

BANK FOR INTERNATIONAL SETTLEMENTS

**INTRODUCTORY NOTE ON
THE BANK FOR INTERNATIONAL SETTLEMENTS
1930 – 1945**

**Basle
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Introductory note on the Bank for International Settlements, 1930 - 1945

1. The Bank for International Settlements, 1930-1945

The Bank for International Settlements (BIS) was established as an international financial institution, enjoying special immunities, pursuant to the Hague Agreements of 20th January 1930. The founder shareholding members were the central banks of Belgium, France, Germany, Italy, Japan, the United Kingdom and the United States (the Federal Reserve did not take up its rights as founder member until 1994). Within two years of its founding, nineteen other European central banks had subscribed to the Bank's capital. The Bank opened its doors in Basle, Switzerland on 17th May 1930. Its main objects were the following:

- 1- to act as trustee or agent in regard to international financial settlements**, particularly in regard to German reparations under the so-called Young Plan adopted at the 1930 Hague Conference
- 2- to promote central bank cooperation**
- 3- to provide additional facilities for international financial operations.**

During the 1930s the BIS developed its activities along these three lines. Before long, however, the Bank's functions in regard to German reparations were interrupted. The international financial crisis of 1931, coming on top of the world depression, led first to a partial (Hoover Moratorium, 1931) and soon to a complete suspension of German reparation payments (Lausanne Agreement, 1932). The service of most of the external loans contracted to help finance these reparations (Dawes Loan 1924 and Young Loan 1930) was unilaterally interrupted by Germany in 1934. By then the only element of reparation payments which continued was the regular service of interest on investments made by the BIS in Reichsmarks. These investments had initially been made in the early 1930s in execution of the Young Plan and amounted to 294 million Swiss gold francs in September 1939, representing over 50% of the BIS's total assets at that time.¹

The end of the BIS's trustee and agent functions under the Young Plan meant that the Bank's main activities in the years preceding the Second World War centred on the promotion of central bank cooperation and on providing banking facilities to its members. Central bank cooperation was fostered through the organisation at the BIS of monthly meetings of the central bank Governors represented on the BIS Board of Directors. At the same time, the Bank offered its members a wide variety of banking services. In accordance with its Statutes, the Bank was

¹ For the first six years of its existence the Bank published its accounts in "Swiss francs at par". In September 1936 the Swiss franc's gold parity was suspended but the Bank, mindful of the gold basis of its capital, retained the gold parity. From that point on, the balance-sheet unit was described as "Swiss gold francs (units of 0.29032258... grammes fine gold)". In 1939 US \$ 1 was equivalent to approximately 3.06 Swiss gold francs.

authorised to accept deposits in gold and currencies from central banks; to buy and sell gold and currencies; to buy and sell a wide range of readily marketable securities; to make advances to or place deposits with central banks. The Bank was also authorised to deal with commercial banks and international institutions but not to make advances to governments or open current accounts in their name or to accept deposits from individuals. The BIS's Statutes specifically stipulated that all the Bank's operations had to be in conformity with the monetary policies of the central banks whose currencies or markets were concerned. In practice the Bank's liabilities and assets tended to be of a very short-term nature.

The BIS's main banking activities were the following:

- **manage and invest the Bank's resources:** these fell from 606.5 million Swiss gold francs on 31st March 1939 to 509 million Swiss gold francs in September 1939 and 470 million on 31st March 1940, to remain more or less at this level for the rest of the war. In connection with the Young Plan, a substantial proportion of these resources had been invested in the German market before the war (representing 294 million Swiss gold francs in September 1939). Other important markets in which the BIS invested its resources included the United States, Italy, France, Hungary, Belgium and Switzerland.

- **receive interest on these investments and, conversely, pay interest to the central banks** on their deposits with the BIS.

- **grant monetary and commercial credits to central banks:** substantial monetary credits were granted during the 1931 financial crisis, after which this practice was discontinued. Commercial credits were granted for the purpose of prefinancing harvests and exports. Operations of this type were important during the years 1937-1938, when the total amount invested regularly exceeded 40 million Swiss gold francs. This figure had fallen to 2.9 million gold francs by the end of 1939, and shrank further to an insignificant level during the war.

- **undertake foreign exchange operations:** before the war the BIS undertook numerous foreign exchange operations for its member central banks. These operations reached a peak in the financial year April 1938-March 1939 with a total turnover of 444 million Swiss gold francs. Afterwards the annual turnover of foreign exchange operations declined rapidly: from 348 million Swiss gold francs in 1939-1940 to 39 million in 1941-1942 and 4 million in 1943-1944. Forward transactions were discontinued as from 2nd September 1939.

- **undertake gold transactions:** gold transactions undertaken by the BIS on behalf of its members as well as for its own account became very important during the second half of the 1930s. Several central banks deposited gold with the BIS at different locations, both as "earmarked" gold and on

gold sight accounts² (it should be stressed that the BIS at its offices in Basle did not have - and still does not have - facilities of its own for storing and handling gold). These central bank deposits allowed the BIS to carry out numerous gold transactions for its customers, namely sales, purchases, exchanges and transports of gold in and between the various gold markets. While many gold claims and gold obligations of the different central banks were simply offset in the BIS's books, the Bank, on numerous occasions, also organised the physical transport of gold from one depository to another. Thus, in the financial year 1936-1937 alone, nearly 100 tonnes of gold were either exchanged or transported between markets by the BIS. From late 1938, against the background of the growing threat of war, the BIS was instrumental in shipping large amounts of gold from the European continent to New York. From October 1938 to June 1940 the BIS transported approximately 130 tonnes of gold to New York on behalf of the central banks of Belgium, Estonia, France, the Netherlands, Norway, Poland, Switzerland and the United Kingdom. After May-June 1940 the number and importance of the gold transports organised by the BIS declined rapidly.

- **settle international postal payments:** in 1938, at the request of the World Postal Union, the BIS began to operate a system for the bilateral settlement of international postal payments through the gold sight accounts held with the Bank by the central banks of the countries participating in the World Postal Union. By the beginning of 1939 eight central banks, including the German Reichsbank were participating in this new system, resulting in monthly transfers of hundreds of kilogrammes of gold between their gold sight accounts held with the BIS. During the war the importance of these operations diminished gradually.

- **make dividend payments:** finally, every year the BIS paid a 6% dividend to its shareholders. On the basis of 200,000 issued shares, each of 2,500 Swiss gold francs of which 25% was paid up, this amounted to an annual dividend payment of 37.5 Swiss gold francs per share or 7,500,000 Swiss gold francs in all. During the war years, as a result of the rapidly shrinking profits, this dividend could only be paid, first in full (1940-1942) and then partially (1942-1944), by gradually drawing down and finally exhausting the reserve that had previously been constituted for that purpose. As from the financial year 1940-1941, dividend payments due to the central banks of Norway, Greece, Yugoslavia and the three Baltic states were blocked. From 1941 to 1944 the dividend due to the central banks of Bohemia-Moravia and the Netherlands was paid through the agency of the Reichsbank, in exchange for a corresponding reduction of this bank's monthly interest payments to the BIS. This was also the case for the dividend due to the central bank of Finland, but only for the year 1941-1942.

² Gold on "earmarked" accounts is allocated gold. The Bank's obligation with respect to gold held in such accounts is to place on demand at the disposal of its depositors, at the central bank where the deposit was constituted, the identical bars which had originally been deposited with it. Gold on sight accounts is unallocated gold. The Bank's obligation with respect to gold held in such accounts is to place on demand at the disposal of its depositors, at the central bank where the deposit was constituted, gold bars of the same type as it has received, up to the total fine weight standing to the credit of the account.

With the outbreak of the Second World War in September 1939, it was decided to suspend, for the duration of hostilities, all meetings of the Board of Directors and all General Meetings which would have involved the attendance of representatives from belligerent countries. It was agreed that any necessary decisions, for instance in relation to the Bank's balance sheet or its profit and loss account, were to be submitted to the members of the Board by correspondence. Furthermore, the Bank, after consultation with those central bank Governors who were members of the Board, put in writing a code of conduct for the duration of the war. In this connection, a declaration was sent to all the Bank's members and correspondents on 18th December 1939. In it the BIS made known its express intention to "... *only carry out operations which are above reproach both from the point of view of belligerents and neutrals*". To this effect, the following rules were announced:

"(1) The BIS will abstain from any transaction the result of which would be to carry out, directly or indirectly, for the account of the central bank (or other institution) of a belligerent country, a financial operation on the market or in a currency of another country with which the former is in a state of war at the time of such transaction.

(2) The BIS will abstain: a/ from disposing of its assets on the market of a belligerent country for the purpose of making or facilitating any payment to or on behalf of another country with which the former is at war; b/ from holding in its own name for the account of the central bank (or other institution) of a belligerent country gold under earmark or other assets on the market of another country with which the former country is at war.

(3) The BIS will take all suitable measures and will, in particular, demand from its correspondents appropriate statements in order to satisfy itself before any transaction is carried out that such transaction does not fall directly or indirectly within the categories indicated above."

Among other things, this code of conduct meant that for the duration of the war the BIS:

- abstained from banking operations involving the central banks or financial markets of countries at war with one another.
- reduced its normal banking activities to a minimum. The Bank's main activities during the war were restricted to the safeguarding of the pre-war financial interests of its members within the limits set forth in its code of neutral conduct.

2. Summary of BIS gold purchases and sales during the Second World War

Throughout the war the BIS continued to undertake gold transactions on behalf of its members as well as for its own account, albeit on a reduced scale. Tables 1 and 2 summarise the gold purchases and sales undertaken by the Bank for International Settlements between 1st September 1939 and 8th May 1945. These summaries show that during the Second World War the BIS:

- *purchased 71,205 kg. fine gold* from sixteen different central banks or international institutions, and
- *sold 60,096 kg. fine gold* to thirteen different central banks or international institutions.

The BIS gold trade was quite active until late 1942, after which it diminished significantly. One notable exception was the purchase of 15,795 kg. fine gold from the Banca d'Italia in December 1943, but this was in fact a reimbursement in gold by the Banca d'Italia of the BIS's pre-war investments in Italy.

The gold transactions the BIS undertook with the German Reichsbank are dealt with in the separate report "Note on gold operations involving the Bank for International Settlements and the German Reichsbank, 1st September 1939 - 8th May 1945", also published by the BIS. The gold purchases from and sales to the Reichsbank detailed in Tables 1 and 2 of this "Introductory Note" will be found to correspond to the data given in that report as follows:

- 5,480 kg. fine gold sold by the BIS to the Reichsbank: see Section 2.4, p. 6
- 9,142 kg. fine gold sold by the Reichsbank to the BIS: see Sections 3.1, p. 8 and 3.4, p. 9

Table 1 : BANK FOR INTERNATIONAL SETTLEMENTS - GOLD PURCHASES
1st September 1939 - 8th May 1945 (in kilogrammes fine gold)

<i>BIS buys gold from:</i>	<i>1939*</i>	<i>1940</i>	<i>1941</i>	<i>1942</i>	<i>1943</i>	<i>1944</i>	<i>1945**</i>	<i>TOTAL</i>
1. Banca d'Italia					15,795	25		15,820
2. Banque de France			3,694	7,985				11,679
3. Reichsbank***		808	900	1,050	2,247	2,206	1,931	9,142
4. National Bank of Hungary	2,969	1,329	2,663		755		473	8,189
5. Federal Reserve Bank				5,676	2,410			8,086
6. Danmarks National Bank		997	6,683					7,680
7. Nederlandsche Bank		4,264						4,264
8. National Bank of Rumania	2,309	704				500		3,513
9. National Bank of Yugoslavia			1,525					1,525
10. Swiss National Bank		503						503
11. Bank Polski (London)				149	202			351
12. Lietuvos Bankas	199	43						242
13. Norges Bank	93							93
14. Sveriges Riksbank		50						50
15. Fonds Agraire		43						43
16. National Bank of Bulgaria		25						25
TOTAL :	5,570	8,766	15,465	14,860	21,409	2,731	2,404	71,205 kg.f. gold

1939* = from 1.09.1939

1945** = until 8.05.1945

Reichsbank*** = the figures given for the Reichsbank in this Table correspond to the total of the figures given under category II,1 (Interest payments to the BIS) and II,4 (Gold sold to the BIS) in Table 1 on p. 3 of the separate "Note on gold operations involving the BIS and the German Reichsbank, 1st September 1939 - 8th May 1945".

SOURCE: This table was drawn up on the basis of a table entitled "Opérations sur or de la BRI pendant la guerre", drawn up by K. Thiersch, Head of the BIS Foreign Exchange and Gold Section, on 30th April 1946.

Table 2 : **BANK FOR INTERNATIONAL SETTLEMENTS - GOLD SALES**
1st September 1939 - 8th May 1945 (in kilogrammes fine gold)

<i>BIS sells gold to:</i>	<i>1939*</i>	<i>1940</i>	<i>1941</i>	<i>1942</i>	<i>1943</i>	<i>1944</i>	<i>1945**</i>	<i>TOTAL</i>
1. Federal Reserve Bank	6,106	11,501						17,607
2. Swiss National Bank		2,278	3,518		2,659		1,007	9,462
3. National Bank of Rumania			1,950	5,043	2,084			9,077
4. Banco de Portugal			6,187	300				6,487
5. Reichsbank***	2,007	2,773	700					5,480
6. Sveriges Riksbank	1,402		1,932	1,007				4,341
7. National Bank of Yugoslavia		1,495	1,495					2,990
8. National Bank of Bulgaria			37	1,785	86	29		1,937
9. Schröder Banking C°		1,004						1,004
10. National Bank of Spain						837		837
11. Bank of England				212	202	168		582
12. Banca d'Italia		223						223
13. Comm. Européenne Danube		69						69
TOTAL:	9,515	19,343	15,819	8,347	5,031	1,034	1,007	60,096 kg.f. gold

1939* = from 1.09.1939

1945** = until 8.05.1945

Reichsbank*** = the figures given for the Reichsbank in this Table correspond with the figure given under category I,4 (Gold sold by the BIS to the Reichsbank) in Table 1 on p. 3 of the separate "Note on gold operations involving the BIS and the Reichsbank, 1st September 1939 - 8th May 1945".

SOURCE: This table was drawn up on the basis of a table entitled "Opérations sur or de la BRI pendant la guerre", drawn up by K. Thiersch, Head of the BIS Foreign Exchange and Gold Section, on 30th April 1946.