power, were set forth and the necessity and advantages of central bank collaboration directly, or through the Bank for International Settlements, emphasized.

The Bank for International Settlements is preparing for its functions at the time when the principal currencies shall have been stabilized, if they are not so already, when their parities shall have been finally established, if they are not now so fixed, and when the international monetary standard, — which uses gold as the medium of effecting any net balances of payment on the international account, and of regulating the exchange relationships, — shall have been restored. The technique of the gold standard requires, and is capable of, improvement, in its domestic and in its international operation, principally through the medium of continuous collaboration between the monetary authorities acting, to the extent possible, through a central agency. Collaboration may be an abstract noun, but it has proved in practice to be a concrete thing when Central Banks are faced with a specific problem in the financial or monetary field. The endeavor of the Bank for International Settlements shall be to contribute to the restoration of more

orderly monetary and financial conditions in the international realm. The nations gathered at London laid down for it in one vitally important direction a constructive program filled with responsibility and opportunity when they unanimously resolved that the Bank for International Settlements constituted an essential agency for monetary purposes and should play an increasingly important part, not only by improving contact between monetary authorities for joint consultation and common action, but that now and in future "it should continuously examine the application of the principles of the working of the gold standard and study such modifications thereof as experience may prove desirable".

Respectfully submitted,

LEON FRASER,
President.

ANNEXES

CENTRAL BANKS OR OTHER BANKING INSTITUTIONS ALLOTTED SHARES IN THE CAPITAL STOCK OF THE BANK

"The authorised capital of the Bank shall be 500,000,000 Swiss gold francs, equivalent to 145,161,290.32 gr. fine gold. It shall be divided into 200,000 shares of equal gold nominal value."

"Twenty-five per cent only of the value of each share shall be paid up at the time of subscription. The balance may be called up at a later date or dates at the discretion of the Board. Three months' notice shall be given of any such calls." (Articles 5, 8, Bank Statutes.)

The entire authorised capital was issued during the period May 20, 1930-May 31, 1932. Since the payment of the original twenty-five per cent of the value thereof, no additional call has been made.

Shares, 25% paid up, allotted to:—	Number of shares	Date of Acquisition	
(A)—ORIGINAL SUBSCRIBERS			
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
A group of 14 Japanese banks led by the Industrial Bank of Japan, Tokyo	16,000	20th May	1930
do. do.	3,770 (a)	31st May	1932
The American Group:—			
J. P. Morgan & Co., New York	16,000	20th May	1930
The First National Bank of New York, New York			
The First National Bank of Chicago, Chicago			
do. do.	3,770 (a)	31st May	1932
(B)—OTHER SUBSCRIBERS			
De Nederlandsche Bank, 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
Narodní banka Československá, 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
Banque Nationale d'Albanie, 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		

(a) See page 49, above.

BALANCE SHEET

(IN SWISS FRANCS)

ASSETS			
I—GOLD IN BARS.		28,176,330.05	4.2
II—CASH			
On hand and on current account with Banks		2,757,222.93	0.4
III—SIGHT FUNDS at interest. . .		14,447,209.47	2.2
IV—REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	157,718,741.07		23.6
2. Treasury Bills	192,103,471.25		28.8
		349,822,212.32	
V—TIME FUNDS at interest			
Not exceeding 3 months		41,211,361.—	6.2
VI—SUNDRY BILLS AND INVEST- MENTS			
1. Treasury Bills	89,215,901.72		13.4
2. Railway and Postal Adminis- tration Bills and Sundry In- vestments	132,828,299.42		19.9
		222,044,201.14	
VII—OTHER ASSETS		9,067,383.07	1.3
		667,525,919.98	100.0

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

2. The French Government Guarantee Fund (Item III (3)—Liabilities) is expressed in the books of the Bank in dollars which were equivalent, at the market rate of March 31, 1934, to 40,903,395.15 Swiss francs at par. The French Government and the Bank have agreed to submit to the decision of an independent third party the question whether the Bank's liability in respect of the Fund is limited to this amount or whether, having regard to the provisions of the Trust Agreement, it should be stated at its original gold value or computed on some other basis. Pending such decision, there is held in suspense and included under Item VI — Miscellaneous, a sum sufficient to make up the maximum amount for which the Bank might be held to be liable.

**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 explanations given to us and as shown by the

BASLE, May 5, 1934.

AS AT MARCH 31, 1934

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.—	18.7
II—RESERVES			
1. Legal Reserve Fund	2,021,691.48		
2. Dividend Reserve Fund	3,894,823.45		
3. General Reserve Fund	7,789,646.89		
		13,706,161.82	2.1
III—LONG TERM DEPOSITS			
1. Annuity Trust Account	153,546,250.—		23.0
2. German Government Deposit	76,773,125.—		11.5
3. French Government Guarantee Fund	40,903,395.15		6.1
		271,222,770.15	
IV—SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	108,125,973.66		16.2
(b) Sight	42,608,682.07		6.4
2. Central Banks for the account of others:		150,734,655.73	
Sight		9,417,830.74	1.4
3. Other depositors:			
Sight		1,071,194.66	0.2
V—SIGHT DEPOSITS (Gold)		28,176,330.05	4.2
VI—MISCELLANEOUS		55,189,904.01	8.3
VII—SURPLUS			
Profit for the financial year ended March 31, 1934		13,007,072.82	1.9
		667,525,919.98	100.0

of the Bank for the financial year ending March 31, 1934, and we report that we have obtained all the information with the Notes, 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, 1934

	<u>Swiss francs at par</u>
Net Income from the use of the Bank's capital and the deposits entrusted to it, after necessary allowance for contingencies	16,320,646.98
 Commissions earned:—	
As Trustee (or Fiscal Agent to Trustees) for International Loans	281,286.84
In connection with special credits	53,581.73
Transfer fees	<u>564.88</u>
	16,656,080.43
 Costs of Administration:—	
Board of Directors — fees and travelling expenses	290,848.54
Executives and staff — salaries and travelling expenses	2,677,659.54
Rent, insurance, heating, light and water	223,344.31
Consumable office supplies, books, publications	93,408.46
Telephone, telegraph and postage	98,400.58
Experts' fees (Auditors, interpreters, etc.)	30,165.39
Cantonal taxation	49,798.38
Tax on French issue of Bank's shares	27,989.13
Miscellaneous	<u>57,393.28</u>
3,549,007.61	
Provision for indemnities to and repatriation of staff	<u>100,000.—</u>
Expenditure	<u>3,649,007.61</u>
NET PROFIT:—	<u>13,007,072.82</u>

APPROPRIATION ACCOUNT

	<u>Swiss francs at par</u>
NET PROFIT FOR THE FINANCIAL YEAR ENDED MARCH 31, 1934	13,007,072.82
Applied in accordance with Article 53 (a) (b) (c) and (d) of the Statutes, as follows:—	
To the Legal Reserve Fund — 5 % of 13,007,072.82	650,353.64
	12,356,719.18
Dividend at the rate of 6 % per annum on paid-up capital	7,500,000.—
	4,856,719.18
To the Dividend Reserve Fund — 20 % of 4,856,719.18	971,343.84
	3,885,375.34
To the General Reserve Fund — 50 % of 3,885,375.34	1,942,687.67
Remainder	1,942,687.67
Distributed in accordance with Article 53 (e) (1) of the Statutes, as follows:—	
	<u>Swiss francs at par</u>
French Government Guarantee Fund in accordance with Article XIII of the Trust Agreement — allocated on the basis of the average gold equivalent of the amount at which the Fund stood in the Bank's books during the year	339,388.27
German Government non-interest-bearing deposit in accordance with Article IX of the Trust Agreement	499,446.03
Creditor Government minimum deposits in accordance with Article IV (e) of the Trust Agreement:—	
France	543,696.94
Great Britain	212,464.34
Italy	110,976.91
Belgium	60,033.41
Rumania	10,488.36
Yugoslavia	43,651.58
Greece	3,596.01
Portugal	6,892.36
Japan	6,892.36
Poland	199.78
	998,892.05
Remainder of the amount available for distribution among the above mentioned deposits, the allocation of which cannot be effected until the amount of the Bank's liability in respect of the French Government Guarantee Fund has been determined	104,961.32
	1,942,687.67

FISCAL AGENT OF THE TRUSTEES FOR

Statement of Receipts and Payments for the Ninth

Receipts

	American Issue \$	British Issue £	French Issue £
1. BANK BALANCES as at October 16, 1932	2,237,445.39	446,612.11. 1	63,415. 9.11
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—			
Interest coupons	4,619,064.13	672,104. 9. 4	167,730. 9. 6
Bond redemption	4,620,000.—	327,886.11. 4	81,971.10.—
Expenses	14,782.94	1,778. 1.10	443. 9.11
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	14,289.39	1,256.15. 8	288.11.11
	11,505,581.85	1,449,638. 9. 3	313,849.11. 3

Payments

1. INTEREST			
Matured coupons paid and accrued interest paid on bonds purchased for redemption	3,799,954.71	691,120. 9. 5	127,508. 7.—
2. REDEMPTION			
Drawn bonds reimbursed (after adjustment in respect of detached unmatured coupons)	—	3.10.—	21.—.—
Bonds purchased for redemption	4,626,465.50	355,039.17.10	81,250. 9. 7
3. EXPENSES			
Commission and expenses of Paying Agents and Fiscal Agent and fees and expenses of Trustees	29,299.46	2,837. 3. 2	791.18. 3
4. BANK BALANCES as at October 15, 1933, held in respect of the items shown on Annex Vb	3,049,862.18	400,637. 8.10	104,277.16. 5
	11,505,581.85	1,449,638. 9. 3	313,849.11. 3

NOTE— Pursuant to the terms of the definitive bond of the American Tranche of the German External Loan 1924, the of the standard of weight and fineness existing on October 15, 1924". In May 1933, however, the German Govern- America had taken the position that obligations expressed in dollars and containing a gold clause are payable ment that the service of the German External Loan 1924 should also be effected on that basis. The German Govern- only sufficient funds to effect the service of the Loan at its nominal value in current legal tender and the above- As no authoritative legal interpretation has been given as to the rights of Bondholders under bonds issued to have recourse to the collateral security, which is constituted in Reichsmarks, but they have notified the German definitive bond and that they reserve all the rights of the Bondholders.

AUDITORS'

We have audited the Books and Accounts of the Fiscal Agent of the Trustees for the German of Receipts and Disbursements is correctly prepared therefrom and together with the Note properly sets the existence of the funds on hand at October 15, 1933 which are held for the purposes set forth in Annex Vb.

BASLE, January 9, 1934.

THE GERMAN EXTERNAL LOAN 1924

Loan Year (October 16, 1932 to October 15, 1933)

Belgian Issue £	Dutch Issue £	German Issue £	Swiss Issue £	Swiss Issue Sw. Fr.	Italian Issue Lire	Swedish Issue Sw. Cr.	General Expenses
21,468. 2.—	49,109.—.11	2,659. 4. 2	83,191.10. 1	539,175.20	3,626,841.94	189,097.20	—
84,095. 9. 9	139,974. 9. 4	17,891. 3. 4	134,151.15.—	845,448.42	5,666,236.64	1,462,194.82	—
40,985.18.—	68,309.13. 4	8,743.13. 2	64,484. 7. 4	409,858.20	2,732,333.35	688,916.65	—
222. 8. 6	370. 4. 6	—	351.17.—	3,330.75	14,891.50	3,788.30	{£ 110.—.— {Sw. Fr. 101,006.21
157. 9. 8	232. 5. 8	18. 2.11	226.19. 7	1,445.70	10,122.87	8,352.87	—
146,929. 7.11	257,995.13. 9	29,312. 3. 7	282,406. 9.—	1,799,258.27	12,050,426.30	2,352,349.84	{£ 110.—.— {Sw. Fr. 101,006.21

52,001. 4. 3	104,480. 5. 5	9,188.17. 7	137,242. 8.—	861,786.20	5,782,064.20	738,955.—	—
—	—	—	—	—	1,972.50	—	—
40,875.—. 9	68,334. 8. 1	8,683.15. 8	64,460.18. 8	409,660.—	2,655,714.—	—	—
387. 5. 8	900.18.—	9. 6. 1	580. 2. 7	5,128.87	23,932.65	4,551.03	{£ 110.—.— {Sw. Fr. 101,006.21
53,865.17. 3	84,280. 2. 3	11,430. 4. 3	80,122.19. 9	522,683.20	3,586,742.95	1,608,843.81	—
146,929. 7.11	257,995.13. 9	29,312. 3. 7	282,406. 9.—	1,799,258.27	12,050,426.30	2,352,349.84	{£ 110.—.— {Sw. Fr. 101,006.21

service for interest and Sinking Fund is payable by the German Government "in gold coin of the United States of America" inasmuch as the Government of the United States of America informed the Trustees, through their Fiscal Agent, that inasmuch as the Government of the United States of America at their nominal value in current legal tender without regard to such clause, it was the opinion of the German Government has, therefore, in respect of the monthly service instalment for May 1933, and for subsequent months, provided mentioned provision for the payment of gold coin has not been implemented.

in the United States of America containing a gold coin clause, the Trustees have not considered it expedient to seek Government that the method of payment adopted does not appear to them to correspond to the strict terms of the

CERTIFICATE

External Loan 1924 for the ninth Loan Year ending October 15, 1933 and certify that the above Statement set forth the transactions for this period. We have also verified, by means of certificates from the depositaries,

PRICE, WATERHOUSE & Co.
Chartered Accountants.

FISCAL AGENT OF THE TRUSTEES FOR

Statement of Funds in the hands of

	American Issue \$	British Issue £
The Bank Balances as at October 15, 1933 were held in respect of:—		
1. Unpresented matured interest coupons and drawn bonds:—		
Interest coupons	2,252,596.50	333,040. 6. 3
Drawn bonds, including detached unmatured coupons	2,691.50	—
2. Expenses accrued to October 15, 1933, but not claimed until thereafter	5,745.50	836.19. 2
3. Instalments in respect of the tenth Loan year received from the German Government in advance of maturities, less payments therefrom for bonds purchased on the market	604,413.83	55,486.15. 9
Funds on hand for the liquidation of accrued or accruing liabilities	2,865,447.33	389,364. 1. 2
4. Bond redemption account	589.—	42.19. 7
5. Other funds on hand	183,825.85	11,230. 8. 1
Total balances on hand as per Statement of Receipts and Payments — Annex Va	3,049,862.18	400,637. 8.10

Statement of Bonds outstanding

Nominal value of bonds issued	110,000,000	12,000,000
Less: Nominal value of bonds redeemed, drawn for redemption or cancelled during:—		
1. First eight Loan years	39,611,400	2,111,900
2. Ninth Loan year:—		
(a) From bond redemption instalments applicable to the ninth year	6,367,000	402,600
(b) From bond redemption instalments applicable to the tenth year received in advance	230,000	39,000
Nominal value of bonds outstanding as at October 15, 1933 (see note below)	63,791,600	9,446,500

NOTE: When drawn for redemption, bonds

THE GERMAN EXTERNAL LOAN 1924

Depositaries as at October 15, 1933

French Issue £	Belgian Issue £	Dutch Issue £	German Issue £	Swiss Issue £	Swiss Issue Sw. Fr.	Italian Issue Lire	Swedish Issue Sw. Cr.
84,805.10.—	41,702.10.—	70,224.—.—	8,834.—.—	66,902.10.—	435,890.—	2,912,332.50	738,955.—
52.10.—	3.10.—	—	—	3.10.—	1,105.—	3,445.—	685,000.—
212.—. 4	105.10.10	186.12.—	—	167. 4. 7	1,091.38	7,798.02	—
16,343.13. 3	10,585. 5.—	11,556.12.10	2,247. 9. 1	11,012. 5. 1	70,349.75	578,912.—	180,538.35
101,413.13. 7	52,396.15.10	81,967. 4.10	11,081. 9. 1	78,085. 9. 8	508,436.13	3,502,487.52	1,604,493.35
5. 4.—	81. 1.11	19. 5. 2	47.19. 8	70. 3. 7	221.10	76.—	—
2,858.18.10	1,387.19. 6	2,293.12. 3	300.15. 6	1,967. 6. 6	14,025.97	84,179.43	4,350.46
104,277.16. 5	53,865.17. 3	84,280. 2. 3	11,430. 4. 3	80,122.19. 9	522,683.20	3,586,742.95	1,608,843.81

as at October 15, 1933

3,000,000	1,500,000	2,500,000	360,000	2,360,000	15,000,000	100,000,000	25,200,000
540,900	263,000	448,200	96,800	407,100	2,633,000	17,354,000	4,087,000
96,600	49,000	78,900	10,800	72,000	441,000	2,727,000	685,000
6,400	—	8,000	—	7,400	40,000	137,500	—
2,356,100	1,188,000	1,964,900	252,400	1,873,500	11,886,000	79,781,500	20,428,000

of the American Issue are repayable at 105%.

FISCAL AGENT OF THE TRUSTEES FOR

Interim Statement of Receipts and Payments

Nominal amount originally issued	
Nominal amount outstanding as at April 15, 1934	
RECEIPTS	
1. BANK BALANCES as at October 16, 1933	
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—	
Interest coupons	
Bond redemption	
Expenses	
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	
PAYMENTS	
1. INTEREST	
Matured coupons paid and accrued interest paid on bonds purchased for redemption	
2. REDEMPTION	
Drawn bonds reimbursed (after adjustment in respect of detached unmatured coupons)	
Bonds purchased for redemption	
3. EXPENSES	
Commission and expenses of Paying Agents and Fiscal Agent and fees and expenses of Trustees.	
4. BANK BALANCES as at April 15, 1934 in respect of:—	
Interest coupons	
Bond redemption	
Matured coupons unrepresented	
Drawn bonds unrepresented including detached unmatured coupons	
Miscellaneous items	

THE GERMAN EXTERNAL LOAN 1924

for the half-year ended April 15, 1934

Dollars	Sterling	Swiss Francs	Lire	Swedish Crowns
110,000,000.— 60,844,300.—	21,720,000.—.— 16,716,600.—.—	15,000,000.— 11,647,000.—	100,000,000.— 78,259,000.—	25,200,000.— 20,428,000.—
3,049,862.18	734,614. 8. 9	522,683.20	3,586,742.95	1,608,843.81
2,058,322.15	580,248.19. 4	403,604.03	2,714,454.57	711,004.54
2,310,000.—	315,086. 2. 6	218,002.50	1,453,250.—	366,000.—
6,960.—	1,555.—.—	51,847.95	7,345.—	1,875.—
1,907.64	1,323. 2. 5	697.60	4,875.37	1,775.65
7,427,051.97	1,632,827.13.—	1,196,835.28	7,766,667.89	2,689,499.—
2,268,226.34	603,985.17. 9	419,820.70	2,784,300.65	738,955.—
2,100.—	—	—	1,000.—	685,000.—
2,300,838.13	314,844. 4.—	217,730.—	1,459,123.50	—
13,174.47	2,759.13. 6	52,617.88	13,175.05	1,787.45
373,459.33	99,996. 3. 4	69,568.35	466,194.15	119,163.35
239,888.37	7,561.11. 5	1,177.35	105,635.85	427,000.—
2,163,794.50	593,877.17. 6	428,015.—	2,894,937.50	714,980.—
591.50	59.10.—	1,105.—	2,445.—	—
64,979.33	9,742.15. 6	6,801.—	39,856.19	2,613.20
7,427,051.97	1,632,827.13.—	1,196,835.28	7,766,667.89	2,689,499.—

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

	Reichsmarks	Dollars
1. BANK BALANCES as at June 2, 1932	558,526.84	1,115,607.85
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—		
Interest coupons	1,863,817.74	8,474,035.21
Adjustments effected between Paying Agents for the value of coupons paid in currencies other than the currency of issue	211,575.82	— 140,649.24
Bond redemption	428,182.98	2,099,510.45
Expenses	4,956.04	21,865.09
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	14,084.60	22,963.72
4. CURRENCY CONVERSIONS (NET) effected to provide currencies required for the service of the respective issues	—	— 4,208,403.39
	3,081,144.02	7,384,929.69

Payments

	German	American
1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,960,179.55	4,775,830.28
Adjustments required between Paying Agents for the value of coupons paid in currencies other than the currency of issue	154,372.60	27,717.24
2. REDEMPTION		
Bonds purchased for redemption	428,164.96	1,171,650.—
3. EXPENSES		
Commission and expenses of Paying Agents	6,354.56	20,273.82
Commission of Trustee	—	—
4. BANK BALANCES as at June 1, 1933, held in respect of the items shown on Annex VIIIb	532,072.35	1,389,458.35
	3,081,144.02	7,384,929.69

NOTE—Under the terms of the General Bond securing the Loan, the service (Interest and Sinking Fund) is payable by eleven monthly instalments received on the 15th of each month from June 1932 to April 1933 inclusive were sufficient redemption of bonds by purchases in the market and that applicable to the interest coupons maturing on December 1, In regard to the twelfth monthly service instalment, i. e. that maturing on May 15, 1933, the German Government (taken collectively) then on hand, and available for the June 1933 coupons, to a sum sufficient to pay these coupons of the Issues on a gold currency basis and for the remaining three Issues on a depreciated currency basis. The which appertain to the Issues in countries not on a Gold or Gold Exchange Standard (viz: America, Great Britain security, which is constituted in Reichsmarks and covers only two-thirds of the service of the Loan, was imprac-

AUDITORS'

We have audited the Books and Accounts of the Trustee for the German Government International and Disbursements is correctly prepared therefrom and together with the Note properly sets forth the obtained from the depositaries.

BASLE, August 26, 1933.

INTERNATIONAL 5½% LOAN 1930

Loan Year (June 2, 1932 to June 1, 1933)

CURRENCIES						
Belgas	French Francs	Sterling	Florins	Lire	Swedish Crowns	Swiss Francs
959,837.99	59,372,668.62	419,129.17.10	855,284.87	2,999,461.75	4,124,675.38	2,502,246.93
1,809,063.70	139,267,379.05	45,464. 5.10	3,746,703.47	5,740,870.21	484,050.44	4,751,307.17
— 109,886.49	152,710.82	— 174. 6.—	— 232,036.59	— 26,719.—	—	1,006,557.10
421,188.71	31,967,231.66	12,260.12.11	903,779.39	1,308,002.30	111,553.20	1,117,874.94
4,450.20	528,216.19	146.13. 6	11,302.72	19,641.20	1,349.74	210,895.85
1,395.47	502,560.89	31. 4. 3	5,631.55	9,003.42	13.84	70.22
—	— 10,486,246.49	886,787. 3.10	—	—	8,540,641.31	—
3,086,049.58	221,304,520.74	1,363,645.12. 2	5,290,665.41	10,050,259.88	13,262,283.91	9,588,952.21

ISSUES AND RELATIVE CURRENCIES						
Belgian	French	British	Dutch	Italian	Swedish	Swiss
1,847,620.08	124,403,356.61	897,963.13. 8	3,497,996.07	5,842,403.55	9,362,323.88	4,844,908.35
— 111,759.60	157,291.—	— 45,072. 4. 7	— 183,259.21	— 26,719.—	— 111,017.05	1,006,763.20
425,230.57	29,770,936.39	202,266. 8.—	903,759.98	1,307,752.—	1,916,196.03	1,123,094.50
7,581.61	698,776.50	2,887.10.10	15,025.26	27,777.95	27,463.99	20,767.04
—	—	—	—	—	—	194,989.42
917,376.92	66,274,160.24	305,600. 4. 3	1,057,143.31	2,899,045.38	2,067,317.06	2,398,429.70
3,086,049.58	221,304,520.74	1,363,645.12. 2	5,290,665.41	10,050,259.88	13,262,283.91	9,588,952.21

the German Government in equal monthly instalments on a "gold basis" (Articles VIII and VI respectively). The first to provide for the service on this basis, the proportion applicable to the Sinking Fund being currently expended in the 1932 being appropriated for the payment thereof on a gold basis.

ment paid to the Trustee only such amounts as were required (1) to augment the combined coupon funds of all Issues at their nominal value in the currencies of issue and (2) to meet the twelfth monthly Sinking Fund instalment for six gold clause (Article VI) in respect of that part of the May Sinking Fund instalment and the June coupon payments and Sweden) could therefore not be implemented and recourse, for the fulfilment of this obligation, to the collateral tificable.

CERTIFICATE

5½% Loan 1930 for the third fiscal year ending June 1, 1933 and certify that the above Statement of Receipts transactions for the year. We have also verified the bank balances on hand at June 1, 1933 by certificates

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE GERMAN GOVERNMENT

Statement of Funds in the hands of

	Currency	
	German	American
The Bank Balances as at June 1, 1933 were held in respect of:—		
1. Unpresented matured coupons	523,608.25	1,340,297.75
2. Expenses accrued to June 1, 1933, but not claimed until thereafter	1,309.22	6,545.50
3. Adjustments not yet effected between Paying Agents in respect of the payment of coupons in currencies other than the currency of issue	833.43	303.26
Funds on hand for the liquidation of accrued or accruing liabilities	525,750.90	1,347,146.51
4. Bond redemption account	34.32	36,740.09
5. Other funds on hand	6,287.13	5,571.75
6. Amounts required out of future service instalment in respect of accrued expenses	—	—
Total balances on hand as per Statement of Receipts and Payments— Annex VIIa	532,072.35	1,389,458.35

Statement of Bonds outstanding

Nominal value of bonds issued	36,000,000	98,250,000
Less: Nominal value of bonds redeemed during:—		
1. First two Loan years	1,256,100	4,144,000
2. Third Loan year	590,600	2,458,000
Nominal value of bonds outstanding as at June 1, 1933	34,153,300	91,648,000

INTERNATIONAL 5 1/2% LOAN 1930

Depositaries as at June 1, 1933

ISSUES AND RELATIVE CURRENCIES						
Belgian	French	British	Dutch	Italian	Swedish	Swiss
914,881.—	65,758,825.—	309,407. 3. 2	1,037,544.75	2,879,800.—	1,996,065.50	2,393,242.50
2,353.89	241,406.07	780. 6.—	4,671.30	10,491.48	8,685.05	5,984.07
782.77	3,024.85	—4,628.11. 2	11,802.47	6,210.—	57,287.86	— 241.53
918,017.66	66,003,255.92	305,558.18.—	1,054,018.52	2,896,501.48	2,062,038.41	2,398,985.04
455.97	251.99	25.15. 7	31.66	254.12	462.26	673.60
—	270,652.33	15.10. 8	3,093.13	2,289.78	4,816.39	—
— 1,096.71	—	—	—	—	—	— 1,228.94
917,376.92	66,274,160.24	305,600. 4. 3	1,057,143.31	2,899,045.38	2,067,317.06	2,398,429.70

as at June 1, 1933

35,000,000	2,515,000,000	12,000,000	73,000,000	110,000,000	110,000,000	92,000,000
1,370,900	85,163,000	498,700	3,192,900	3,832,000	4,389,000	3,685,000
895,200	54,875,000	301,200	1,979,100	2,068,000	2,838,000	2,248,000
32,733,900	2,374,962,000	11,200,100	67,828,000	104,100,000	102,773,000	86,067,000

TRUSTEE FOR THE GERMAN GOVERNMENT

Interim Statement of Receipts and Payments for

	Reichsmarks	Dollars
Nominal amount originally issued	36,000,000.—	98,250,000.—
Nominal amount outstanding as at December 1, 1933	34,104,200.—	91,305,600.—
RECEIPTS		
1. BANK BALANCES as at June 2, 1933	532,072.35	1,389,458.35
2. RECEIVED FROM THE GERMAN GOVERNMENT in respect of:—		
Interest coupons	1,094,174.74	2,491,175.47
Bond redemption	38,388.80	111,928.91
Expenses	2,598.37	8,048.61
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	6,315.17	1,777.79
	1,673,549.43	4,002,389.13
PAYMENTS		
1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,058,828.03	2,318,096.93
2. REDEMPTION		
Bonds purchased for redemption	38,345.50	148,643.25
3. EXPENSES		
Commission and expenses of Paying Agents and Commission of Trustee	2,740.33	8,009.05
4. BANK BALANCES as at December 1, 1933, in respect of:—		
Bond redemption	77.62	25.75
Matured coupons unrepresented	564,500.37	1,511,197.25
Miscellaneous items	9,057.58	16,416.90
	1,673,549.43	4,002,389.13

INTERNATIONAL 5½% Loan 1930

the half-year ended December 1, 1933

Belgas	French Francs	Sterling	Florins	Lire	Swedish Crowns	Swiss Francs
35,000,000.—	2,515,000,000.—	12,000,000.—	73,000,000.—	110,000,000.—	110,000,000.—	92,000,000.—
32,636,800.—	2,368,970,000.—	11,174,300.—	67,617,400.—	103,903,000.—	102,487,000.—	85,827,000.—
917,376.92	66,274,160.24	305,600. 4. 3	1,057,143.31	2,899,045.38	2,067,317.06	2,398,429.70
895,216.57	65,291,465.73	309,624.16. 1	1,672,328.86	2,850,491.47	2,564,398.61	2,818,247.55
39,479.80	2,732,419.90	13,641. 2. 9	84,385.80	118,478.50	124,560.60	103,667.40
3,857.74	293,281.77	860.16. 5	4,821.42	9,742.32	7,357.23	85,452.57
5.74	203,301.90	276.13. 1	5,241.92	3,668.39	49.99	7,100.36
1,855,936.77	134,794,629.54	630,003.12. 7	2,823,921.31	5,881,426.06	4,763,683.49	5,412,897.58
896,978.92	65,495,725.68	324,554. 5. 6	1,753,143.29	2,825,092.05	1,388,809.48	3,170,394.70
39,746.71	2,732,056.96	13,638. 2.11	84,412.68	118,706.—	124,476.25	103,850.—
2,747.04	261,581.30	875.12. 3	4,936.06	11,935.70	6,904.19	84,319.77
189.06	614.93	28.15. 5	4.78	26.62	546.61	491.—
911,728.48	65,703,968.81	289,260.—. 3	966,427.—	2,907,327.50	3,226,589.30	2,035,332.05
4,546.56	600,681.86	1,646.16. 3	14,997.50	18,338.19	16,357.66	18,510.06
1,855,936.77	134,794,629.54	630,003.12. 7	2,823,921.31	5,881,426.06	4,763,683.49	5,412,897.58

TRUSTEE FOR THE AUSTRIAN

Statement of Receipts and Payments

Receipts

	American Issue \$	British and Dutch Issues £
1. BANK BALANCES as at July 1, 1932	866,483.16	121,485. 7. 7
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT in respect of:		
Interest coupons	1,644,453.—	230,777.—.—
Bond redemption	—	—
Expenses	1,573.50	561.10.—
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	65.94	17.19. 6
4. FUNDS TRANSFERRED from British, Dutch and Swiss Issues to meet fees and expenses of Trustee (see below)	—	—
	2,512,575.60	352,841.17. 1

Payments

1. INTEREST		
Matured coupons paid and accrued interest paid on bonds purchased for redemption	1,656,953.28	232,050.—.—
2. REDEMPTION		
Drawn bonds reimbursed	—	—
Bonds purchased for redemption	160.—	—
3. EXPENSES		
Commission and expenses of Paying Agents and fees and expenses of Trustee	4,636.32	1,183. 8. 4
4. FUNDS TRANSFERRED to meet fees and expenses of Trustee .	—	300.—.—
5. BANK BALANCES as at June 30, 1933, held in respect of the items shown on Annex IXb	850,826.—	119,308. 8. 9
	2,512,575.60	352,841.17. 1

NOTE—The Sinking Fund instalments due during the third Loan Year for the Austrian Issue of the Loan corresponding instalments for the remaining Issues were not, however, received by the Trustee. The coupon due on January 1, 1933, the Austrian Government did not provide the sums necessary to give necessary supplementary funds to the Trustee on the coupon due date, i. e. after the closing date of the the Austrian Government has not provided the sums necessary to give effect to this clause in respect

AUDITORS'

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

BASLE, August 26, 1933.

GOVERNMENT INTERNATIONAL LOAN 1930

for the Third Loan Year (July 1, 1932 to June 30, 1933)

Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.	General Expenses	
				£	Sw. Fr.
3,485,358.69	509,386.39	886,894.81	1,787,651.78	—	—
6,669,230.—	681,355.—	1,676,430.—	3,313,628.92	—	—
—	—	—	883,160.—	—	—
16,385.—	500.—	4,185.—	14,515.65	—	13,998.48
308.03	1,609.29	32.50	25,707.35	—	—
—	—	—	—	300.—.—	14,516.—
10,171,281.72	1,192,850.68	2,567,542.31	6,024,663.70	300.—.—	28,514.48

6,709,974.25	689,710.—	1,664,635.—	3,355,487.38	—	—
—	157,590.—	—	—	—	—
—	—	—	840,234.—	—	—
37,054.05	3,723.86	8,381.51	19,127.05	300.—.—	28,514.48
—	—	14,516.—	—	—	—
3,424,253.42	341,826.82	880,009.80	1,809,815.27	—	—
10,171,281.72	1,192,850.68	2,567,542.31	6,024,663.70	300.—.—	28,514.48

were received and applied to the redemption of bonds through market purchases in regular course; the definitive bond of the Austrian Issue of the Loan contains a "gold value" clause, but up to and including effect to this clause. With regard, however, to the coupon due on July 1, 1933, the Government furnished the above statement. The definitive bond of the American Issue of the Loan contains a "gold coin" clause but of the coupon due on July 1, 1933.

CERTIFICATE

Loan 1930 for the third fiscal year ending June 30, 1933 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, 1933

PRICE, WATERHOUSE & Co.
Chartered Accountants.

TRUSTEE FOR THE AUSTRIAN

Statement of Funds in the hands

The Bank Balances as at June 30, 1933 were held in respect of:—

1. (a) Unpresented matured coupons	
(b) Interest coupons maturing on July 1, 1933	
2. Expenses accrued to June 30, 1933, 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	
Total balances on hand as per Statement of Receipts and Payments — Annex IXa	

Statement of Bonds outstanding

Nominal value of bonds issued	
Less: Nominal value of bonds redeemed during:—	
1. First two Loan years	
2. Third Loan year	
Nominal value of bonds outstanding as at June 30, 1933 (see note below)	

NOTE: When drawn for redemption,

GOVERNMENT INTERNATIONAL LOAN 1930

of Depositaries as at June 30, 1933

American Issue \$	British and Dutch Issues £	Italian Issue Lire	Swedish Issue Sw. Cr.	Swiss Issue Sw. Fr.	Austrian Issue Sch.
15,956.50	2,613. 5. 5	46,380.25	—	37,030.—	67,392.50
832,226.50	116,588.10.—	3,359,615.—	339,500.—	838,215.—	1,649,501.—
2,288.78	—.—. 2	17,064.65	1,697.60	4,376.84	8,273.57
850,471.78	119,201.15. 7	3,423,059.90	341,197.60	879,621.84	1,725,167.07
30.58	7. 6. 7	39.70	85.—	250.75	42,956.70
323.64	99. 6. 7	1,153.82	544.22	137.21	41,691.50
850,826.—	119,308. 8. 9	3,424,253.42	341,826.82	880,009.80	1,809,815.27

as at June 30, 1933

25,000,000	3,500,000	100,000,000	10,000,000	25,000,000	50,000,000
1,221,700 400	168,900 —	4,011,000 —	147,000 153,000	1,051,000 —	1,763,000 1,108,400
23,777,900	3,331,100	95,989,000	9,700,000	23,949,000	47,128,600

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, 1933	22,968,700.—
RECEIPTS	
1. BANK BALANCES as at July 1, 1933	850,826.—
2. RECEIVED FROM THE AUSTRIAN GOVERNMENT in respect of:—	
Interest coupons	815,804.52
Bond redemption:	
Cash	498.30
Bonds of the Loan accepted at a valuation of	712,716.20
Expenses	2,346.—
3. INTEREST RECEIVED on cash employed pending application to service of the Loan	758.53
	2,382,949.55
PAYMENTS	
1. INTEREST	
Matured coupons paid and accrued interest paid on bonds purchased for redemption	833,085.54
2. REDEMPTION	
Bonds purchased for redemption	220.—
Bonds ceded by the Austrian Government for cancellation	712,716.20
3. EXPENSES	
Commission and expenses of Paying Agents and fees and expenses of Trustee	2,473.97
4. BANK BALANCES as at December 31, 1933, in respect of:—	
Interest coupons maturing on January 1, 1934	803,904.50
Bonds drawn for payment on January 1, 1934	—
Matured coupons unrepresented	20,328.—
Bond redemption	308.88
Miscellaneous items	9,912.46
	2,382,949.55

GOVERNMENT INTERNATIONAL LOAN 1930

Payments for the half-year ended December 31, 1933

Sterling	Lire	Swedish Crowns	Swiss Francs	Schillings
3,500,000.—.— 3,221,800.—.—	100,000,000.— 93,049,000.—	10,000,000.— 9,700,000.—	25,000,000.— 23,169,000.—	50,000,000.— 46,426,700.—
119,308. 8. 9	3,424,253.42	341,826.82	880,009.80	1,809,815.27
114,296.—.—	3,295,985.10	339,500.—	822,185.10	2,526,385.90
590.13. 4	282,307.80	254,100.—	65,499.16	614,878.86
99,026. 6. 8	2,481,562.—	—	630,705.74	—
763.16.—	18,822.—	1,803.—	14,716.—	9,113.59
145. 4. 7	4,476.73	1,944.63	753.15	13,884.20
334,130. 9. 4	9,507,407.05	939,174.45	2,413,868.95	4,974,077.82
118,233. 3.11	3,383,864.03	339,500.—	858,659.63	2,150,272.24
588. 3. 9	279,625.—	—	65,097.40	657,810.50
99,026. 6. 8	2,481,562.—	—	630,705.74	—
863. 9. 1	18,924.45	1,697.50	14,627.25	12,300.15
112,763.—.—	3,256,715.—	339,500.—	810,915.—	2,079,916.16
—	—	166,860.—	—	—
1,643.15. 5	40,115.25	—	21,875.—	43,855.86
9.16. 2	2,722.50	87,325.—	652.51	25.06
1,002.14. 4	43,878.82	4,291.95	11,336.42	29,897.85
334,130. 9. 4	9,507,407.05	939,174.45	2,413,868.95	4,974,077.82

INTERNATIONAL LOANS

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

Funds on hand as at March 31, 1934

	German External Loan 1924	German Govt. International 5½% Loan 1930	Austrian Govt. International Loan 1930	Total
FUNDS HELD IN RESPECT OF:—	Swiss francs at par			
Redemption by purchases on the market when possible or through the next drawing	495,177.07	1,841.33	113,176.75	610,195.15
Interest in respect of the next coupon falling due	17,920,792.27	24,670,950.85	3,734,203.70	46,325,946.82
Drawn bonds not yet presented for re- demption	4,516.01	—	—	4,516.01
Interest coupons due but unrepresented	330,443.24	1,682,902.33	251,006.27	2,264,351.84
Miscellaneous items	37,910.53	307,476.76	37,691.41	383,078.70
TOTAL . .	18,788,839.12	26,663,171.27	4,136,078.13	49,588,088.52

BOARD OF DIRECTORS

Leon Fraser	President and Chairman of the Board.
Prof. Alberto Beneduce, Rome	} Vice-Chairmen.
Dr. L. J. A. Trip, Amsterdam	
Dott. V. Azzolini, Rome.	
Prof. G. Bachmann, Zurich.	
Baron Brincard, Paris.	
Louis Franck, Brussels.	
Emile Francqui, Brussels.	
Gates W. McGarrah, New York	Honorary President.
Clément Moret, Paris.	
Sir Otto Niemeyer, London.	
D. Nohara, London.	
Montagu Collet Norman, London.	
Dr. Paul Reusch, Oberhausen (Rheinland).	
Dr. Hjalmar Schacht, Berlin.	
Curt Freiherr von Schroeder, Cologne.	
S. Shimasuye, London.	
Marquis de Vogüé, Paris.	

Alternates

Pierre Fournier, Paris.
H. A. Siepmann, London.
Dott. Pasquale Troise, Rome.
Dr. Wilhelm Vocke, Berlin.
Paul van Zeeland, Brussels.

EXECUTIVE OFFICERS

Leon Fraser	President.
Pierre Quesnay	General Manager.
Ernst Hülse	Assistant General Manager.
R. H. Porters	Manager.
R. Pilotti	Secretary General.
Marcel van Zeeland	Manager.

May 1, 1934.