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ACC 10000/145/490 CIVIL AFFAIRS HANDBOOK ON ITALY

SECTION FIVE on MONEY + BANKING -1-1-

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CIVIL AFFAIRS HANDBOOK

on

I T A L Y

Section Five

on

M O N E Y A N D B A N K I N G

Prepared by
Board of Governors of the Federal Reserve System
and the
Federal Reserve Bank of New York
for
Military Government Division
Office of the Provost Marshal General

293

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CIVIL AFFAIRS HANDBOOKS

TOPICAL OUTLINE

1. Geographical and Social Background
2. Government and Administration
3. Legal Affairs
4. Government Finance
5. Money and Banking
6. Natural Resources
7. Agriculture
8. Industry and Commerce
9. Labor
10. Public Works and Utilities
11. Transportation Systems
12. Communications
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INTRODUCTION

Purposes of the Civil Affairs Handbook.

International Law places upon an occupying power the responsibility for maintaining civil order in the areas occupied.

The basic purposes of civil affairs officers are thus (1) to assist the Commanding General by quickly establishing those orderly conditions which will contribute most effectively to the conduct of military operations, (2) to reduce to a minimum the human suffering and the material damage resulting from disorder and (3) to create the conditions which will make it possible for civilian agencies to function effectively.

The preparation of Civil Affairs Handbooks is a part of the effort of the War Department to carry out this obligation as efficiently and humanely as is possible. The Handbooks do not deal with plans or policies (which will depend upon changing and unpredictable developments). It should be clearly understood that they do not imply any given official program of action. They are rather ready reference source books containing the basic factual information needed for planning and policy making.

Significant area information is needed (a) for civil affairs officers charged with policy making and planning, (b) for the use of civil affairs officers-in-training and (c) to make certain that organized data is in hand, whenever events require it.

Arrangements were therefore made with cooperating agencies to provide pertinent information in accordance with a prepared outline. This section on Money and Banking in Italy was prepared by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York.

OFFICERS USING THIS MATERIAL ARE REQUESTED TO MAKE SUGGESTIONS AND CRITICISMS INDICATING THE REVISIONS OR ADDITIONS WHICH WOULD MAKE THIS MATERIAL MORE USEFUL FOR THEIR PURPOSES. THESE CRITICISMS SHOULD BE SENT TO THE CHIEF OF THE SURVEY AND RESEARCH SECTION, MILITARY GOVERNMENT DIVISION, P.M.G.O., 2605 MUNITIONS BUILDING, WASHINGTON, D. C. (OR PHONE WAR DEPARTMENT EXTENSION 76370).

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ITALY - MONEY AND BANKING

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SUMMARY

The following report is divided into three principal chapters, dealing with (A) background information, (B) money and credit institutions in 1939, and (C) wartime developments. Chapter A reviews briefly the development of currency and banking institutions in Italy, emphasizing factors necessary for an understanding of the present system and events which may find a parallel during the period following the present war. Chapter B gives a detailed description of the pre-war system, which, in all its essential elements, has been maintained unchanged throughout the period of the war. The lack of adequate banking statistics for the war period (attributable in part to the suppression of such statistics in Italy itself) also makes it necessary in many cases to go back to the pre-war years to obtain adequate data. Chapter C reviews the relatively minor changes which have occurred in the monetary and banking field during the war period.

Chapter A

Although some of the leading Italian banks had their beginning in the sixteenth and seventeenth centuries, Italy's modern banking system originated in the nineteenth century and particularly during the last decade of that century -- the Bank of Italy, the Banca Commerciale Italiana, and the Credito Italiano were established in 1893-1895. The outbreak of the European war in 1914 found Italian banks in a phase of concentration of institutions and expansion of business. War and inflation brought about basic maladjustments in the credit system of the country. Early in the 'twenties, the failure of the Banca Italiana di Sconto represented Italy's greatest banking catastrophe and marked the beginning of postwar financial organization. This took place in three successive stages, from 1921 to 1936.

Between 1921 and 1926 the three banks of issue (Bank of Italy, Banco di Napoli and Banco di Sicilia) provided credit facilities for other banks by advancing funds to them against their liquid industrial assets. Between 1927 and 1931, the process of inflation was arrested, the lira was stabilized, note issue was concentrated with the Bank of Italy, and the leading banks transferred their holdings of industrial assets to affiliated financial companies. Between 1932 and 1936, the Government set up two special institutions, the Istituto Mobiliare Italiano, generally known as the I.M.I., and the Istituto per la Ricostruzione Industriale, generally known as the I.R.I. -- the former for middle-term advances to industries, the latter for the liquidation of bank holdings of industrial assets and for long-term industrial financing. The I.R.I. took over the industrial assets formerly held by various large banks, retained control in certain key industries, and proceeded to liquidate the others; in addition, it acquired and retained share control over the three largest commercial banks (Banca Commerciale Italiana, Credito Italiano and Banco di Roma). By 1936, complete separation of investment banking from commercial banking had been achieved in Italy.

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The devaluation of the lira in 1936, in exact proportion to the devaluation of the dollar in 1934, was accompanied by a series of measures designed to reorganize the Bank of Italy and place credit institutions under strict government supervision. In 1937, the I.R.I. was transformed into a State holding company, controlling and directing government investments in leading commercial banks, shipping and shipyards, iron and steel plants, and other essential industries.

Chapter B

The monetary unit of Italy and of Italian possessions was the lira, divided into 100 centesimi. Currency in circulation consisted of bank notes issued by the Bank of Italy and State notes and coins issued by the Ministry of Finance. At the end of 1939, bank note circulation amounted to 24.4 billion lire; the authorized issue of State notes and coins totalled 4.4 billion lire. By force of habit, notes and coins were accepted universally as means of payment, but the use of bank checks was in the main restricted to large business enterprises. For monetary transfers, the public at large used the checking account system provided by all post-offices, which operated as agencies of the Postal Savings Bank.

The national organ of representation in the Fascist Corporative State for financial institutions (credit, insurance, and tax collecting institutions) was the Corporation of Insurance and Credit, which functioned as the central and coordinating organ of two parallel bodies, the Confederation of Credit and Insurance Enterprises and the Confederation of Workers in Credit and Insurance Enterprises.

Government control over credit institutions was regulated by law of March 12, 1936, which provided for the organization and functioning of an Inter-Ministerial Committee, in general charge of credit and savings policies, and of the Inspectorate for the Defense of Savings and the Granting of Credit, a technical agency entrusted with the actual administration of control over credit and savings and for the issuance of general and specific regulations binding upon savings and credit institutions. The Inspectorate exercised its functions through the organization and personnel of the Bank of Italy. In addition, the law of 1936 provided a special status for the Bank of Italy as a public-law institution, subject to special legislation; classified five leading banks as credit institutions of public law (non profit-making banks with capital provided by public bodies); recognized three banks of national interest (leading commercial banks operating in thirty or more provinces, with capital held by Italian nationals); and listed the other credit institutions as privately-incorporated banks, people's cooperative banks, private banking firms, foreign banks, savings banks, mutual savings and credit societies, and special lending institutions.

Italian banks, despite their detailed classification into these categories, generally all performed the same types of services and operations,

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receiving savings and current deposits, issuing checks, discounting commercial and agricultural paper, granting overdrafts and loans for commercial and industrial purposes, and making advances on government bonds.

At the end of 1939, there were in Italy about 1,500 credit institutions, operating 7,500 offices distributed over 3,750 localities. The total bank deposits of the country amounted, at the end of 1939, to 99 billion lire. The banks of national interest held the bulk of current accounts, an indication of their predominantly commercial character, while the deposits held by the savings banks and the Postal Savings Bank consisted almost entirely of savings accounts. The credit institutions of public law and the savings banks played an almost exclusive role in the financing of public activities, public works, and land improvement; the banks of national interest contributed largely to the financing of heavy industries and participated in the financing of other activities; the financing of agricultural production, of pools of farm products, and of processing industries was widely distributed among all categories of banks and various special lending institutions.

The central bank and the sole bank of issue in Italy was the Bank of Italy. Its capital of 300 million lire was in registered shares held exclusively by savings banks, credit institutions of public law, banks of national interest, and insurance institutions. The organization and management of the Bank were concentrated in Rome in a central administration; this controlled a network of 13 chief offices in leading commercial centers, 71 branches in important cities, 44 agencies in other localities in Italy, and 15 offices in Italian colonies. As the shareholders exercised no authority at their general meetings and the directors were prominent citizens who held the position in an honorary capacity, the Governor had practically an unrestricted control over the policy and administration of the bank.

The Bank of Italy did not conduct a commercial banking business. It was entrusted with the exclusive privilege of bank note issue and other central banking functions. In addition, the Bank of Italy had certain special functions; namely, (a) acting as agent for special lending institutions; (b) supervising credit institutions in accordance with directives issued by the Inspectorate for the Defense of Savings and Granting of Credit, and (c) acting as the representative of government organs for foreign exchange control.

At the end of 1939, there were five credit institutions of public law; namely:

Banco di Napoli, Italy's oldest banking institution (established in 1539) and third largest bank. It maintained its head office in Naples, 192 branches situated mainly in southern Italy, agencies in New York and Buenos Aires, and three subsidiaries in New York, Chicago, and Tirana (Albania). It operated as a commercial and savings institution, being particularly interested in agriculture, shipping, and oversea trade and remittances.

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Banco di Sicilia, with head office in Palermo and 84 branches situated mainly in Sicily. Although the bank conducted commercial banking as the main line of business, its savings department and its long-term loans to Sicilian agriculture and mining represented about one-third of the balance sheet.

Banca Nazionale del Lavoro, with head office in Rome and 75 branches distributed mainly in northern and central Italy. This bank maintained close ties with the upper hierarchies of the Fascist party, through whose influence it had obtained a quasi-monopoly in the fields of mortgage credit for low-cost housing, the financing of the motion picture industry and of the hotel and tourist trade, and the provision of credit facilities for fisheries. It managed the accounts of Fascist party organizations.

Istituto di San Paolo di Torino, with head office in Turin and 98 branches in the Piedmont and Liguria regions. It conducted a commercial banking business and maintained an autonomous mortgage credit section.

Monte dei Paschi di Siena, the most important banking institution in Tuscany, where it maintained a net of 217 branches.

The three banks of national interest operated exclusively as commercial banking institutions, their general policies being determined by the I.R.I., which controlled the majority of their capital.

Banca Commerciale Italiana, with head office in Milan and 108 branches in Italy, was the country's largest bank. Abroad it maintained agencies in London, New York, Istanbul, and Izmir and representative's offices in Berlin and Belgrade. In addition, it held a controlling participation in the capital of an extensive network of foreign subsidiaries in Switzerland, France, Yugoslavia, Hungary, Rumania, Bulgaria, Greece, Egypt, and Latin America. Traditionally connected with large industrial groups and international commercial interests during the inter-war period, it played an important role in the cooperation between high finance, heavy industry, and Fascist policy. The bank also acted as the financial agent for Vatican interests in Italy and abroad.

Credito Italiano was the second largest banking institution in Italy. It had its registered head office in Genoa, but its central administration was situated in Milan. The bank maintained 123 branches in Italy, an operating office in London, and a representative's office in New York. In addition, it was directly connected with a number of banking institutions operating in France, Tunisia, Yugoslavia, Egypt, Belgium, Latin America, and China.

Banco di Roma had its head office in Rome, 111 branches spread all over Italy, a wide net of offices in Italian colonies, a subsidiary institution in France, operating offices in Switzerland, Malta, Turkey, Syria, Palestine and Iraq, and representative's offices in Berlin, London,

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and New York. The bank -- fourth largest Italian institution -- was the financial instrument of Italian political penetration in the Eastern Mediterranean and the Red Sea areas, especially under the Fascist regime.

Among the other banking institutions, the privately-incorporated banks were limited liability companies incorporated under the commercial code and authorized to perform all ordinary banking business. At the end of 1939 they numbered 160; none of them, however, had attained a position of national importance. They included some of the influential banks owned by Catholic circles in northern Italy, such as the Banco Ambrosiano in Lombardy, as well as some private banks, such as the Banca d'America e d'Italia, owned by Transamerica, Giannini's financial group in San Francisco.

The people's cooperative banks were limited liability companies organized on a cooperative basis and engaged in the collection of savings and the financing of agriculture, middle-size trade, and small and middle-size industries. At the end of 1939, there were 276 people's banks; only one of them, the Banca Popolare Cooperativa Anonima di Novara, had achieved a position of national importance, ranking seventh among Italian banks.

Private banking firms, with unlimited liability on the part of the owners or partners, numbered only 71 at the close of 1939 and played only a small role in the Italian economy.

Foreign banks, in 1939, included the Barclays Bank S.A.I., a subsidiary of Barclays Bank Limited; the Americana Espressa S.A.I., a subsidiary of the American Express Company Inc.; and the offices of one French, two Hungarian, and two Argentine banks. Their business was insignificant. The National City Bank of New York, the most important foreign institution in Italy, closed its two branches in 1938 and 1939.

Savings banks were municipal, provincial, and regional savings institutions provided with capital funds from public sources and subject to special laws. These institutions collected savings by passbook accounts, and also issued long-term savings certificates; they invested the funds in government bonds, loans to public institutions and bodies, and mortgage loans to agriculture and real estate. At the end of 1939, there were 89 savings banks, the most important of which was the Cassa di Risparmio delle Provincie Lombarde.

The Postal Savings Bank was installed as part of the postal system, the post-offices acting as the branch offices of a central organization. It was a government institution which collected savings and made money transfers through the post-offices of the country; it transferred the funds collected to the Deposit and Loan Bureau of the Ministry of Finance, which in turn invested them in government bonds or placed them in a current account against which the Treasury could draw to cover its needs. The Postal Savings Bank held about one-third of the savings of the country.

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The mutual credit societies were small savings and credit cooperative associations formed by farmers and artisans. Although they numbered more than 1,000, the value and volume of their business was insignificant.

Medium-and long-term financing operations were the field of public and quasi-public special lending institutions, which may be classified in three groups: those financing industrial activities and public works, those financing agriculture, and those financing real estate.

Among the special institutions for industrial financing, the Istituto Mobiliare Italiano, or I.M.I., and the Istituto per la Ricostruzione Industriale, or I.R.I., were by far the most important. The I.M.I. granted medium-term loans up to twenty years to industries directly, obtaining its funds through the issue in the market of mortgage-type bonds. In addition, the I.M.I. administered, as an autonomous section, the Consorzio per Sovvenzioni su Valori Industriali, which discounted industrial paper both for the account of private industrial companies and for an intermediate agency, the Ente Finanziamenti Industriale. The Consorzio obtained its funds through rediscounts at the Bank of Italy. Both the I.M.I. and the Consorzio were presided over by the Governor of the Bank of Italy and conducted their operations through the facilities of the Bank of Italy.

The Istituto per la Ricostruzione Industriale was a State holding company which controlled government investments in and financing of banks of national interest and industrial undertakings of national and strategic importance. It was provided with a capital of 1,000 million lire and raised additional funds by issuing long-term debentures and by obtaining loans from banks, including the Bank of Italy, on industrial securities and government bonds. It entered into long-term financing arrangements with companies in which it held stock, or with public and quasi-public corporations. The I.R.I. was subject directly to the control of the Head of the Government assisted by the Ministers of Finance and of Corporations. It maintained three affiliates, namely: (a) the Societa Torinese Esercizi Telefonici, or Stet, controlling investments in electrical and telephone companies; (b) the Societa Finanziaria Marittima, or Finmare, controlling investments in the major Italian shipping lines; and (c) the Societa Finanziaria Siderurgica, or Finsider, controlling investments in iron, steel and mining industries.

The Consorzio di Credito per le Opere Pubbliche made loans to provincial and local administrations and to other public organs undertaking public works, and the Istituto di Credito per le Imprese di Pubblica Utilita financed private concerns engaged in the exploitation and development of public utilities under special concessions.

The institutions for the financing of agriculture included one central institution, the Consorzio Nazionale per il Credito Agrario di Miglioramento, operating on a nation-wide basis, and ten special institutions, operating in specific regions. The Consorzio issued long-term

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mortgage bonds and extended agricultural credit for land improvement and financed land reclamation works through out the country. The regional institutions were usually managed as autonomous sections of savings banks and credit institutions of public law; they operated mainly on advances made by the founding institutions.

There were, at the end of 1939, one central institution for mortgage credit, the Istituto Italiano di Credito Fondiario, operating on a nation-wide basis, and ten special institutions operating in specific regions. The Istituto was placed under the special supervision of a Government commissioner and its management and operations were entrusted to the Bank of Italy. It issued long-term bonds and made loans on the security of mortgages, either in legal tender or in the form of mortgage bonds. The regional institutions obtained their resources through their capital, subscribed by savings banks and the credit institutions of public law, and by the issue of mortgage bonds.

The stock exchanges did not play a very important role in the economic life of Italy, since securities other than government obligations were not very widely owned. The principal Italian stock exchange was located in Milan, with lesser ones at Rome and several other centers. The exchanges were completely under the control of the Government (the Minister of Finance). The three professional groups which figured in the Italian security business were the banks, the stock brokers, and the split-commission men. No organized markets for securities existed outside the exchanges proper.

Private insurance companies were under close supervision of the Government (Ministry of Corporations), and the principal institution in the life insurance field was a public body. The investment of insurance reserves was strictly regulated, and in practice, was largely in government securities, real estate, and mortgage loans. Foreign insurance companies played an insignificant role in the Italian business, but Italian companies derived a substantial premium income from foreign countries. Aside from the public institution which dominated the life insurance business, there were two outstanding private companies with head office in Trieste--the Assicurazioni Generali and the Riunione Adriatica di Sicurta; these two greatly surpassed in size the numerous other domestic and foreign insurance companies operating in Italy and had an important share in the insurance business in Central Europe.

Chapter C

The legal structure, technical organization and internal administration of the Italian banking and credit system remained generally unchanged throughout the war. The inflationary trend, however, was accompanied by certain important adjustments in the currency system and has resulted in a general swelling of the balance sheets of credit institutions.

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In the currency field, note issue of the Bank of Italy amounted to 31.3 billion lire on December 31, 1940. Information for subsequent dates was completely lacking until it was officially announced that in July 1943 it had reached 96.5 billion lire. This great expansion reflected primarily the inflationary practice of the Italian Government in covering much of its war expenditures by borrowing from the Bank of Italy. The Italian Government proceeded to withdraw coins from circulation and to issue new coins made of cheaper alloys, as well as State notes. As a result of these changes, the State authorized circulation (notes and coins) at the middle of 1943 totalled 7.1 billion lire.

Under prevailing inflationary conditions, deposits held by banks increased from 98 billion lire in 1939 to 146 billion in 1941. Banking funds have been directed chiefly toward the financing of war industries and purchases of Government securities. Credit institutions have generally given their assistance -- on a short-term basis -- to productive activities during the course of execution of war orders. The most important role, however, has been undertaken by the Consorzio per Sovvenzioni su Valori Industriali, which discounts industrial paper secured by annuities due by the State on war contracts. The Consorzio rediscounts the paper with the Bank of Italy. In April 1943, a group of leading banks formed the Istituto Centrale delle Banche e dei Banchieri; it assists the participating banks in flotation of Government bonds, lending operations to public bodies, and relations with the Treasury, the various ministries and the special lending agencies.

The latest balance sheet released by the Bank of Italy (for the end of 1940) revealed a general expansion over 1939 of 33.1 billion lire; use of bank funds and credit by the Treasury totalled 8.5 billion. The report for 1941 disclosed only a few minor figures of the balance sheet, but contained the important statement that central bank credit had covered one-eighth of Government expenditures during the year, or an increase in advances to the Treasury by 12 billion lire.

The foreign activities of the leading credit institutions of public law and banks of national interest underwent considerable changes as a result of the war. Their offices and subsidiaries in London, New York and other Allied countries were closed; the Banca Commerciale Italiana transferred its participation in the Banque Francaise et Italienne pour l'Amerique du Sud to a financial group controlled by the Vatican. Among the other institutions, the Banco di Napoli opened new branches in Athens and Yugoslav and Greek territories annexed to Albania or to Italy; the Banca Nazionale del Lavoro undertook the handling of financial operations in the field of Axis economic cooperation (with Germany, Croatia, Yugoslavia, Greece, and Spain); and the Banco di Roma, after providing banking and other services for Italian forces during the Greek campaign, opened branches in Dalmatia, Greece and the Aegean Islands.

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Of particular political significance was the extraordinary growth of the Banca Nazionale del Lavoro, the balance sheet of which, at the end of 1941, surpassed that of any other bank, including the Banca Commerciale Italiana. No changes of particular significance were reported among other banks; the process of banking deflation continued, the number of privately-incorporated banks, people's cooperative banks and savings banks being progressively reduced.

The operations of the special lending institutions were directed exclusively toward the financing of industrial activities, public works, and supply organizations connected with the war; their civilian activities were greatly curtailed or suspended.

Trading on the stock exchanges became subject to increasingly vigorous control as the Government sought to check speculative operations encouraged by the inflationary monetary situation. Heavy taxes were laid on corporate profits and on trading in securities; in order to make the various regulations more effective, the traditional practice of issuing securities in bearer form was abandoned and the registration of all shares was required.

Italian insurance companies after the outbreak of the war did a continuously expanding business, but the earnings were unsatisfactory due to higher taxes, declining yields on investments, and larger risks arising from the war. Italian reinsurance entered a new phase with the establishment of the Compagnia di Riassicurazione di Roma, whose capital of 200 million lire was subscribed by the leading Italian insurance companies and whose function was to make Italian reinsurance independent of foreign companies. Italian insurers closely collaborated with German companies in Occupied Europe and greatly benefited by the acquisition of substantial portfolio of British and Allied companies in France, Hungary, and the Balkan countries.

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CIVIL AFFAIRS HANDBOOK

on

I T A L Y

Section Five

on

M O N E Y A N D B A N K I N G

P A R T A

The developments in the Italian credit system prior to 1939 are so closely tied in with the current position of the Italian banking system that it seemed essential to briefly summarize them. The primary characteristic of the period preceding 1939 was a general tendency toward unification which rapidly developed into a highly concentrated system of control under the Mussolini regime.

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CIVIL AFFAIRS HANDBOOK

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I T A L Y

Section Five

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M O N E Y A N D B A N K I N G

PART A

The developments in the Italian credit system prior to 1939 are so closely tied in with the current position of the Italian banking system that it seemed essential to briefly summarize them. The primary characteristic of the period preceding 1939 was a general tendency toward unification which rapidly developed into a highly concentrated system of control under the Mussolini regime.

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ITALY--MONEY AND CREDIT INSTITUTIONS

A. BACKGROUND INFORMATION

Origin and Development of the Italian Banking System

The practice of banking and bank credit have remote origins in Italy. In the twelfth and thirteenth centuries private bankers from Florence and Lucca conducted operations which extended over Italy, France, and Spain, engaging in foreign trade directly and lending money to churches and royalties. In the two successive centuries, merchant banks in Genoa and Venice, backed by their city governments, acquired a dominant position in the international commerce lanes of southern and western Europe and the Middle East. During the sixteenth and seventeenth centuries some of today's largest banks (Banco di Napoli, Instituto di San Paolo di Torino, Monte dei Paschi di Siena) had their beginning under the auspices of local public authorities. Although relations between banking institutions and public authorities were very close, Italian banks in general maintained a considerable degree of autonomy in their internal administration, while yet enjoying special privileges from the state with regard to the conduct of their business.

Banks of Issue at the Beginning of Modern Italy

During the decades immediately preceding the unification of Italy as a modern national state (in 1859), banking activity was almost exclusively restricted to public institutions entrusted with the collection of savings and the issue of currency. The beginning of savings banks dates back to the second decade of the nineteenth century. They were generally organized under auspices of municipal or other local authorities and their operations were connected with those of public pawnshops.

Until 1860, circulating media were provided by numerous banks of issue, chartered by the various autonomous states on the Italian peninsula. In the Kingdom of Piedmont and Sardinia the Banca Nazionale Sarda grew from the union, in 1849, of the Banca di Sconti, Depositi e Conti Correnti in Genoa with the Banca di Torino. The Banca Nazionale Toscana, in the Grand Duchy of Tuscany, resulted from the fusion of various small banks, which took place between 1857 and 1860. In the Papal State there was the Banca dello Stato Pontificio, founded in 1850. In addition, there were two minor institutions, the Banca di Parma and the Banca delle Quattro Legazioni, which issued currency in Parma and Bologna respectively. Currency in Lombardy was provided by the National Bank of Austria, while in Venice a special institution, the Stabilimento Mercantile Veneto, issued "cash certificates" denominated in Austrian florins. In Southern Italy, the Banco di Napoli and the Banco di Sicilia (the latter organized in 1843) also issued "credit certificates" which circulated as currency.

Immediately after the constitution of the Kingdom, the Banca Nazionale Sarda extended its activity and note issue to annexed Lombardy, absorbed the Banca di Parma and the Banca delle Quattro Legazioni and was reorganized as the Banca Nazionale nel Regno; in addition, a new bank of issue, the Banca Toscana di Credito per l'Industria e il Commercio, was organized by the provisional government of Tuscany and granted the right to issue currency. In 1866-67 the Banca Nazionale nel Regno took over the Stabilimento Mercantile Veneto and in 1870 the Banca dello Stato Pontificio was reorganized as the Banca Romana.

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In 1862 a uniform currency system was set up, with the lira as the standard unit; other currencies issued under preexisting governments were gradually withdrawn. In 1865 Italy participated in the foundation of the Latin Monetary Union (which ceased to function with the outbreak of the First World War); gold and silver lira coins were given the same content, weight, and form as French, Belgian, and Swiss francs and the Greek drachma, and all of these coins were made freely interchangeable. Between 1860 and 1865 the Kingdom had a gold and silver metallic currency amounting to approximately 1,000 million lire and a fiduciary currency equivalent to barely one-quarter of the specie in circulation. In May 1866, when war on Austria was declared, the government issued a decree releasing the Banca Nazionale from its obligation of exchanging its notes for gold and authorized the other banks to issue, each in its own region, inconvertible paper money. This inconvertible paper rose to 1,600 million lire in 1874, when the note issues of the various banks were supplemented by an issue made collectively by a consortium of all banks of issue; bank notes were made exchangeable against the new notes issued by the consortium for account of the State and recognized as legal tender in all provinces where a branch of any bank was situated.

In 1875 the government set up the postal savings bank system and during the following years repeal of the inconvertible paper and a return to metallic currency were taken into consideration. But it was only in 1881 that a concrete plan was adopted. In that year the government secured from an Anglo-French-Italian banking syndicate a loan of 654 million lire in gold, silver and foreign exchange and proceeded to dissolve the consortium of banks of issue. The notes issued by the consortium were taken over as a direct liability of the State Treasury and were made payable in specie on demand.

Foundation of the Bank of Italy and Beginning of Modern Banks

The resumption of specie payments removed the barriers isolating the Italian from wealthier foreign markets and brought about an inflow of foreign capital, attracted to Italy by the higher interest rate. This inflow lasted until 1893, when a serious monetary and banking crisis was caused by the bankruptcy of the Banca Romana; this involved also the failure of two other important banks. The crisis of 1893 brought about a complete reorganization of the note issue system. A law passed on August 10 authorized the fusion of the Banca Nazionale nel Regno, the Banca Nazionale Toscana and the Banca Toscana di Credito, in a new institution which assumed the title of Banca d'Italia, with a capital of 300 million lire. Thus the number of banks of issue was reduced to three only, the Bank of Italy , the Banco di Napoli, and the Banco di Sicilia, each institution being obliged to accept, through its operations, the notes of the other two banks. On the other hand, inconvertibility of paper currency, repealed de jure, was reintroduced de facto, as the banks limited themselves to exchanging their own notes for those issued by the Treasury.

In addition to the reorganization of the assets and note issues of the merged banks, the Bank of Italy was entrusted with the work of liquidating the Banca Romana. These tasks it completed in 1908 under the able direction of Bonaldo Stringher, who had participated in the founding of the bank and was its Director General from 1900 to 1929.

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The creation of the Bank of Italy was followed, until 1909-1910, by a series of balanced national budgets and a rise in the metallic cover of the banks of issue, as a result of the inflow of emigrant remittances and receipts from tourist trade. The growth of industry, agriculture, and commerce which took place during those years was supported by the rapid development of credit and banking institutions. The Banca Commerciale Italiana (familiarly known as the B.C.I. in Anglo-Saxon countries and Comit in Italy) was founded in Milan in 1894 by an international financial group formed by German, Austrian, and Swiss interests, which were joined three years later by French interests. In 1895 the Banco di Genova (established in 1874) was reorganized as the Credito Italiano, exclusively controlled by Italian financial interests. The Comit and the Credito soon occupied a leading position in the Italian banking structure and became intimately connected with the expanding industrial sector of the national economy. In particular, the Comit, under the direction of one of its founders, Mr. Otto Joel, gained what amounted to a general right of preemption in any new issue of industrial stock. Both banks, however, pursued industrial financing rather cautiously and losses from their investments before the First World War were inconsiderable. The beginning of the twentieth century found the Banco di Roma (established in 1880 by a group of Roman financiers rather close to Vatican circles) carrying its activities beyond the limits of the Italian capital and extending the scope of its business toward the eastern Mediterranean and the Red Sea.

Late in the nineteenth century and early in the twentieth century, the people's cooperative banks -- the origin of which dates back to 1865 -- increased rapidly in number and promoted the investment of local savings in middle-sized industrial and commercial enterprises. These banks soon became the most important provincial institutions in northern Italy, filling the requirements of their communities. In rural districts the beginning and growth of cooperative credit societies -- generally under the auspices of Catholic social organizations -- also took place around the turn of the century.

Italian Banks during the First World War

For more than a decade, beginning in 1909, the economic and financial conditions of Italy were greatly disturbed by extraordinary domestic and international events, namely, the great earthquake of Messina and Reggio Calabria, the Libyan War and the World War. The Banco di Roma was particularly affected by the Libyan War because of its expansion in territories of the Turkish Empire; its losses were covered by a reduction in capital, which was again increased through public subscription in 1913.

The outbreak of the European War found Italian banks in a critical phase of concentration of institutions and expansion of business and was the signal for a severe monetary crisis. Initiative was paralyzed by uncertainty, leading to withdrawal of deposits, hoarding of money, and liquidation of bank assets.

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The crisis was met by an increase in note circulation, which enabled the banks to assist trade and industry. In order to provide facilities for the needs arising from the war, the Bank of Italy undertook, in December, 1914, to organize the Consorzio per Sovvenzioni su Valori Industriali (Consortium for Advances on Industrial Securities) with a capital subscribed by the Bank of Italy, the Banco di Napoli, and the Banco di Sicilia, together with a group of savings banks, and with additional funds provided through rediscount operations of the three banks of issue. These measures eased considerably the strain on the credit market.

With the declaration of war by Italy, German and Austrian interests were eliminated from the Comit; as Swiss and French interests had withdrawn in earlier years, the Bank passed entirely under Italian control. In December, 1914, the fusion of two banks brought about the creation of the Banca Italiana di Sconto. This bank expanded rapidly and passed, before the end of the war, under the control of the Perrone financial group, which in turn controlled the Ansaldo industrial group (shipyards, machine industries, and heavy industry) in Genoa. Thus, the four leading commercial banks at the end of 1914 were the Comit, the Credito, the Banco di Roma, and the Banca Italiana di Sconto.

Whereas, before the war, the big commercial banks had enjoyed complete independence in their policies and had been in rather sharp competition, the pressure of industrial credit requirements during the great struggle alternatively subjected them to attacks from industrial-financial groups or brought them into a cooperative attitude. Twice, in 1918 and 1920, the Perrone group attempted, unsuccessfully, to gain control of the Comit. The first attempt resulted in an accord (June, 1918) between the banks, whereby common policies were to be adopted in the rationing and disposal of credit as well as in other important respects. These developments aroused a great deal of criticism and it was stated at that time that the great leaders of industry had acquired entire control of the banking system of the country. In fact, war requirements had contributed to a rapid growth of Italian industry; while a few industrial groups had thus become gradually self-financing and independent of banking assistance (Fiat-automobiles, Pirelli-rubber, Montecatini-chemicals), most of the others had made heavy use of bank funds for their expansionist policy. As a result, the leading banks had practically lost their freedom in determining credit policies, as their participation in industry was frequently forced upon them by the necessity of salvaging existing investments and the difficulty of collecting loans and advances extended to industry during the war. Industrial interests, however, were never able to secure a similar position in the three banks of issue (Bank of Italy, Banco di Napoli and Banco di Sicilia) which continued to pursue policies in close harmony with the Treasury. While the part played by the government in the financing of industry became increasingly important with the rise of Fascism to power, the real cause for government intervention could be traced to these basic maladjustments in the credit system arising out of war conditions and war financing policies.

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Bank Failures after the First World War

The failure of the Banca Italiana di Sconto in 1921 was the greatest banking catastrophe of the country and marked the beginning of postwar banking reorganization. The disastrous developments of the year 1921 shook the whole structure of Italian banking and greatly contributed to preparing the popular mind for the change in the political system which occurred the following year.

By 1920, the Banca Italiana di Sconto had become the largest institution in the country, having 220 branches at home and abroad and an interest in four foreign subsidiary banks. Most of these branches had originally been individual local banks and had been absorbed too rapidly for careful digestion into a single unified system. At the end of November, 1921, the three banks of issue (Bank of Italy, Banco di Napoli and Banco di Sicilia) and the three largest commercial banks (Comit, Credito, and Banco di Roma) created a consortium which undertook to provide credits up to 600 million lire, whereby the Sconto's claims on its industrial debtors could be gradually liquidated. Further credit facilities were provided by the Consorzio per Sovvenzioni su Valori Industriali. Within a few weeks, however, it became clear that nothing could cure the condition of the Sconto and the bank was allowed to collapse on December 29, 1921. This opened a wearisome process of liquidation, in which the half million depositors of the bank suffered considerable losses and half a dozen minor institutions were destroyed. The work of reorganization was entrusted to a new bank, the Banca Nazionale di Credito, founded with a capital of 260 million lire, partly newly subscribed and partly obtained from the collection of certain assets of the bankrupt bank. The new institution took over the branches and the commercial activities of the Sconto and proceeded to a policy of retrenchment, reducing the number of branches to 58 only by 1925.

The failure of the Banca Italiana di Sconto was followed, in the autumn of 1922, by a crisis in the Banco di Roma. The reorganization of this institution was conducted under the direction of the Minister of Finance, Professor Alberto De' Stefani. The Government took over the capital, replaced the board of directors, and transferred the colonial and industrial properties of the bank to a separate holding company, the Societa Finanziaria per l'Industria e il Commercio (Financial Corporation for Industry and Commerce). At the beginning of 1923, the capital of the bank was raised from 150 to 200 million lire and the institution passed under the control of an industrial group, which included automobile, textile, and heavy industries (Mazzotti, De Angeli-Frua, and Breda). The bank proceeded then to close, or to transfer to other institutions, about half of its two hundred branches.

Under the impact of the general situation, the other two leading banks (Comit and Credito) proceeded also to contract their activities, close some of their branches, and consolidate their positions. This trend among leading institutions, which lasted for a few years after 1921, was counteracted by the steady expansion of the smaller banks, which increased their branches and their activities.

The liquidation of the frozen assets of the Banca Italiana di Sconto and the Banco di Roma was entrusted to an autonomous section of the Consorzio per Sovvenzioni su Valori Industriali; this section was administered by the

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banks of issue as a distinct and separate agency. The assistance granted by the banks of issue consisted of credits on which the section could draw for the funds it required in its work of liquidation -- the section took over 4,381 million lire of bad or doubtful assets, sold part of them, and ended by owing the Bank of Italy 3,369 million lire on November 20, 1926. On that date, the Italian Government (Minister of Finances being Count Giuseppe Volpi) created an autonomous liquidating agency, the Istituto di Liquidazione, which took over the assets and liabilities of the special section of the Consorzio as well as those of the Societa Finanziaria per l'Industria e il Commercio. The new institute was granted certain annuities from the State and the Bank of Italy, totalling 300 million lire a year, for a gradual disposal of losses incurred. Thus the first phase of banking reorganization was closed.

Central Banking Reform and Currency Unification

The requirements arising from the war had not given occasion for fundamental changes in the existing legal system of note issue, although they had led to certain amendments in the provisions of the existing laws. The pre-war note issue system was based on two types of notes, the bank notes issued by the Bank of Italy, Banco di Napoli, and Banco di Sicilia against a metal (gold and silver) reserve of 40 percent, and the Treasury notes issued by the State directly and in small denominations only. It must be observed that the system amounted to a disguised form of inconvertible currency, since, although the bank notes were convertible either into Treasury notes at par or into gold, in the latter case conversion was made on the basis of the lira exchange rate at the time of conversion.

At the end of 1913, Italy's total currency circulation amounted to 2,283 million lire. At the beginning of the war, the three banks of issue were called upon to grant extraordinary advances to the State by the issue of notes not requiring metal cover, at an interest rate not exceeding 1/4 percent per annum. Note circulation reached its maximum on December 31, 1920, with a total of 21,500 million lire, of which 10,743 million had been issued by the banks for account of the State and 1,768 million lire by the State directly. In the following years the aggregate note circulation remained substantially unchanged, amounting at the end of 1925 to 21,450 million lire; however, a contraction by 3,350 million in bank notes for account of the State and in Treasury notes was balanced by an increase in notes issued by the banks through private operations.

This monetary expansion was reflected in the internal and external depreciation of the lira. Wholesale prices, after a gradual but limited rise during the course of the war, increased abruptly to 679 in April 1920 (100 = 1913); in the following six years the index fluctuated between 500 and 650. The exchange rate of the lire in New York (pre-war parity, 5.18 lire to the dollar) advanced to around 8 lire soon after the wartime peg of 6.34 lire to the dollar was removed on April 8, 1919; in 1920, the rate rose to 29 lire and in following six years it wavered between 21 and 35 lire, amidst strong speculative movements.

Currency reorganization was initiated in July 1926 with the abolition of the multiple issue bank system and was completed in December 1927 with the

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stabilization of the lira. On July 1, 1926, the privilege of bank note issue was restricted to the Bank of Italy which took over the outstanding note issue of the Banco di Napoli and Banco di Sicilia, totalling 3,782 million lire, and absorbed their metal and foreign exchange reserves, valued at 311 lire on the basis of the pre-war official parity of the lira and at 1,491 million lire on the basis of the current exchange rates; in addition, the claims of the two southern banks on the special section of the Consorzio per Sovvenzioni su Valori Industriali and the claims on the State for extraordinary advances (totalling 2,291 million lire) were transferred to the Bank of Italy.

In the meantime, the government began a strong campaign for a revaluation of the lira. On August 18, 1926, Mussolini himself, in a dramatic speech at Pesaro, pledged his government to a policy of defending the stability of the lira "to the last drop of blood". Helped by the central bank reform and other measures, including the settlement of war debts with the United States and Great Britain, the lira rose to 18-19 lire to the dollar in the spring of 1927 and was stabilized at the end of the same year at 27.25 percent of its pre-war value, or at a rate of 19 lire to the dollar (92.46 lire to the gold pound and 0.744 lire to the French franc). The decree law of December 21, 1927, fixed the new parity of the lira at 0.07919113 grams of fine gold to one lira and established the convertibility of bank notes on the basis of the gold exchange standard. The "profits" realized by the revaluation of the original gold reserves were used to cancel the outstanding balance which the State owed the bank on account of war advances. Under the law, the bank was required to maintain gold and foreign exchange reserves in a proportion of at least 40 percent of the note circulation and other sight liabilities. The bank was likewise obliged to grant temporary advances to the Treasury to an amount not exceeding 450 million lire, at an interest rate of 2 percent per annum. With further measures adopted in 1928, the system of note issue by the Treasury was abolished -- thus the Bank of Italy became the sole note issue agency of the country.

The Process of Banking Deflation

The currency stabilization was carried through at too high a level; the political judgment of Mr. Mussolini had prevailed against the technical advices of his Minister of Finance, Count Giuseppe Volpi, and the Governor of the Bank of Italy, Professor Bonaldo Stringher, who reportedly favored a stabilization at a rate equivalent to that of the French franc. Higher costs and export prices and the consequent rapid contraction of foreign markets forced serious curtailment of operations in Italian industries and a very painful process of general internal economic readjustment. As this resulted in severe distress among those banks which had followed an expansionist policy during the period of inflation, the need arose for adequate machinery for dealing with a gradual contraction of banking activities.

Legislation promulgated on September 7, 1926 charged the Ministries of Finance and Agriculture with functions of supervision over the banks and entrusted the application of this supervision to the Bank of Italy The law set up rules for the registration of all savings and credit institutions; fixed the minimum capital for incorporation of new banks; introduced the requirement of ministerial authorization for the opening of branches or the merger of institutions; regulated terms and conditions for advances, and ratios between capital funds and deposits; and made provision for regular reporting

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of balance sheets and other statements. This legislation was followed in May 1927 by the reorganization of the Istituto Nazionale di Credito per la Cooperazione (founded in 1913) into the Banca Nazionale del Lavoro, with a capital of 250 million lire, entirely subscribed by the State. This bank, an outright Fascist institution, was to become the most important instrument for the enforced liquidation or merger of small and middle-sized banks, particularly those banks controlled by Catholic organizations.

The economic crisis and the deflationary policy pursued by the Ministry of Finance under authority of the law of 1926 resulted in a decrease in the number of institutions engaged in savings and credit operations from 3,783 in 1926 to 2,858 in 1935. The first important example of this process was the merger, in 1929, of twelve Catholic banks in central Italy into the Banca delle Marche e dogli Abruzzi, which was later on (in 1939) absorbed by the Banca Nazionale del Lavoro. In 1930 the Istituto di San Paolo di Torino, the Banco di Napoli, and the Banca Nazionale del Lavoro took over branches and deposits of the Banca Agricola Italiana; its assets were transferred to the Istituto di Liquidazione, which in turn undertook to make liquid funds available to the three banks. The Banca Nazionale del Lavoro took over the Italian branches of a Yugoslav bank in 1928, assumed the deposits of the Banca della Lucchesia in 1931, and absorbed the Banca Popolare Agricola Commerciale di Pavia in 1932 and the Banca e Cambio di Vicenza and the Banca Haskard-Casardi in Florence in 1934. In 1931, the Comit absorbed its affiliate, the Banca Commerciale Triestina. Numerous local institutions in southern Italy and Sicily were consolidated with the Banco di Napoli and the Banco di Sicilia respectively; in 1935, the branches of the liquidated Istituto Italiano di Credito Marittimo were transferred to the Comit, the Credito, and the Banco di Roma. In all cases, most of the branches of the institutions which were taken over were closed. The result of this process was a notable contraction of the lesser banks, while the large publicly-owned institutions expanded their branch system to some extent and increased their balance sheets considerably.

The Divorce of Investment from Commercial Banking

At the close of the 'twenties, the monetary and economic situation brought about a grave crisis of liquidity among leading banks, which had heavily participated in industrial investments in Italy and speculative adventures abroad. At first the banks undertook direct measures for disengaging themselves from frozen positions; as they failed, the government intervened, carrying out a complete separation of investment from commercial banking.

Operations for disinvestment by the Credito Italiano were initiated in 1930, through its merger with the Banca Nazionale di Credito, the successor of the Banca Italiana di Sconto. The Credito Italiano took over all of the short-term assets of the Banca Nazionale di Credito, and two new financial companies, the Societa Finanziaria Italiana and the Societa Elettro-Finanziaria, were founded to assume respectively the industrial assets and public utility holdings of the two banks. At the time these operations were carried out, the Credito Italiano and the Banca Nazionale di Credito held a

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controlling participation in public utilities (Edison, Liguro-Toscana, Centrale, Anglo-Romana, Telefoniche Tirrene, and Telefoniche Meridionali), in addition to textile, chemical and heavy industries, and real estate companies.

In 1931, the Comit transferred to a subsidiary holding company, the Societa Finanziaria Industriale Italiana, known as Sofindit, its portfolio of industrial assets, held either directly or through affiliated and subsidiary institutions, totalling approximately 4,000 million lire. This portfolio consisted of controlling participations in a wide variety of activities, including public utilities (electrical: Unes, Meridionali, Sicilia, Adamello, Vizzola, Sarda; telephones: Stipel, Telve, Timo), shipping and shipyards (Navigazioni Generali, Cosulich, Sabaudia, Lloyds Triestino, Libera Triestina, Cantieri Riuniti), heavy industry (Ilva, Dalmine, Terni, Reggiane, Silurificio di Napoli), mining (Monte Amiata, Arsa), road building (Furicelli), chemical industry (Italgas), textile industry (Soie de Chatillon, Cotonifici Triestino, Veneziano, Toscano and Crespi, Fabbricone, Clerici), in addition to paper industries, real estate, land reclamation, public works, etc. and several foreign companies (among which the Wagon-Lits, the Ammoniaque Sinthetique et Derivees and the Neerlandaise de l'Azote in Brussels, and electrical, chemical, mining, cotton, and silk industries in Yugoslavia and Poland). The capital of the Sofindit was raised from 100 to 300 million lire, the new issue being underwritten by the industrial undertakings controlled by it, while the Consorzio Mobiliare Finanziario, the company holding the majority of the capital of the Comit, repaid to the bank an advance of 800 million lire which had been used for supporting the share market.

In payment of the portfolio taken over by it, the Sofindit paid to the Comit the sum of 1,000 million lire, with funds obtained from a newly created quasi-public institution, the Istituto Mobiliare Italiano (Institute for Middle-term Industrial Advances), generally known as I.M.I; the remaining 3,000 million lire were made payable to the bank on demand. To meet such payments, the Sofindit could have recourse either to public distribution of the securities -- which was not considered a possibility for several years -- or to the I.M.I. The I.M.I. was authorized to make loans on industrial securities up to ten years; the term was later on (in 1936) extended to twenty years. Its capital of 551 million lire was subscribed for the most part by the Cassa Depositi e Prestiti (the Deposit and Loan Office, which administered the postal savings system). In addition, it was authorized to issue bonds which were eligible for advances by the Bank of Italy. Relations between the I.M.I. and the Bank of Italy were made even closer as the Governor of the Bank of Italy held, ex-officio, the position of President of the I.M.I.

The operations undertaken in 1930-1932 improved the liquidity of the banks but did not eliminate the close connections existing between banks and industries. Moreover, the problem of the eventual disposition of the industrial assets held by the holding companies -- the Societa Finanziaria Italiana, the Societa Elettro-Finanziaria and the Sofindit -- remained unsolved, and the I.M.I. lacked authority and an organization adequate to undertake the management of industrial holdings which covered wide key sectors

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of the Italian economy. Therefore, at the beginning of 1933, a new organ, the I.R.I., Istituto di Ricostruzione Industriale (Institute for Industrial Reconstruction), was founded by the Italian Government and charged with two functions for the performance of which two autonomous sections were set up: namely, the Sezione Smobilizzi Industriali (Section for the Liquidation of Industrial Assets), and the Sezione Finanziamenti Industriali (Section for Industrial Financing). The capital of both sections was subscribed by the Cassa Depositi e Prestiti, the Istituto Nazionale delle Assicurazioni (National Insurance Institute), and the Cassa Nazionale delle Assicurazioni Sociali (National Office of Social Insurance.)

The Sezione Finanziamenti Industriali was provided with a capital fund of 100 million lire and authorized to issue bonds with maturity up to twenty years. During its three years of life (it was abolished in March 1936), the section extended loans totalling 1,209 million lire to public work enterprises, public utilities (electrical and telephone companies), metallurgic industries, and other undertakings.

The Sezione Smobilizzi Industriali was provided with a capital fund of 500 million lire and proceeded to take over the funds, holdings, credits, and annuities of the various financial companies, namely, of the Istituto di Liquidazione (holding the investments of the defunct Banca Italiana di Sconto and the Banca Agricola Italiana); of the Societa Finanziaria Italiana and the Societa Elettro-Finanziaria (holding the investments of the Comit.) In addition, it took over the Banco di Roma's investments -- held either by the bank itself or by the Istituto di Liquidazione and the Consorzio per Sovvenzioni su Valori Industriali as guarantee for loans and advances made to the bank. For the liquidating operations, the banks were called upon to contribute their reserves in excess of 20 percent of their capital, the contributions amounting to 440 million lire from the Comit, 220 million from the Credito and 25 million from the Banco di Roma. Simultaneously with these transfers, the I.R.I. also acquired from industrial interests their share participation in the Comit, Credito, and Banco di Roma, thus obtaining direct control over the three banks. Through this section, the I.R.I. became liable to the Bank of Italy for nearly 2,000 million lire for advances the latter had made to the Istituto di Liquidazione and undertook the obligation to pay on demand the balances due to banks on account of the security holdings taken over.

During the course of three years, this section proceeded to liquidate industrial and other assets for an amount of approximately 3,000 million lire; foreign securities were transferred to the Istituto Nazionale per i Cambi con l'Estero (National Foreign Exchange Institute) for sale abroad. In turn, the I.R.I. proceeded gradually to repay the balances due to banks, but as late as 1939, the Bank of Italy, as well as the other banks, were still holding part of their claims on the I.R.I. among their receivable items.

The I.R.I., however, retained control over holdings in certain key sectors and for their administration it set up special subsidiary financial companies (Societa Torinese Esercizi Telefonica, or Stet, Societa Finanziaria Marittima, or Finmare, and Societa Finanziaria Siderurgica, or Finsider.)

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A point to be emphasized is the method of financing, which the I.R.I. introduced into the market first with the bonds of the I.R.I.-Stet (telephones) in 1934, then with the I.R.I.-Mare bonds (shipping) in January, 1937, and finally with the I.R.I.-Ferro bonds (iron and steel) in July 1937. In each case the I.R.I. transferred its shareholdings in the particular industry to a subsidiary company, which in turn issued to the general public bonds for an equal amount. Bondholders were entitled to a part of the profits of the financing companies and could convert, wholly or in part, their bonds into stock.

Thus the work of liquidation carried out by the I.R.I. between 1933 and 1936 completed the banking reorganization, which had begun with the bankruptcy of the Banca Italiana di Sconto, and prepared the ground for the financing of autarkic activities and direct government participation in industries.

Money and Credit in the Autarkic Economy

Between 1931 and 1936 the lira gradually depreciated in the exchange markets, at first slowly, but in 1934-36 at an accelerated pace. By 1936, it had reached a discount of 11 percent from the former parity. Authority to regulate foreign exchange transactions was conferred upon the Ministry of Finance on September 29, 1931 but it was only on May 26, 1934 that an exchange control system was put into effect and a special administration set up. Despite depreciation of the currency and the enforcement of exchange control, the Bank of Italy suffered almost complete loss of its reserves in gold and gold exchange, which fell from 11,071 million lire at the end of 1928 to 2,375 million lire in September, 1936. The note circulation and other sight liabilities of the bank contracted from 19,837 million lire in 1928 to 14,250 million lire in 1934, but rose to 17,957 million lire by the end of 1936 on account of the Ethiopian War. In July 1935 the legal requirements of a 40 percent reserve against notes and sight liabilities was suspended. At the same time, the circulation of Treasury notes, which had been repealed in 1928, was reintroduced. These monetary developments finally resulted on October 5, 1936, in the devaluation of the lira by 40.94 percent, exactly the proportion by which the U. S. dollar had been devalued in 1934. The gold content of the currency was reduced to 0.04677 grams and its exchange value was readjusted to the pre-1933 official lira-dollar rate, 19 lire to the dollar. In addition, the government maintained the power to devalue the lira by a further 10 percent, as in the United States. As a result of the devaluation, the reserves of the Bank of Italy were revalued and at the close of 1936 they stood at 4,022 million lire, equivalent to a cover of 22 percent of notes and sight liabilities of the bank. The "profits" from the revaluation were credited to the Treasury account with the bank.

The devaluation of the currency contributed to liquidating part of the losses incurred by Italy in connection with the Ethiopian campaign; it partly relieved the pressure of high costs from the Italian economy and prepared the ground for a policy of economic self-sufficiency and military preparedness, which became the important national objectives in following years. The devaluation of the lira was accompanied by a series of measures designed to reorganize the credit structure of the country and provide for the financing of autarkic industries under the direct control of the government.

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The new banking law, dated March 12, 1936, and amended as of July 17, 1937, transformed the Bank of Italy from a privately-owned corporation into an "institution of public law" (Istituto di Diritto Pubblico). The law provided that the capital of the bank be repaid to its private shareholders, numbering more than 10,000, and that the new shares, for a total of 300 million lire, be subscribed and held exclusively by the country's banking institutions and insurance companies. The Bank of Italy was required to give up its commercial operations and to confine rediscount operations exclusively to credit institutions.

The same law concentrated the functions of control over, and supervision of savings and credit institutions, hitherto distributed among various ministries and the Bank of Italy, into a single organ, the Ispettorato per la Difesa del Risparmio e l'Esercizio del Credito (Inspectorate for the Defense of Savings and the Granting of Credit Facilities), presided over by the Governor of the Bank of Italy. The operations of the Ispettorato were placed under the jurisdiction of the Ministerial Committee, presided over by the head of the government. The Ispettorato was given very broad powers to issue directives to banks and other credit institutions and to regulate merger and liquidation procedures.

The Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, Monte dei Paschi di Siena, and Istituto di San Paolo di Torino, all non-profit institutions regulated by special law, were defined as "credit institutions of public law"; they were assigned specific functions for the development of the national or of regional economies. The three largest commercial banks, the Comit, the Credito and the Banco di Roma, all banks with branches in more than 30 provinces, were defined as "banks of national interest"; the majority of their capital was held by the I.R.I. since 1934 and foreign shareholders were deprived of voting rights.

In general, the law provided for strict separation of commercial investment from banking and classified credit institutions into two main groups; namely, those collecting short-term savings (institutions of public law, banks of national interest, privately-incorporated banks, people's cooperative banks, savings banks, private banks, and rural credit societies) and those collecting long-term savings (mortgage, real estate, and agricultural credit institutions and public institutions specifically entrusted with middle and long-term lending). As the institutions included in the latter group were generally subjected to special laws regulating their field of activities, the banking law and the Ispettorato were especially concerned with the operations of institutions collecting short-term savings. From its beginning, the Ispettorato took steps designed to enforce the prohibition of investment operations by banks and pursued a deflationary policy with regard to banking organization in general. Between 1936 and 1939 the total number of credit institutions in operation fell from 2,099 to probably less than 1,600; however, there was no comparable contraction in the number of localities with banking offices, which only declined from 3,994 to 3,760, while bank branches and offices in general declined from

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7,755 in 1936 to 7,386 in 1938 but rose again to 7,740 in 1939. The policy of the Ispettorato affected particularly the people's cooperative banks and privately-incorporated banks; as a result, credit institutions of public law, banks of national interest, and postal savings banks expanded their share in the total deposits of the country from 55 percent in 1936 to over 63 percent in 1939.

These changes in the banking structure of the country were accompanied by a reorganization of the government agencies dealing with middle and long-term financing. In March, 1936, the I.M.I. was made the central organ for industrial (middle and long-term lending) and annexed, as an autonomous section, the Consorzio per Sovvenzioni su Valori Industriali; both remained closely connected with the Bank of Italy and subject to the control of the Ispettorato. In June 1937, the Sezione Finanziamenti Industriali of the I.R.I. was abolished. The I.R.I itself was placed under the immediate jurisdiction of the head of the government and reorganized as the State holding company, controlling government investments in and financing of banks of national interest, shipping and shipyards, iron, steel and metallurgic industries, and new government investments in autarkic industries, such as rubber and cellulose.

Conclusion

The successive phases of the reorganization, which had begun with the failure of the Banca Italiana di Sconto and had been legally sanctioned with the banking reform of 1936, succeeded in deflating an overextended banking system and divesting it of its industrial interests. Yet, at no time was the Italian banking system characterized by monopolistic tendencies of excessive centralization, but rather by a variety of local, regional and national institutions. At the end of 1939 credit institutions (including rural credit societies) having capital and reserves not exceeding one million lire made up 84 percent of the total number of institutions, but the requirements of middle and large size enterprises were adequately met, since credit institutions with capital and reserves totalling between 100 and 1,000 million lire held 70 percent of the aggregate capital and reserves of all institutions. Such a distribution appears to be in harmony with the structure of the Italian economy, which is a combination of traditional forms of rural production with highly developed middle-sized and large industries.

Twenty years of Fascist rule affected the policies of credit institutions and altered their legal character, but left substantially unchanged their internal administration. In general, the management of banks - and particularly that of the largest banks - was entrusted to technical elements, who had no political or other grounds for actively opposing the existing regime, even when they did not favor it. On the other hand, the critical financial position of the country made it increasingly necessary for the banks and the government to follow a policy of close cooperation.

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As a result, the Fascist regime was in a position to obtain from bankers the support it needed for its policies without interfering directly with their internal administration. The degree and type of cooperation, however, varied among various banks. The Comit, traditionally connected with "big business", played an important role in the cooperation between high finance, heavy industry, and the Fascist regime. At the end of 1938 it was "purged" of its predominantly Jewish management, but all new officers were chosen from the ranks of the bank itself. The Credito Italiano tried to follow a neutral line in politics, avoiding too close a tie with Fascist elements. The Banco di Roma was the financial instrument for Italian political penetration in the Eastern Mediterranean and the Red Sea areas, before and during the Fascist regime. The Banca Nazionale del Lavoro maintained intimate relations with the Ministry of Corporations and the upper hierarchies of the Fascist party, through whose influences it obtained various privileges. The Banco di Napoli played an important role in the political field through its president and managing director, Mr. Giuseppe Frignani, who was the head of the Fascist Corporation of Insurance and Credit. Finally, the Bank of Italy remained largely a technical institution, dominated by bureaucratic elements, who, generally speaking, supported any government in power and tried to avoid active participation in controversial political issues.

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BANKING INSTITUTIONS IN OPERATION IN 1935-1939

Date	Localities with banking offices	Banks of Public Law & National Interest		Privately incorporated banks		Private Banks		People's Cooperative Banks		Savings Banks		Rural Credit Societies		Regional Agricultural Credit Institutions		Total	
		No.	Brchs.	No.	Brchs.	No.	Brchs.	No.	Brchs.	No.	Brchs.	No.	Brchs.	No.	Brchs.	No.	Brchs.
1935	4066	6	739	209	2901	169	214	375	1264	102	1557	1377	1378	3	30	2241	8063
1936	3994	9	1540	191	2001	155	205	358	1184	100	1513	1283	1284	3	28	2099	7755
1937	3860	9	1637	180	1804	142	191	335	1205	98	1563	1202	1204	3	27	1969	7631
1938	3318	3	1522	177	1760	129	175	306	1165	98	1605	1129	1131	3	28	1851	7386
1939	3760	9	--	163	--	71	--	276	--	89	--	940	--	3	--	1551	7440

The figures for 1939 have been obtained from various sources (Annuario della Confederazione Fascista del Credito e delle Assicurazioni, Annuario Statistico Italiano, and Bankers' Almanac) and are not comparable statistically with the figures for the preceding years, which were compiled by the Ispettorato per la Difesa del Risparmio e l'Esercizio del Credito and published in the Annual Report of the Bank of Italy.

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CIVIL AFFAIRS HANDBOOK

on

I T A L Y

Section Five

on

M O N E Y A N D B A N K I N G

PART B

1939 is the last year for which it is possible to obtain detailed information. In order to get as accurate an estimate as is possible of present conditions in Italy, it is therefore necessary to develop a detailed picture of the conditions during the last pre-war year. Using this as a base, it is then possible to utilize such information as is available to outline the changes which have occurred during the war and to provide estimates on the current financial position of the Italian banking system.

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B. MONEY AND CREDIT INSTITUTIONS IN 1939

1. Currency and money transfers

Types of currency

The monetary unit of Metropolitan Italy and of all Italian possessions (Italian East Africa, Libya, Dodecannese Islands) was the lira (symbol L. or Lit.) divided into 100 centesimi. Currency in circulation at the close of 1939 consisted of:

1. Bank notes (Biglietti di Banca) in denominations of 50, 100, 500, and 1,000 lire, issued by the Bank of Italy in accordance with Royal Decree-Laws of December 21, 1927, No. 325 and March 12, 1936, No. 375.

2. A special series of bank notes in denominations of 50, 100, 500, and 1,000 lire, issued by the Bank of Italy and distinctively marked for circulation in Italian East Africa only, in accordance with the Ministerial Decrees of March 18 and August 8, 1938.

3. State notes (Biglietti di Stato) in denominations of 10 lire, issued by the Italian Ministry of Finance in accordance with Royal Decree-Law of May 20, 1935, No. 874, which authorized the Ministry of Finance to withdraw silver coins and to issue State notes for amounts to be fixed by ministerial decrees.

4. Coins in denominations of 5 lire (silver), 2 and 1 lire and 50 and 20 centesimi (nickel), and 10 and 5 centesimi (bronze), issued by the Ministry of Finance in accordance with Royal Decree-Law of June 23, 1927, No. 1148.

Coins of a special alloy, called "acmonital" (a contraction of acciaio monetario italiano), struck in denominations of 2 and 1 lire and 50 and 20 centesimi, were put in circulation as of April 21, 1939, in accordance with Royal Decree-Law of February 7, 1939, No. 907, in exchange for nickel coins of the same denominations, which were gradually to be withdrawn.

Reserves

Royal Decree-Law of July 21, 1935, No. 1293, suspended the legal requirement of a 40 per cent reserve in gold and gold currencies against notes and other sight liabilities of the Bank of Italy. Free convertibility of bank notes into gold and foreign exchange was never repealed de jure, but was de facto suspended by the application of Royal Decree-Law of September 29, 1931, No. 1207, of Ministerial Decree of May 26, 1934, and of various subsequent laws and decrees, which put into effect increasingly severe restrictions on foreign exchange transactions.

The reserve against State notes was to consist, according to the law of 1935, of the silver coins withdrawn from circulation; however, as no minimum requirements were fixed, this provision probably remained ineffective and the metal obtained was presumably diverted to the coinage of thalers for Italian East Africa and to industrial uses.

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As of December 31, 1939, the bank note circulation amounted to 24,432,169,200 lire; no breakdown by denominations was available. Other sight liabilities of the bank amounted to 2,486,364,696 lire. The reserve consisted of "gold in hand" valued at 2,738,188,663 lire and "balances abroad" (dollar credits in New York) valued at 393,450,775 lire. The ratio of reserve to total sight liabilities was 11.6 per cent.

Distribution of notes and coins

Unissued bank notes on hand with the Bank of Italy as of the same date were reported to number 4,425,998, having a total value of 2,654,999,000 lire, distributed as follows:

Denominations	Number	Lire Value
1,000	1,140,000	1,400,000,000
500	1,059,998	529,999,000
100	320,000	32,000,000
50	1,906,000	953,000,000

No information is available concerning the actual State circulation (State notes and coins). The authorized issue, however, totalled 4,396 million lire, distributed as follows:

Denominations	Number (in millions)	Lire Value	Decree authorizing the issue	Fineness	Gross Weight
Notes					
10 lire	250	2,500	June 15, 1935, No. 163 Jan. 31, 1936, No. 18 Jan. 10, 1938, No. 12	--	--
Coins					
5 lire silver	240	1,200	Dec. 23, 1937, No.2200	.835 silver	5 grams
2 lire nickel*	108	216	July 9, 1936, No.1674 Feb. 7, 1938, No. 907	.999 nickel	10 grams
1 lira nickel*	169	169	July 9, 1936, No.1674 Feb. 7, 1938, No. 907	.999 nickel	8 grams
50 centesimi nickel*	100	50	July 9, 1936, No.1674 Feb. 7, 1938, No. 907	.975 nickel	6 grams
20 centesimi nickel*	305	61	July 9, 1936, No.1674 Feb. 7, 1938, No. 907	.975 nickel	4 grams
10 centesimi bronze	1,200	120	Dec. 23, 1937, No.2200	.950 copper	5.4 grams
5 centesimi bronze	1,600	80	Dec. 23, 1937, No.2200	.950 copper	3.25 grams

* After April 21, 1939 also Acmonital — see text.

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Printing and minting facilities

All bank notes were printed in Rome by the Bank of Italy itself. As a protective measure against counterfeiting, bank notes were prepared jointly by the bank and the Treasury, neither of which could turn out a complete note -- the Treasury placing its administrative countermark in special red ink on each note. State notes and coins were printed and minted by the State Bureau of Printing and Engraving and by the Mint in Rome, Florence, and Turin.

Legal tender character

Under the legislation existing in 1939, bank notes were legal tender for unlimited amounts. Legal tender limits on State currency were fixed as follows:

Denominations	Legal Tender Limits
2 and 1 lire coins	50 lire
50 centesimi	10 lire
20 centesimi	5 lire
10 and 5 centesimi	1 lira

Use of currency and checks

By force of habit, notes and coins were accepted universally as means of payment, but the use of checks drawn against bank accounts was in the main restricted to large business enterprises and was in only a rudimentary stage among farmers, small business men, and the population at large. The Ministry of Finance and the Bank of Italy, however, were pursuing a rather active (but not very successful) campaign for popularizing the check as a means of payment, in order to counteract the expansion of the note issue. How predominant the use of notes and coins for monetary transactions was before the war, may be indicated by the fact that at the end of 1939, the amount of currency in circulation was equivalent to one-fourth of total deposits (of all banks and savings institutions, including the Postal Savings Bank) and of national income; in the United States the ratios were, for the same period, one-eighth and one-tenth respectively. Moreover, demand deposits in Italy (totaling 27,730 million lire) accounted for only one-fourth of total deposits, whereas they represented three-fourths of total deposits in the United States.

Generally speaking, current accounts had a more rapid turnover than savings accounts; however, there never was a distinct differentiation between the two types of deposits and neither could be definitely classified as integral part of the monetary supply of the country. Current accounts were freely withdrawable and could be used for checking operations, but they were not always in the form of checking accounts and were frequently kept by individuals or firms as liquid cash reserves rather than as means of payment. On the other hand, although savings accounts generally were in the form of time deposits, for terms of from three to six months or more, in practice banks placed no restrictions (except loss of interest) against their withdrawal before the end of the stipulated term and, under certain conditions, permitted their use by clients for checking operations.

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Banker's checks

Banks and savings institutions were authorized to issue assegni circolari, which were cashier's checks payable at sight over the counter at any office of the issuing bank or its correspondents. Each institution was required to maintain, as a guarantee, a reserve in Government bonds with the Bank of Italy; this reserve was fixed at 40 per cent of the average outstanding circulation of its assegni, the value being calculated on the basis of two month periods. The Bank of Italy, the Banco di Napoli, and the Banco di Sicilia were also authorized to issue vaglia cambiari, which were banker's drafts payable at sight. In the case of the Bank of Italy, these drafts were included among its sight liabilities and subjected to the same legal reserve requirements as those for currency in circulation; in the case of the Banco di Napoli and Banco di Sicilia they were included among their assegni circolari and covered by the same bond reserve. During 1939, banking and savings institutions issued 25 million of such assegni and vaglia, for a value totaling 162,900 million lire; at the end of the year, however, less than one million were outstanding, with a value of 3,068 million lire. Between one-third and one-half of them consisted of assegni and vaglia of the Bank of Italy, which used them for payments on behalf of the Treasury and other public bodies. The turnover of these banker's checks was extremely limited, as they were usually exchanged by the payees for bank deposits or cash and very seldom used as means for further payments.

Postagiro and postal money orders

For monetary transfers, the public at large used the facilities provided by all post-offices (number 11,566) which operated as agencies of the Postal Savings Bank. These offices were authorized to handle transfers for the public through postagiro or conto corrente postale (checking account system) and to issue postal money orders payable to order (vaglia) or checks payable to bearer (assegni) upon deposit in cash. Under the postagiro system a depositor could make payments to any other depositor by using the certificato di allibramento (certificate of accounting), which consisted of three sections -- one to be held by the bank, one to be mailed to the payee for reference, and a stub to be retained by the payer. All fees, school tuitions and other payments of administrative character due to the Government, as well as payments by the Government (such as pensions, salaries, etc.) in localities without offices of the Bank of Italy, were made through the Postal Savings Bank offices. During the year ending in March 1939, the bank issued 29,155,000 vaglia and assegni for an amount of 14,481 million lire (average value of each nearly 500 lire) and handled 1,708,000 transfers through the postagiro, for an amount of 5,683 million lire (average amount of transfer 330 lire).

Clearing houses

Italy had no national clearing system. At the end of 1939 there were eleven Stanze di Compensazione (clearing houses), in Milan, Rome, Genoa, Turin, Naples, Venice, Bologna, Florence, Trieste, Padua, and Leghorn. The stanze were organized as free associations and their membership included merchant firms as well as local credit institutions and brokers. The Bank of Italy was entrusted with the management of the stanze and also with providing credit facilities and acting as depository of funds and securities. Clearing settlement was effected daily and monthly and included commercial paper and checks

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arising from banking or commercial operations (included in daily settlements only) and Government and Government-guaranteed bonds and private securities arising from stock exchange operations (included in daily and monthly settlements). The volume of transactions settled through the stanze in 1939 totalled 770,756 million lire of which 21,148 million lire was settled through cash payments. Between one-third and one-half of the transactions were handled through the Milan stanza; with the exception of Genoa and Rome, the stanze in other cities handled only a comparatively small business.

Purchasing power of the lira

The purchasing power of the lira, during the years immediately preceding the war, was the result of three major elements, namely, the devaluation of 1936, the inflationary pressure brought about by budget deficits, and the government control over prices, wages, and rents. The devaluation at the end of 1936 probably undervalued the lira somewhat as compared with the dollar, pound, and French franc. During the course of the following three years, however, the official indices of wholesale prices and of the cost of living in Italy advanced in steady and parallel trends by about 30 per cent, while in other countries either prices remained relatively stable (United States) or their rise was balanced by depreciation in the foreign value of the currency (United Kingdom and France). By the end of 1939, the lira was clearly overvalued at the existing exchange rates on the leading foreign countries.

It should be noted, however, that any comparison between the domestic purchasing power of the lira and that of foreign currencies is rendered very difficult by the fundamental differences in consumer preferences. Under the pressure of Fascist policy, the composition of consumption had been greatly altered during the course of the years from the Ethiopian War to the European War. A decrease in consumption of luxury goods (such as textiles, coffee, some types of meat and fats) was balanced partially by the increased consumption of substitutes (artificial fibers for cotton and wool, fish and vegetables for meat, etc.) and partially by the consumption of new goods and services. Some of these new goods and services (electrical apparatus, radios, motor cars, etc.) represented peace-time production of potential war industries. Others, such as all activities of the "dopolavoro" (the Fascist recreational organization for labor) were part of a planned consumption of services non-competitive with war preparedness. In general, those goods in which capital, machinery, and imported raw materials played the most important role as cost factors, were relatively more expensive, while services and goods embodying a high proportion of labor costs were relatively cheaper in Italy than would be indicated by the exchange rate. The general level of wages and salaries, or any specific minimum wage for unskilled labor which could be cited as example, was a great deal lower in Italy than in the United States, but workers and other low income groups were the beneficiaries of an elaborate system of social insurance and of a number of public services, the material value of which it would be impossible to determine.

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2. The Credit Structure in the Corporative State

By 1939 the Fascist Corporative State had developed into a highly centralized structure, the various parts of which were coordinated through a system of political representation of economic groups. The national organ of representation for financial institutions (credit institutions, insurance institutions, and tax collecting agencies*) was the Corporazione della Previdenza e del Credito (Corporation of Insurance and Credit) established by decree of the Head of the Government on June 23, 1934.

The Corporazione della Previdenza e del Credito

The Corporazione della Previdenza e del Credito, like all of the other Fascist corporations, was presided over by the Head of the Government or by his Minister of Corporations. Its operations were distributed among three sections--banking institutions, special credit and savings institutions, and insurance enterprises--and were directed by a vice-president drawn from the upper ranks of the Fascist Party (Mr. Giuseppe Frignani, President and Managing Director of the Banco di Napoli). The functions of the Corporazione were performed through a central board with a membership of fifty-two, which included the vice-president, certain ex officio members (the Governor of the Bank of Italy and the Presidents of the Istituto Mobiliare Italiano, Istituto per la Ricostruzione Industriale, Associazione delle Societa Italiane per Azione, Istituto Nazionale Fascista della Previdenza Sociale, and Istituto Nazionale Fascista per l'Assicurazione contro gli Infortuni sul Lavoro), and members appointed by the Minister of Corporations, in the numbers indicated, to represent the following financial and employee interests:

Credit institutions of public law and banks of national interest	2
Privately incorporated banks	1
Private banking firms	1
People's banks	1
Agricultural banks	1
Savings banks	4
Pawnshops	2
Finance companies	1
Quasi-public lending institutions	2
Agricultural credit institutions	1
Stock brokers	1
Foreign exchange dealers	1
Insurance companies	2
Mutual insurance enterprises	1

*These tax collecting agencies were not part of the administrative and civil service organization of the State. They included private individuals and companies, as well as quasi-public bodies, which collected -- under special contract -- excise and other taxes for account of the State and local authorities. Collection of taxes was frequently entrusted to credit institutions of public law and savings banks.

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Insurance agents	1
Bank executives	1
Insurance executives	1
Employees of banking institutions	7
Employees of people's and agricultural banks	2
Employees of quasi-public lending institutions	3
Employees of foreign exchange dealers	1
Employees of insurance companies	3
Employees of insurance agents	1
Employees of public insurance institutions	1

In addition, three members were appointed by the Fascist Party to act as representatives of national political interests and of the general public.

Confederations and federations

The Corporazione della Providenza e del Credito functioned as the central and coordinating organ of the two parallel bodies, the Confederazione Fascista delle Aziende del Credito e dell'Assicurazione (Fascist Confederation of Credit and Insurance Enterprises), organized by Royal Decree of September 26, 1926, No. 1179, and the Confederazione Fascista dei Lavoratori delle Aziende del Credito e dell'Assicurazione (Fascist Confederation of Workers in Credit and Insurance Enterprises), organized by Royal Decree of September 26, 1926, No. 2725. These two confederations represented, respectively, the national federations of credit and insurance institutions and the employees of such institutions, in all dealings with political and administrative authorities. In particular, the Confederazione Fascista delle Aziende del Credito e dell'Assicurazione included the following national federations: credit institutions of public law and banks of national interest; privately-incorporated banks; private banking firms; people's banks; agricultural banks and credit institutions; savings banks; finance companies; stock brokers and over-the-counter dealers; foreign exchange brokers; insurance companies; insurance brokers and dealers; insurance and credit agents; officers of banks and insurance companies; and tax collecting agencies. The Confederazione Fascista dei Lavoratori delle Aziende del Credito e dell'Assicurazione included the following national federations: executive employees of credit and insurance institutions and tax collecting agencies; employees of credit institutions of public law and banks of national interest; employees of credit institutions; employees of savings banks; employees of insurance companies; and employees of tax collecting agencies. These national federations in turn coordinated the activities of provincial unions and local syndicates which served as the basis of corporative organization.

The functions of the Corporazione

The Corporazione della Providenza e del Credito was entrusted with advisory functions in the negotiation and drafting of collective agreements between national federations of employers and employees; with functions of conciliation in collective labor disputes; and with consultative functions on all legislative matters affecting credit and insurance activities and on questions submitted by the Government. The Corporazione, together with the two confederations, studied economic, technical, and legal questions pertaining to the

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distribution of credit facilities and to relations between credit and insurance enterprises on the one hand, and the other economic activities of the country, on the other. Legislative proposals adopted by the Corporazione were submitted for consideration to the Comitato Corporativo Centrale (Central Corporative Committee), the over-all organ representing the 22 corporazioni in the Fascist State, which in turn acted in an advisory capacity not only to the legislative organis of the State, but also to a Comitato di Ministri (Inter-Ministerial Committee) in charge of savings and credit policies. Close coordination between the Corporazione della Previdenza e del Credito, the Comitato Corporativo Centrale, and the Comitato di Ministri was effected through the fact that all these organs were presided over by the Head of the Government. This concentration of political control had the official aim of adjusting economic planning to the available volume of national savings; it also contributed, in practice, to assuring that no discussion would arise and that no decision would be adopted, which the Fascist Government would not approve. As a matter of fact, despite certain powers conferred by law upon the Corporazione and the two confederations to issue regulations and enforce control measures, these corporative organs were little more than advisory bodies, the recommendations of which might or might not be accepted by Government agencies, with which in each instance the final decision rested.

3. Government Control Over Credit Institutions

Even before the war, the control of the Fascist Government over credit institutions was extremely strict and far-reaching. This control was based upon the Royal Decree-Law of March 12, 1936, No. 375, as amended by Royal decree-Law of July 17, 1937, No. 1400. The law of 1936 provided for the organization and functioning of a policy-making body, the Comitato dei Ministri (Inter-Ministerial Committee), and a technical agency, the Ispettorato per la Difesa del Risparmio e l'Esercizio del Credito (Inspectorate for the Defense of Savings and the Granting of Credit), hereafter referred to as Ispettorato.

The Comitato dei Ministri was presided over by the Head of the Government and consisted of the Ministers of Finance, Agriculture, and Corporations, with the participation of the Governor of the Bank of Italy, who was ex-officio head of the Ispettorato. The Comitato was entrusted with policy functions and authorized to pass upon decisions and rules adopted by the Ispettorato. It held monthly meetings, acting in consultation with the Comitato Corporativo Centrale, and with the Ispettorato, which provided technical information and advice with regard to the types and volume of credit resources available. The rules and decisions of the Comitato were binding upon the Ispettorato and were published in the Official Gazette of the Kingdom, as well as in a monthly bulletin issued by the Ispettorato.

The Ispettorato was entrusted with the administration of control over savings and credit and with issuing general and specific regulations binding upon savings and credit institutions. It maintained only a small staff in Rome, being empowered to call upon government institutions or departments for personnel assistance and information. It utilized for its regular work the personnel of the central administration and branch organization of the Bank of Italy. For this

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purpose, the Bank of Italy maintained a special department, called Servizio Vigilanza sulle Aziende del Credito (Department for Supervision over Credit Institutions); the manager of each branch office of the bank acted as chief of the local section of this department and was directly responsible for its operation to the Governor of the Bank and head of the Ispettorato. The fact that relations between credit institutions and the Ispettorato or the Comitato dei Ministri proceeded exclusively through the Bank of Italy permitted the Ispettorato to keep in constant touch with local conditions and requirements while maintaining unity of policy and directives.

Classification of credit institutions

The law of 1936 classified credit institutions subject to the supervision of the Ispettorato according to the nature of their liabilities, namely, institutions collecting short-term funds and institutions collecting medium- and long-term savings. The first group included all so-called Aziende di Credito, or credit institutions, as follows:

1. Istituti di Credito di Diritto Pubblico (credit institutions of public law) and Banche di Interesse Nazionale (banks of national interest).

The Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, Istituto di San Paolo di Torino, and Monte dei Paschi di Siena were classified as credit institutions of public law. These institutions were non-profit making banks whose capital had been provided by public bodies which named the directors. The permissible operations of each institution and its specific functions in the development of the national economy were laid down in a special law.

The Banco Commerciale Italiana, the Credito Italiano, and the Banco di Roma were classified as banks of national interest. These three banks maintained branches in more than 30 out of a total of 98 provinces in Italy; their capital was divided into registered shares, which could be held only by individuals or institutions of Italian nationality, and their statutes were approved by decrees issued by the Head of the Government.

2. Other domestic banks and credit institutions (however constituted) collecting deposits at sight or at short-term on savings accounts, checking accounts or other accounts.

3. Branches of foreign credit institutions.

4. Savings banks.

5. Institutions granting loans on personal property as security (pawnshops).

6. Rural and mutual credit societies.

The second group (institutions collecting middle and long-term savings) included all institutions specialized in mortgage credit operations and certain official lending agencies (Istituto Nazionale di Credito Edilizio, Istituto Nazionale per il Credito Agrario di Miglioramento, Istituto Mobiliare Italiano, Consorzio di Credito per Opere Pubbliche, Istituto di Credito per le Imprese di Pubbliche Utilita, and Istituto Nazionale di Credito per il Lavoro Italiano all'Estero). In addition, the authority vested in the Ispettorato

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applied to stock and exchange brokers, to the public issuance of securities, and to stock exchanges. Outside the jurisdiction of the Ispettorato remained: (1) the Bank of Italy, which was regulated by special provisions of the law of 1936 and supervised directly by the Ministry of Finance; (2) the Postal Savings Bank, administered jointly by the Ministry of Communications and the Ministry of Finance; and (3) the Istituto per la Ricostruzione Industriale, subject to the control of the Ministry of Finance and the Ministry of Corporations.

The functions of the Ispettorato

The major functions of the Ispettorato were defined as follows:

1. To authorize the use of the words banca (bank), cassa di risparmio (savings bank), credito (credit), risparmio (savings), and the like, in the titles of credit institutions under its jurisdiction.

2. To keep a register of all credit institutions engaged in the collection of savings and granting of credit facilities.

3. To license the incorporation and opening of credit institutions, and regulate the distribution of their offices and branches.

4. To authorize increases in the capital of, and issues of debentures and bonds by credit institutions.

5. To supervise and direct all activities and operations of credit institutions, with special regard to

(a) the issue of banker's sight drafts or cashier's checks;
(b) the maximum and minimum rates of interest and the terms and conditions applicable to deposits, loans and advances;
(c) the commissions and fees chargeable for various bank services;
(d) the distribution of assets between the various categories of credit and investments;
(e) the ratio between a bank's aggregate capital and reserves and its investments, considered in relation to their liquidity and their distribution among the various economic branches;
(f) the ratio between a bank's aggregate capital and reserves and its total liabilities, and the investment of excess deposits as so determined;
(g) the line of credit to be extended by a bank to individual borrowers and the business statements and other information to be required of such borrowers;
(h) the allocation of profits to reserves;
(i) the special bonds to be deposited as guarantee by managers of credit institutions in the form of a blocked account at the Bank of Italy;
(j) the technical forms of balance sheets and of periodic reports of credit institutions, and the dates and rules for the presentation of these reports to the Ispettorato;

6. To authorize, prescribe the procedure for, and appoint commissioners in charge of amalgamations of banking institutions.

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7. To order or authorize, prescribe the procedure for, and appoint commissioners in charge of liquidation of banking institutions.

8. In case of serious losses of capital or serious irregularities in the administration of credit institution, or upon request of such institution's administrative organs themselves, to suspend the powers of the administrative organs and assume direct control of the institution by appointing one or more commissioners and a supervisory committee.

9. To undertake examinations and investigations and apply fines and penalties, including the suspension of higher officials and managers.

10. To authorize the issue of securities of any kind, if to be effected through institutions subject to the supervision by the Ispettorato or to be quoted on stock exchanges.

Most of the work of the Ispettorato was carried out through applications and reports filed by credit institutions with the Servizio Vigilanza sulle Aziende di Credito of the Bank of Italy. Only under exceptional circumstances were inspectors detached from the central staff of the Ispettorato to investigate the credit institutions directly, by examining their books and documents. Such inspections were conducted with utmost caution in order to avoid any panics or runs.

In practice, the Ispettorato issued general rules on conditions and guarantees to be required of managerial personnel of credit institutions; regulated real estate investments by banks; prescribed special forms to be filled out by applicants for advances from banks; passed upon bank statutes and charters; examined balance sheets and statements of credit institutions; and supervised mergers, fusions, extraordinary administrative procedures and compulsory liquidations. In general, the Ispettorato actively pursued a policy aimed at simplifying the credit structure of the country, by reducing the number of banks and bank branches without any drastic reduction in the number of localities provided with banking services.

The rules, regulations, and decisions of the Ispettorato were published in a monthly "Bollettino dell' Ispettorato per la Difesa del Risparmio e l'Esercizio del Credito". This bulletin also contained communiqués, notices and balance-sheets and other information concerning or issued by credit institutions and stock exchanges, in addition to important statistical material on banking and credit in Italy.

4. Management and Operations of Banking Institutions

Exact uniformity in the internal organization of banking institutions does not exist since, quite naturally, the number of offices and employees and of administrative groups and divisions is dependent upon the territory covered and the type and volume of business transacted. A small branch in a minor center would not, for instance, maintain administrative and personnel departments as in the case of a head office in a large commercial or financial center like Rome, Milan, or Naples. The description which follows applies primarily to the typical head offices of large banking institutions

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(other than the Bank of Italy) in leading Italian business centers before the outbreak of the war; in small banks, the administrative subdivisions of the internal organization were basically similar and such differences as existed were in number of personnel and departments. Moreover, despite the grouping of banks into separate categories, their management and business practices were fairly uniform and there was relatively little specialization in the activities and operations of the various institutions.

The management of banking institutions

A banking institution was governed by a Consiglio d'Amministrazione (Board of Administration), which was, for most practical purposes, the equivalent of an American board of directors. The members of the Consiglio were elected by the general meeting of shareholders, or appointed by public authorities in the case of credit institutions of public law and savings banks.

The Consiglio was presided over by a Presidente, who had functions similar to those of the chairman of a board of directors, and included one or more Vice-Presidenti and a number of Consiglieri (who performed functions similar to those of directors of an American institution). In addition, each Consiglio had a number of Sindaci, officials which have no exact equivalent in American banking practice. Their duties covered functions performed in the United States both by bank examiners or auditors, and by certified public accountants. These Sindaci were not members of the bank's staff nor financially interested in its affairs; neither did they represent the government or constitute a distinct professional class requiring governmental licenses or other specific forms of official authorization for discharging their duties. The general meeting of shareholders of the bank was free to choose them according to its preference and they were concerned in a broad way with representing the interests of the bank's clients, supervising the operations of the bank from a legal as well as financial standpoint, and certifying to the correctness of the bank's annual report and balance sheet. There were two kinds of Sindaci, i.e., Sindaci Effettivi and Sindaci Supplenti, of whom the first were active officials and the second substitutes or alternates.

In general, although not necessarily, one or more of the Consiglieri were vested with the legal and administrative status of Amministratore Delegato, also called Consigliere Delegato. These terms are not exactly translatable because there is no precise equivalent for the position in American law or business custom. The usual translation used in the English text of annual reports issued by Italian leading banks was "Managing Director". The Amministratore Delegato performed executive functions similar to those of the president of an American bank. Some banks had also a so-called Comitato Direttivo which was a subdivision of the Consiglio d'Amministrazione; in reality, it was a sort of executive committee of the Consiglio itself.

A typical working organization by classes of executive officers in a large bank was approximately as follows:

1. One or two Amministratori or Consiglieri Delegati
2. An indefinite number of Direttori Centrali (central managers), Capi-Servizio or Direttori (heads of departments or managers), and Condirettori and Vice-Direttori (assistant managers and sub-managers)

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3. Two or more Ispettori (inspectors) in charge of supervision and examination of department and branch activities.
4. Direttori (managers) and Vice-Direttori (sub-managers), in charge of Sedi (chief offices) and Filiali (branches).
5. Capi d'Agenzia (chiefs of agency) in charge of local offices usually subordinated to managers of chief offices or branches.
6. Procuratori, or bank employees holding the bank's power of attorney and thereby performing special functions.

Every Italian bank of importance was organized into Servizi (departments) and Uffici (bureaus); the number, type, and title of departments and bureaus varied from bank to bank. The term Servizio usually applied to the major sections of the central administrative office of a bank; a Servizio consisted of various Uffici. A branch office usually had from five to fifteen or twenty Uffici, and no Servizi. In general, an accounting department (Contabilita Generale) handled accounting, bookkeeping, and auditing of the bank's transactions and tellers' operations. A securities department (Titoli) handled the bank's holdings of and transactions in bonds, shares, and other securities, while a mercantile department (Merci) was in charge of all matters related to financing of merchandise transactions. Commercial paper and related documentation was handled through the inland bills department (Portafoglio Italiano), if connected with domestic transactions, and through the foreign bills department (Portafoglio Estero), if connected with foreign transactions. Legal matters were entrusted by banks to outside private law firms, although the largest institutions usually had an internal legal bureau undertaking minor problems and routine procedures. The leading banks also maintained in their head office a research department in charge of economic and regional studies of special interest to the bank administration and management. Other departments or bureaus of a bank handled foreign exchange operations; current and checking accounts; savings accounts; cash; secretarial work; etc. The bank offices of important institutions were customarily provided with adding and calculating machines and made extensive use of multiple-copy accounting forms, cashier's slips, etc., in much the same way and to the same extent as is customary in the United States.

Operations of banking institutions

Italian banks, despite their detailed classification into various categories, generally all performed the same types of services and operations, receiving savings and current deposits, issuing checks, discounting commercial and agricultural paper, granting overdrafts and loans for commercial and industrial purposes, and making advances on government bonds. In general, banks used most of their resources for lending operations and followed a rather conservative policy with regard to direct purchases and holdings of bonds; only in the case of savings banks did bond holdings approximate the value of their outstanding loans. However, during the years immediately preceding the outbreak of the war, the priority given to requirements of governmental financing tended to restrict normal commercial banking operations and to expand loans on government contracts and for government purposes.

Italian banks received deposits under various types of account, the terms, conditions, and interest rates being uniformly fixed for all institutions through inter-bank accords sanctioned by the Ispettorato. Accounts were grouped into various categories; namely: current accounts (a minimum balanço of 5,000 lire was customarily required for the use of checking facilities), ordinary

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saving accounts, small savings accounts (up to 20,000 lire) time savings accounts (neither principal nor interest was withdrawable by the depositor except at stated intervals), and combinations of savings and checking accounts (under which checks could be drawn only after an appropriate entry in a passbook). The annual interest rates carried by the various categories of accounts in 1939 were as follows:

	(Per cent)
Checking accounts	1-1/2
Ordinary savings accounts	2
Small savings accounts	2-1/2
Three to six months time savings accounts	2-1/2
Six months time savings accounts	3
Postal savings deposits	2-1/2

In addition, savings banks and the Postal Savings Bank issued buoni fruttiferi di risparmio (interest-bearing savings certificates). The postal savings certificates were non-coupon bonds similar to the United States Postal Savings Bonds (now War Bonds). They were sold to mature in one to fifteen years or more; the long-term bonds yielded 5-6 per cent if held to maturity but a lesser rate if the holder exercised his option for earlier redemption.

Banks discounted promissory notes and drafts (cambiali) related to commercial operations, at an interest rate of 5 to 7 per cent; such paper customarily had a term of three or four months, renewals and partial payment usually being allowed. Although one-name paper was legally eligible for discount, added guarantees in the form of a warehouse receipt or a second signature were generally required by the banks. Frequently, banks insisted upon an "avallo di comodo" (accommodation indorsement) by a party known to the bank who would guarantee the financial reliability of the borrower and the repayment of the loan. A special type of paper, eligible for discount by banks, was the cambiale agraria (agricultural promissory note) which was used for agricultural financing and carried a special statement identifying the purpose of the loan, the specific farm where the proceeds were to be used, and the kind of guarantee. Banks also granted credit facilities by permitting rather liberal overdrafts (on which interest was charged at the same rate as for discounts (5-7 per cent), and by making direct loans; such procedures were followed particularly in the financing of industrial activities on the security of government contracts.

The procedure in connection with bank loan application was approximately as follows:

a. When the bank was approached for a loan, the prospective borrower was asked, as an initial step, to submit supporting documentation. Ordinarily, this consisted of the applicant's latest balance sheet or one prepared especially for the bank; evidence that the applicant (if incorporated or a partnership) had been duly organized and registered in accordance with the law; a certificate from the competent authorities showing property owned by the applying company or individual and the status of such property (whether free or mortgaged).

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b. Ordinarily, the application and supporting documents were examined and reported upon by the active director of the branch of the bank, unless the amount involved or the circumstances connected with the application were of such nature as to remove it from the general routine of loan applications. In this case, the application was submitted to the head office of the bank or possibly to the Consiglio d'Amministrazione for final decision. Some of the banks maintained informal advisory boards attached to the branches, consisting of local business men chosen by the management of the bank. These advisors were consulted with regard to the desirability of granting loan applications concerning which the local management was in doubt.

A rather common practice, which does not frequently find an exact equivalent in the United States, was for banks and commercial or industrial companies to enter into an informal understanding under which the commercial or industrial company would perform all or most of its financial business through the bank and the bank would stand ready to provide to the company certain credit facilities if and when needed. In this case, the bank became the banca d'appoggio (bank of support) for the company; this did not imply any relationship of financial and administrative control nor necessarily any actual extension of credit, but simply a rather intimate business relationship between the bank and the company. Generally speaking, through this practice the largest banks and the leading industrial concerns managed to maintain their close relationship even after banks had been divested of their industrial securities and industries had relinquished their banking shares. The I.R.I. did not attempt to interfere unduly with this practice. In most instances, this type of relationship was accompanied by the presence of leading industrialists on the Consiglio d'Amministrazione of banks (for instance, Donegani of Montecatini and Puricelli of Industrie Riunite della Strada in Comit, Agnelli of Fiat and Motta of Edison in Credito, Rosenti of Italcementi and Bocciardo of Terni in Banco di Roma, etc.).

In general, banking institutions did not regularly engage in the business of lending money on real estate mortgages, as long-term assets were not deemed to be consistent with their short-term liabilities and could impair their liquidity. However, banks sometimes accepted real estate liens as security for loans granted to their clients, particularly when they felt that additional security was desirable to cover a loan already made. The great bulk of long-term loans to industries, real estate owners, and agriculture was handled either by specialized agencies (I.M.I., Istituto Nazionale di Credito Edilizio, Consorzio Nazionale per il Credito Agrario di Miglioramento, etc.), or by mortgage departments of credit institutions of public law and of savings banks, which were established as autonomous agencies financed by bond issues.

Borrowers on mortgage security from credit institutions of public law and savings banks usually received the amount of their loans in cash at an interest of 5 per cent per annum, especially if they were dealing with a small banking concern. In the case of mortgage loans by specialized agencies, the borrower usually received a mortgage bond (obbligazione fondiaria) of the lending institution. These bonds, secured by a general mortgage on the institution's assets and bearing interest at 4 per cent per annum, were

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negotiable and quoted on the securities exchanges to yield 4-1/2 to 5 per cent. In some cases, the borrower was privileged to repay his loan by buying bonds in the market and tendering them at their par value. Loans in this form were made almost exclusively to local institutions or associations, such as the rural cooperatives; individual farmers either negotiated loans through these bodies or directly with credit institutions of public law and savings banks.

After their reorganization in the early thirties, Italian banks followed a distinctly conservative policy with regard to loans on industrial securities collateral for investment and speculation. Loans on industrial securities were further curtailed by severe government restrictions governing transactions on margin, the prohibition of direct bank investments in industrial enterprises, and the strict control exercised by the Ispettorato. On the other hand, advances on government bonds and government-guaranteed securities were a preferred form of lending and part of the daily banking routine. On more than one occasion (in 1936 and 1937), banks were called upon by the Italian Treasury to make liquid funds immediately available through advances to individuals and companies subscribing to compulsory or patriotic bond issues.

Through the Bank of Italy, other banks had adequate facilities for rediscounting their commercial paper and obtaining advances on government securities. The larger banks rediscounted commercial paper with the Bank of Italy, while smaller banks usually obtained short-term advances from larger banks, with which they frequently maintained substantial funds in the form of current and savings accounts. In general, Italian banks were rather loath to rediscount, and used the available facilities quite sparingly. This was also due to a widespread reluctance among Italian business men to have their notes circulated. For normal current needs, advances on government bonds by the central bank were preferred to rediscounting, while panics, runs and other banking situations of an emergency or unusual nature called for ordinary and extraordinary advances from the Bank of Italy and the Consorzio per Sovvenzioni su Valori Industrali on whatever assets were available.

The following table is taken from special statistics published by the Ispettorato for the end of 1937; no later figures are available in comparable form.

POSITION OF ITALIAN BANKS, DECEMBER 31, 1937
(In millions of lire)

	Deposits		Loans		Investments		Cash on hand and with banks
	Current accounts	Savings accounts	Discounts, advances and overdrafts	Long-term loans	Security holdings	Direct investments	
Credit Institutions of Public Law	5,459	5,648	7,568	2,025	3,084	50	1,179
Banks of National Interest	12,412	3,880	13,489	--	1,361	356	4,552
Privately-incorporated banks	4,235	4,312	6,922	70	2,347	54	1,061
People's banks	2,074	4,068	3,753	275	1,707	--	355
Savings banks	2,066	15,954	3,961	4,951	8,307	--	120
Total	26,246	33,862	35,693	7,321	16,806	460	7,267

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The aggregate figures for all banking institutions show a high degree of liquidity. Well over half of the deposits were in savings accounts, while about 60 per cent of the loans and investments appeared to be of a short-term rather than long-term character. Part of the "short-term" assets may actually have represented medium or long-term credits, in view of the liberal renewal policy of the banks; on the other hand, part of the "long-term" assets (virtually the entire security holdings of all but the savings banks) were Government bonds eligible for advances from the Bank of Italy and regarded by the banks as a secondary liquid reserve. It will be seen that the banks of national interest were the only institutions engaged primarily in commercial banking, with a high proportion of current deposits and short-term loans. The credit institutions of public law and the privately-incorporated banks had over half of their deposits in savings accounts, and - especially in the case of the former - held substantial long-term assets.

The credit institutions of public law and privately-incorporated banks had a liquid reserve (cash on hand and balances at call with other institutions) of over 10 per cent of their total deposits. This proportion was much smaller in the case of people's banks and savings banks. The cash position of the banks as a whole was strongly weighted, however, by the extraordinarily high liquid reserves reported by the banks of national interest, amounting to more than one-quarter of their total deposits. These reserves included, however, part of the claims of these banks on the I.R.I. arising out of their transfer to it of their industrial securities; these claims actually represented an advance to the State, which owned and controlled the I.R.I.

As noted above, all banks had a substantial secondary liquid reserve in their holdings of Government bonds eligible for advances from the Bank of Italy. In practice the maintenance of the banks' liquidity depended upon the smooth working of the economic system, and in particular upon the readiness of the Bank of Italy to make its rediscount and lending facilities available whenever needed.

5. The Sources and Distribution of Credit in the National Economy

There was no marked specialization of business or operations among Italian banks, as each category of banking institutions participated in the collection of savings and in the granting of credit to all sectors of the national economy. Nevertheless, there was some difference in emphasis among the various categories.

The total bank deposits of the country (excluding inter-bank accounts) amounted, at the end of 1939, to 98,524 million lire and were distributed as follows:

BANK DEPOSITS AS OF DECEMBER 31, 1939
(In millions of lire)

	Current Accounts	Savings Accounts
Credit institutions of public law	6,257	5,410
Banks of national interest	12,089	6,011
Privately incorporated banks	4,383	5,676
People's banks	2,091	4,303
Savings banks	1,182	17,479
Rural savings and credit associations	7	467
Postal Savings Bank	1,161*	32,008
	27,170	71,354

*End of March 1939.

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No information was made available with regard to the distribution of deposits by categories of depositors. However, the concentration of current accounts with the banks of national interest was indicative of their predominant commercial character. On the other hand, the deposits held by savings banks and the Postal Savings Bank, which dealt particularly with institutional and private (non-commercial) clients, were almost exclusively in the form of savings accounts. As government funds were held by, and Treasury services performed through the Bank of Italy, official accounts presumably played a minor role in all other credit institutions. The practice of maintaining inter-bank deposits, both as cash reserve and as temporary investment of liquid funds, was common to all categories of credit institutions; these inter-bank deposits amounted to 1,622 million lire and represented approximately 2.5 per cent of total bank deposits (excluding the Postal Savings Bank). Their distribution among the various categories of institutions was as follows:

INTER-BANK BALANCES DUE FROM BANKING INSTITUTIONS
AS OF DECEMBER 31, 1939
(In millions of lire)

	Current Accounts	Savings Accounts
Credit institutions of public law	464.7	124.2
Banks of national interest	315.0	12.4
Privately incorporated banks and people's banks	417.6	189.5
Savings banks	87.4	10.7

Credit institutions of public law (Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, Monte dei Paschi di Siena, Istituto di San Paolo di Torino) and savings banks played an almost exclusive role in the financing of public activities, public works, and land improvement. The three banks of national interest (Banca Commerciale Italiana, Credito Italiano, and Banco di Roma), control of which was held by the Istituto per la Ricostruzione Industriale, contributed about one-third of the financing of the steel and metal industries, which were also controlled in large measure by the I.R.I. The financing of agricultural activities, of pools of farm products (particularly wheat), and of processing industries, was widely distributed among all categories of institutions. The credit requirements of the textile and chemical industries were rather small, especially if compared with the important role they played in the economy of the country; while the largest textile companies were financed by the banks of national interest, credit facilities for small and medium-sized plants were provided by the privately-incorporated banks and people's banks. The distribution of credit by categories of banking institutions to the various sectors of the national economy is shown in the following table; these data, relating to the end of August 1936, are the latest available figures in comparable form, having been compiled in the course of a special survey conducted by the Bank of Italy:

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Outstanding Credits to the Various Sectors of Economic Activity
By Categories of Banking Institutions as of August 31, 1936

	Total	Credit institutions of public law	Banks of national interest	Privately-incorporated banks	Savings banks and pawnshops	People's banks
	(In millions of lire)					
Private borrowers	3,261	588	218	671	1,384	400
Public authorities	5,710	2,060	78	137	3,227	208
Banks, finance companies, insurance companies, and stock brokers	3,607	852	363	794	1,365	233
Transportation and communications	501	126	165	116	55	39
Public utilities	456	213	83	62	56	42
Hotels and amusements	220	33	19	53	65	50
Public works and land improvement	3,405	1,064	327	644	1,054	316
Agriculture in general	1,970	53	146	846	710	415
Grain and other cereals	1,174	291	172	223	284	204
Foodstuff industries and trade	1,294	210	366	372	135	211
Retail trade in foodstuffs	267	42	30	73	49	73
Lumber and furniture industries	333	42	84	97	31	79
Mining	609	155	163	131	70	90
Steel and metal industries	1,507	303	508	356	66	274
Chemical industries	307	44	113	75	19	56
Paper and printing industries	256	70	50	75	18	43
Leather goods industry	325	47	90	93	18	69
Textile and clothing industries	1,171	138	329	411	77	216
Retail trade (except foodstuffs)	378	65	84	106	48	75
Other industries	914	69	72	718	43	52
Total	27,065	6,465	3,468	5,213	8,774	3,145

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The financing of commerce

The financing of domestic commerce was the primary function of privately-incorporated banks and people's banks, but all other banking institutions had an important share in this field. A wide sector of the retail trade (small shopkeepers, peddlers) was more or less self-financing or dependent for its credit needs upon facilities extended by the wholesalers or by local money lenders. Large shopkeepers and small and medium wholesale dealers, who were very numerous and controlled the largest share of domestic commerce, relied rather extensively on bank credit, usually obtained from local institutions (privately-incorporated banks and people's banks). The few large wholesale trade concerns and chain stores were rather closely connected either with the Comit or with the Credito. In particular, the Comit served as the banca d'appoggio for the Rinascente, Italy's largest department and chain store, although on the whole, its commercial banking functions were not so extensive as those of the Credito. Discounts of commercial paper and overdrafts on current account for terms of from three to six months were generally used in the financing of domestic commercial transactions.

Foreign trade financing was mainly in the hands of the so-called banche agenti (agent banks), i.e. those banks designated by the Ministero per gli Scambi e le Valute (Ministry for Foreign Trade and Exchanges) to act as agents for the Bank of Italy in foreign exchange operations. This group was made up of the credit institutions of public law and the banks of national interest, plus the Banca d'America e d'Italia (a subsidiary of the Trans-America-Giannini group of San Francisco) and the Banca Popolare Cooperativa Anonima di Novara. By far the greatest share of Italy's foreign trade passed through the Comit, which maintained the largest network of branches, subsidiaries and correspondents in London, New York, Latin America, France, the Balkans, Egypt and other foreign areas. The Credito, through its London, New York, and Paris offices, its subsidiaries in Egypt and Shanghai, and its numerous correspondents, also handled a considerable amount of foreign trade paper, especially that arising from transactions with the British Empire and the Far East. The Banco di Roma's activities were directed particularly toward the Near East and the Italian colonies. After 1938, the Banco Nazionale del Lavoro took charge of Italian trade with Spain; it also handled trade between Italy and Albania. The Banca d'America e d'Italia engaged in the financing of some foreign trade, in addition to handling emigrants' remittances from the West Coast of the United States to Italy. The main exchange business of the Banca Popolare Cooperativa Anonima di Novara was connected with the export of woollen goods produced by the textile industries of Piedmont, with which the bank was closely connected. The Banco di Napoli handled the largest part of trade with Albania through a subsidiary in Tirana and financed Italian-American trade through its offices in New York and Buenos Aires. The share of foreign trade passing through other banks was insignificant.

Under the system of foreign exchange control in force in Italy after 1934, the foreign exchange proceeds of all exports were turned over to the Istituto Nazionale per i Cambi con l'Estero (National Institute for Foreign Exchanges), generally referred to as Istcambi; on the other hand, exchange was made available by the Istcambi to importers upon allocation by the Ministero per gli Scambi e le Valute. Similarly, in the case of trade transactions

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under clearing arrangements (which regulated trade with the entire European continent and some extra-European countries), payments to and receipts from foreign countries were handled by the Istcambi. The Istcambi used the banking and administrative facilities of the Bank of Italy for the performance of its functions.

As a result of the monopoly of foreign exchange exercised by the Istcambi, the scope of the banche agenti was greatly restricted. In the actual administrative procedure, banks handled for their clients the applications and documents required by the foreign exchange control, the collection of foreign credits, and payments abroad. They also discounted short-term commercial paper in lire in favor of Italian exporters who granted the customary credit facilities to foreign importers or whose lira receipts were delayed through the clearing procedure. With regard to imports, Italian banks facilitated the purchase of exchange by their clients from the Istcambi by advancing lira credits; under certain conditions they also made foreign currency credits directly available by having their foreign offices, subsidiaries, and correspondents discount their customers' drafts in dollars, pounds, French francs, and Swiss francs. On the whole, however, the amount of foreign paper handled by Italian banks represented only a minor part of their business.

The financing of industries

The organization of industrial financing underwent a basic transformation during the early thirties, as a result of the transfer of industrial holdings from the Comit, the Credito, and the Banco di Roma to the I.R.I. (Istituto per la Ricostruzione Industriale) and the creation of the I.M.I. (Istituto Mobiliare Italiano).

During the years immediately preceding the war, three main sources of credit were available to industries for working or seasonal credits on a three-months to one year basis, banking institutions in general and the Consorzio per Sovvenzioni su Valori Industriali (Consortium for Advances on Industrial Securities); for equipment and other medium or long-term loans from one to twenty years, the I.M.I.; and for long-term financing and new investments, the I.R.I. and the issuance of shares and bonds in the open market.

Despite the restrictions on direct investments and long-term loans by banks to industry, industrial concerns continued to rely, to an important extent, upon credit facilities extended to them by the banks of national interest, privately incorporated banks, credit institutions of public law, and people's banks. In particular, the banks of national interest served as banche d'appoggio for the major public utility enterprises and industrial concerns of the country. Of the credit institutions of public law, the Banca Nazionale del Lavoro, through special autonomous departments, provided current and fixed capital to the motion picture, hotel and tourist, and fishing industries, the Banco di Sicilia financed the sulphur mining industry of the island and the Banco di Napoli served as banca d'appoggio for a few important industrial undertakings in southern Italy, such as the Manifattura Cotonifici Meridionali.

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Industrial financing was performed (a) through overdrafts and discounts of three to twelve-month industrial paper, the security for which generally consisted of private or government contracts for the delivery of processed commodities or semi-manufactured and manufactured goods, and (b) through advances on securities, preferably government bonds.

The short-term operations of the Consorzio per Sovvenzioni su Valori Industriali were closely coordinated with the medium and long-term operations of the I.M.I.; both were related to the general credit policy pursued by the Bank of Italy. It is recalled that the Consorzio financed itself by rediscounting with the Bank of Italy; also that the Governor of the Bank of Italy was ex-officio the president of the I.M.I. (of which the Consorzio was an autonomous section) and that the branches of the Bank of Italy functioned as local agents for both institutions.

In accordance with the provisions of the Royal Decree-Law of September 5, 1938, No. 1480, the Consorzio was entrusted with credit operations involving unusual risks, such as loans to firms working on armament orders or autarkic projects. The Consorzio extended its credit facilities by rediscounting four month industrial paper secured by industrial securities, industrial raw materials, semi-manufactured and manufactured goods, warehouse receipts, ship mortgages, etc.; the paper was usually renewed at due date. The Consorzio also accepted industrial paper presented by the E.F.I., or Ente Finanziamenti Industriali (Industrial Financing Agency), organized on July 27, 1939, with a capital of 100 million lire, underwritten by private industrial companies engaged in war production (Fiat, Bombrini - Parodi Delfino, Metallurgica Italiana, Pirelli, Dinamite Nobel, Metallurgica Bresciana, Generale di Esplosivi e Munizioni, Breda, Cantieri Riuniti, Cantieri del Tirreno.) The E.F.I. acquired the claims of these companies on the State and rediscounted them with the Consorzio; this device freed the industrial companies from becoming direct debtors to the Consorzio.

During 1939, the Consorzio extended new loans totalling 2,169 million lire, including 1,749 million lire to companies engaged in war production and 240 million lire for land reclamation projects; its total outstanding credits increased from 1,729 million lire at the end of 1938 to 2,302 million lire at the end of 1939.

The I.M.I. extended loans for terms up to twenty years, obtaining funds by issuing its bonds in the market. During the first eleven months of the financial year April 1939 - March 1940, the I.M.I. granted loans totalling about 420 million lire; its total outstanding credits increased from 1,048 million lire on March 31, 1939, to 1,385 million lire at the end of February 1940.

The operations of the I.R.I. being so closely related to war preparations, were clothed with considerable secrecy. In addition to holding and managing parcels of stocks in key industries, the I.R.I. acquired participations in, and financed industrial undertakings engaged in armament production, autarkic projects, and industrial and agricultural development in Italian East Africa.

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The operations of other quasi-public agencies entrusted with industrial financing - the Consorzio di Credito per le Opere Pubbliche (Credit Consortium for Public Works), the Istituto di Credito per le Imprese di Pubblica Utilita (Credit Institute for Public Utility Works), and the Istituto di Credito Navale (Institute for Shipping Credit), all presided over by the governor of the Bank of Italy, were of only minor importance in 1939, as these agencies had progressively restricted their activities with the growth of the I.M.I. and I.R.I. In fact, the Istituto di Credito Navale suspended operations in 1940, its assets and liabilities being transfered to the Consorzio per Sovvenzioni and the I.M.I. At the end of 1939, the Consorzio di Credito per le Opere Pubbliche had outstanding loans amounting to 7,846 million lire (an increase of only 243 million lire during the year); of this total, 1,000 million lire represented loans extended to the I.R.I., the balance being distributed as follows, in millions of lire: public works by municipalities and provinces, 2,030; land improvement works, 1,476; railway electrification, 1,200; railway and communication works, 945; shipping and ship-building, 706; electric power works, 231; and others, 258. The Istituto di Credito per le Imprese di Pubblica Utilita had outstanding at the end of 1938 loans to electrical and telephone companies totalling 1,056 million lire; this figure reflected a progressive contraction over preceding years.

Aside from these operations by quasi-public agencies, the issue of new stocks contributed very largely to the financing of industrial development. During 1939, for example, increases totalling 1,230 million lire were registered in the capitalization of leading private companies (Societa Meridionale di Elettricita, Strade Ferrate Meridionali, Snia Viscosa and Alfa Romeo), and in quasi-public companies (the Azienda Nazionale Idrogenazione Combustili, Azienda Generale Italiana Petroli, and Azienda Carboni Italiani). In addition, many smaller and less important companies also raised new capital through the issue of stock. On the other hand, debentures or bonds never played a significant role in industrial financing and few new issues were placed in the market after 1935.

The financing of agriculture

The financing of agricultural activities (production, pooling, and marketing of agricultural commodities; purchases of livestock and farming equipment; land improvement and mortgage loans) was engaged in by specialized quasi-public agencies and institutions. In addition, privately-incorporated and cooperative credit institutions put into agriculture between one-third and one-fifth of their total outstanding credit, while private money lenders (merchants, landowners, retired officials, and professional persons) invested part of their savings in seasonal and long-term loans to small farmers and tenants on the security of crops and land mortgages.

The Law of July 5, 1928, No. 1760, provided for a comprehensive regulation of agricultural credit and of institutions entrusted with, or authorized to perform, agricultural credit operations. At the end of 1939, the following agencies and institutions were engaged in this field:

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(a) Istituti Speciali di Credito Agrario (special institutions for agricultural credit), the function of which was to extend short, medium and long-term agricultural credit. Of these, one - the Consorzio Nazionale per il Credito Agrario di Miglioramento (National Consortium for Agricultural Credit for Land Improvement) - was founded by the State and financed by funds of the State, the Banco di Napoli, the Banco di Sicilia, the Banca Nazionale del Lavoro, savings banks, and insurance institutions; its operations were on a nation-wide basis. The others were regional institutions founded by and drawing their capital funds from local savings banks and credit institutions of public law. Several of these bodies received advances from the State; one of them (the Sezione di Credito Agrario dell' Istituto di Credito Fondiario delle Venezie) issued mortgage bonds and another (the Istituto di Credito Agrario per la Sardegna) was authorized to accept deposit accounts. These regional institutions are listed as follows:

Istituto Federale di Credito Agrario per il Piemonte, in Piedmont
Sezione di Credito Agrario dell'Istituto Federale delle Casse di Risparmio delle Venezie, and Sezione di Credito Agrario dell'Istituto di Credito Fondiario delle Venezie, in the Venice Regions (Venice, Trento, Trieste)
Sezione di Credito Agrario delle Casse di Risparmio delle Provincie Lombarde, in Lombardia
Istituto di Credito Agrario per la Liguria, in Liguria
Istituto Federale di Credito Agrario per la Toscana, in Tuscany
Sezione di Credito Agrario per l'Emilia e la Romagna della Cassa di Risparmio di Bologna, in Emilia and Romagna
Istituto di Credito Agrario per l'Italia Centrale, in Central Italy
Sezione di Credito Agrario del Banco di Napoli, in Southern Italy
Sezione di Credito Agrario del Banco di Sicilia, in Sicily
Istituto di Credito Agrario per la Sardegna, in Sardinia.

(b) The Banca Nazionale del Lavoro and the Banca Nazionale dell'Agricoltura, which were authorized to extend short and medium-term agricultural credit.

(c) The Casse Rurali, rural savings and credit associations with special interest in short and medium-term financing of small farmers. These associations generally acted as intermediaries between the special lending institutions and the borrowing farmers.

(d) Savings banks, pawnshops, privately-incorporated and cooperative credit institutions. These could, upon special authorization from the Ministry of Agriculture, engage in agricultural financing.

(e) The Istituto Italiano di Credito Fondiario (Italian Institute for Mortgage Credit), the Istituto Nazionale delle Assicurazioni (National Institute of Insurance), etc. These quasi-public institutions, while not organized to serve agricultural credit in particular, were nevertheless an important source for agricultural mortgage loans, particularly in connection with the financing of land reclamation.

(f) The Associazione Nazionale Combattenti (War Veterans' Association). This body provided medium and long-term facilities to war veterans for the purchase and development of small farms.

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In accordance with legal provisions and business practice, credit for agricultural activities consisted of three types; narely, for pooling and marketing of commodities, current farm operations, and land improvement and reclamation.

The financing of agricultural commodity pools (ammassi agrari) was an outgrowth of the banking practice of financing storage of agricultural commodities; however, its organization in 1939 represented a relatively recent experiment, closely connected with and an integral part of the system of compulsory pooling and collective marketing of agricultural commodities. This system was originally introduced for wheat by the Royal Decree-Law of June 24, 1935, No. 1049; it was gradually extended to other commodities and in 1939 covered wheat, corn, rice, wool, silk cocoons, hemp and olive oil. Under the system, the authorized pooling agencies made advance payments to producers from 80 per cent (wool, silk) to 100 per cent (wheat) of the official value of the commodities delivered to the pool. The pooling agencies discounted their paper, secured by the commodities held in the pool, with credit institutions; these institutions in turn could rediscount the same paper with the Bank of Italy. This type of financing was purely seasonal, as it was liquidated by the sale of the commodities from the wool. Thus, during the wheat harvest of 1939, the excess of the advances to farmers by the pooling agencies over the amounts received by them through their sale to flour mills reached a peak in mid-September of 3,503 million lire; this figure had fallen (according to the Bank of Italy's annual report for 1939) to 2,703 million lire by the end of the year. The assistance of the Bank of Italy in covering this excess was evidenced by its rediscount of these types of bills, which on October 20 totaled 2,352 million lire and by December 20 had contracted to 1,698 million lire. This type of credit carried no risk, as the commodities in the pool were insured, their price was fixed, and there was a ready market for them; moreover, the Government usually guaranteed the liabilities of the pooling agencies.

The loans for current operations were made for financing the purchase of livestock and farm equipment, the storage of agricultural products (including collective and compulsory pools), and the operations of agricultural cooperative associations. Cooperative associations (consorzi agrari) played a rather important role in the field of purchases of equipment and fertilizers and in the marketing of agricultural commodities. The consorzi obtained credit from the financing institutions and extended the same facilities to their members; they were also authorized to rediscount with the same financing institutions paper presented by their members. The loans were extended for periods from a few months to five years, on agricultural paper usually renewed at due date.

Loans for land improvement were granted on mortgage security for terms up to 30 years, extended under certain conditions up to 50 years, for irrigation works, road building, rural housing, introduction of new crops, development of small farm ownership, and land reclamation. Most of these loans, particularly those for reclamation purposes and the development of small farm ownership, enjoyed government subsidies up to 50 per cent either on capital repayment or on interest charges. These loans were almost exclusively the field of the special institutions, the Istituto Italiano di Credito Fondiario, the Istituto Nazionale delle Assicurazioni, and the Associazione Nazionale Combattenti; although all other institutions participated in varying degrees. The amount of new loans of this type declined

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from year to year during the 'thirties, but amortization payments were also slow, owing to the very long-term character of the operations, and the total outstanding amount gradually rose.

The distribution of agricultural credit before the war is given, by type, institutions and regions, in the following table:

Agricultural Credit Loans, as of December 31, 1939
(In million lire)

	Loans for current operations				Loans for land improvement			
	Total	Special Institutions	Banca Nazionale del Lavoro	Authorized Institutions	Total	Special Institutions	Consorzio Nazionale di Miglioramento	Authorized Institutions
Piemonte	523.8	480.6	30.7	12.6	74.1	39.9	34.2	--
Liguria	2.6	2.6	--	--	41.2	15.5	25.7	--
Lombardia	776.4	419.4	91.4	265.6	143.5	70.5	72.5	.4
Venezia Tridentina	15.7	--	15.7	--	13.5	9.2	4.3	--
Veneto	627.9	585.0	--	42.9	264.1	229.0	35.1	--
Venezia Giulia	13.1	--	13.1	--	27.1	24.2	2.9	--
Emilia	236.1	--	129.6	106.4	172.7	25.1	147.6	--
Toscana	110.0	2.6	21.9	85.5	220.4	128.9	88.2	3.3
Marche	229.7	96.7	10.6	122.5	49.9	15.0	33.9	1.0
Umbria	104.9	37.8	12.7	54.4	53.8	6.9	46.9	--
Lazio	161.3	70.9	7.7	82.6	178.4	6.4	171.8	.2
Abruzzi e Molise	130.9	112.7	15.9	2.4	28.4	19.1	9.3	--
Campania	67.9	64.2	3.8	--	74.8	34.7	40.1	--
Puglie	353.9	346.8	5.4	1.6	89.8	31.9	57.8	--
Lucania	85.7	85.7	--	.1	17.2	14.1	3.1	--
Calabrie	50.4	36.8	13.5	.2	66.8	45.3	21.5	--
Sicilia	283.4	256.9	23.0	3.5	122.5	70.0	52.5	--
Sardegna	19.8	15.0	4.8	--	66.2	32.3	33.9	--
Total	3,793.5	2,613.7	399.8	780.3	1,704.4	818.0	881.3	4.9

The financing of real estate

Both historically and economically, the financing of real estate is closely connected with the financing of agriculture. However, in pre-war years, the tendency was toward a specialization of activities among institutions lending on mortgage security, with the special agricultural credit institutions lending on farm mortgages and land improvement, and the mortgage credit institutions directing their operations particularly toward urban real estate. Aside from these special mortgage institutions, real estate was a popular form of investment or lending by private capitalists and non-profit organizations. In the case of insurance enterprises, real estate and loans on real estate accounted for approximately 40 per cent of the earning assets, while other financial institutions (including banks) and industrial and commercial concerns placed in this field a considerable part of their reserve funds.

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There were, at the end of 1939, twelve special institutions for mortgage credit; namely, two which operated on a national scale, the Istituto Italiano di Credito Fondiario (Italian Institute for Mortgage Credit) and the Sezione di Credito Fondiario della Banca Nazionale del Lavoro (Mortgage Credit Section of the Banca Nazionale del Lavoro); and ten regional institutions distributed as follows:

Credito Fondiario dell' Istituto di San Paolo di Torino, in Piedmont
Credito Fondiario della Cassa di Risparmio delle Provincie Lombarde, in Lombardy
Istituto di Credito Fondiario della Regione Tridentina, in the Trento and Bolzano provinces
Istituto di Credito Fondiario del Friuli Orientale, in the province of Udine
Istituto di Credito Fondiario delle Venezie, in the Venice regions
Credito Fondiario della Cassa Risparmio di Bologna, in Romagna and Emilia
Credito Fondiario del Monte dei Paschi di Siena, in Tuscany and Central Italy
Credito Fondiario del Banco di Napoli, in Southern Italy
Credito Fondiario del Banco di Sicilia, in Sicily
Credito Fondiario Sardo, in Sardinia

These institutions were financed by capital supplied by the State, savings banks and credit institutions of public law; by accumulated reserves; and by issue of 4 per cent long-term bonds. At the end of 1939 their mortgage loans amounted to 5,970 million lire, their outstanding mortgage bonds to 5,368 million lire, and their balance sheet total to 6,344 million lire. The distribution by provinces of the credits extended during 1939 on rural and urban real estate is indicated in the following table (no data on the outstanding credits at the end of 1939 is available):

Distribution by Provinces of Loans Made by Mortgage Institutions during 1939

	On Urban Real Estate		On Rural Real Estate		On Mixed Real Estate	
	No.	Amount (Thousand lire)	No.	Amount (Thousand lire)	No.	Amount (Thousand lire)
Piemonte	93	23,551	8	6,466	--	--
Liguria	32	6,200	--	--	--	--
Lombardia	244	57,387	41	13,629	--	--
Venezie Tridentina	32	2,757	17	746	--	--
Veneto	40	2,151	102	2,208	--	--
Venezia Giulia e Zara	57	5,936	17	242	--	--
Emilia	89	11,711	65	18,143	6	1,650
Toscana	61	11,553	34	6,316	--	--
Marche	5	2,070	26	4,999	2	535
Umbria	5	4,757	5	666	--	--
Lazio	292	81,768	20	7,228	--	--
Abruzzi e Molise	11	811	5	709	1	95
Campania	334	19,976	27	3,251	14	1,161
Puglie	26	1,648	15	1,883	--	--
Lucania	2	460	6	515	--	--
Calabri	1	60	17	2,497	2	1,500
Sicilia	21	2,452	7	4,698	--	--
Sardegna	1	40	3	315	--	--
Total	1,346	235,288	415	74,511	25	4,941

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The financing of the Government

Ever since 1935, the Italian Government had severely restricted information regarding the public debt in general and the financing of its budgetary deficits and war outlays in particular. However, from the reports of the Bank of Italy, it is possible to reconstruct the main lines of the pre-war financial policy of the Fascist Government.

The total deficit from July 1, 1936, to June 30, 1939 - the period between the conclusion of the Ethiopian campaign and the beginning of the European war - amounted to 39.5 billion lire; 86.5 billion ordinary expenditures and 33 billion extraordinary expenditures were only partially covered by the 80 billion fiscal receipts. The total Italian public debt rose from 133.5 billion lire to 175 billion during this period, as a result partly of the issuance of 5 per cent long-term bonds and partly of short-term borrowing. The amount of Government bonds absorbed on the whole by banking institutions between the end of 1936 and the end of 1939 was not very large; their investments in this medium rose by 2,978 million, while their advances on securities expanded by 3,032 million during the period. Banking institutions did not directly contribute to the Government's short-term financing, except in the case of the Bank of Italy, whose advances to the Treasury increased by 6 billion lire - from 3 to 9 billion - from 1936 to 1939. The bulk of this financing was handled by Cassa Depositi e Prestiti, whose claims on the Government rose by 11.4 billion lire - from 10.3 billion to 21.7 billion - during the same period. The banks also assisted the Government, however, by sharing the responsibility for financing Government contractors with unredeemed claims on the Treasury. At the end of June 1938 the net current debit balance of the Treasury to such contractors amounted to 7,048 billion lire; no figure is available for the middle of 1939.

However, banks played an important role in assisting the flotation of Government bonds. The Bank of Italy headed a banking syndicate, including nearly all credit institutions and the leading insurance companies, which underwrote Government issues up to a certain sum and provided credit facilities to subscribers - usually by making advances up to 82-1/2 per cent of the face value of the bonds. Banks' participation in the consortium was in proportion to their total assets.

The credit institutions of public law and the savings banks, as well as the Cassa Depositi e Prestiti, contributed largely to the financing of provincial and municipal authorities, Fascist Party organizations, and other public agencies. Most of this financing was in the form of loans, the issuance of bonds by such agencies being subject to severe legal restrictions.

At the close of 1935 (last available information) the borrowing by municipalities and provinces was distributed as follows:

	Municipalities	Provinces
	(In million lire)	
Cassa Depositi e Prestiti	6,896	656
Credit Institutions	8,330	1,168
Outstanding bonds	6,681	81
Others	318	12

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Conclusion

The distribution of credit among the various sectors of economic activities underwent some important changes during the years from the close of the Ethiopian campaign to the opening of the European war. As the following table indicates, the general trend of bank credit during the three years 1937 to 1939 was directed principally toward industrial activities and in particular toward heavy industries; this trend was in line with the autarkic policy pursued by the Government.

Outstanding Credits by Banks to Various Sectors of Economic Activity*
(In million lire)

	June 30, 1937	June 30, 1938	June 30, 1939
Private borrowers	4.1	4.3	3.9
Public authorities	5.4	5.1	5.1
Banks, insurance companies and stock brokers	3.2	3.3	3.3
Building, public works and land reclamation	4.3	4.2	4.2
Agriculture	2.6	2.7	3.0
Foodstuff industries and trade	2.3	2.8	3.3
Steel and metal industries	1.9	2.7	3.4
Textile and clothing industries	1.5	2.1	2.4
Other activities	4.5	5.1	5.9

* This table includes credits by banks with one million or more deposits.

6. The Bank of Italy

The Legal Status

The Bank of Italy (Banca d'Italia), established by law of August 10, 1893, No. 449, was the central bank and the sole bank of issue in Italy. By Royal Decree-Law of March 12, 1936, No. 375 - concerning the defense of savings and the regulation of credit - the Bank of Italy was transformed from a privately owned incorporated institution into an Istituto di Diritto Pubblico (public law institution) subject to special legislation. The term of its charter, previously limited to December 31, 1950, was extended for an indefinite period. The internal organization of the bank, as well as its operations, were regulated by special statutes approved by Royal Decree of June 11, 1936, No. 1067. Relations between the bank and the State were regulated by a financial convention approved by Ministerial Decree of December 31, 1936.

The Bank of Italy had a capital of 300 million lire, distributed in 300,000 registered shares held by a syndicate consisting of savings banks, credit institutions of public law, banks of national interest, social insurance institutions, and insurance companies and institutions. On December 31,

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1939 the shares of the bank were in the hands of 106 institutions, subdivided as follows:

Institutions	Number of Shares
84 Savings Banks	184,736
11 Public Law Credit Institutions and Banks of National Interest	68,764
1 Social Insurance Institution	15,000
10 Insurance Companies and Institutions	31,500
Total	300,000

The Central Administration

The administration and management of the Bank of Italy were centralized in Rome in an Amministrazione Centralle (Central Administration), usually referred within the bank as the "A. C.". This controlled a network of thirteen Sedi (chief offices) in Ancona, Bari, Bologna, Florence, Genoa, Leghorn, Milan, Naples, Palermo, Rome, Turin, Trieste, and Venice, 71 Succursali (branches) in important centers, and 44 Agenzie (agencies) in other localities in Italy. In addition, there were 15 Filiali (branches) in Italian colonies.

The central administrative organs of the bank were:

(a) The general meeting of shareholders;
(b) The Consiglio Superiore;
(c) The Governatore, the Direttore Generale and the Vice-Direttore Generale.

The ordinary general meeting of shareholders was called by the Consiglio Superiore in January and was held in Rome at the end of March of each year. The meeting passed upon and approved the year-end balance sheet and the profit and loss account and elected the Sindaci (auditors) of the bank. Participation in the meeting was limited to shareholders who had held at least 100 shares for a period of three months. Shareholders had a right to one vote per 100 shares up to 500 shares, and to one vote per 500 shares above that. Extra ordinary general meetings of shareholders were called by decision of the Consiglio Superiore, or of the Sindaci, or of shareholders holding 20,000 or more shares. Ordinary or extraordinary general meetings were legally held whenever attended by thirty or more shareholders holding one-tenth or more of the total capital of the bank; in case of lack of quorum, however, the next succeeding meeting would then be legally held irrespective of the number of participants and the proportion of total capital represented.

The Consiglio Superiore consisted of sixteen members; namely, the Governatore, twelve consiglieri elected by shareholders, and three consiglieri appointed by the Corporazione della Previdenza e del Credito. Shareholders were requested to register their shares with the Sede of the bank nearest to their corporate seat; a consigliere representing each Sede was elected by the shareholders registered there, except that the shareholders of the Florence and Leghorn Sedi together elected only one consigliere. The Consiglio Superiore

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held one meeting regularly every month in Rome and was entrusted with functions of general administration, with special regard to the following:

(a) Issue of bank notes;
(b) Conditions and conduct of banking operations;
(c) Staff appointments and regulations;
(d) Control over branch administration and activities;
(e) Appointment of the bank's domestic and foreign correspondents.

In addition, the Consiglio elected every year a four-member committee (Comitato del Consiglio Superiore), which acted in an advisory capacity on matters submitted by the Governatore. The bank's five Sindaci (auditors) and two Sindaci Supplenti (alternate auditors), were authorized to be present at the meeting of the Consiglio Superiore.

The executive officers of the Central Administration were the Governatore, the Direttore Generale and the Vice-Direttore Generale. These officers were appointed and dismissed by the Consiglio Superiore, and subject to confirmation by royal decree submitted by the Head of the Government and the Minister of Finance with the advice of the Council of Ministers. The Governator was the official and legal head of the bank. He was vested with broad authority in the administration and conduct of its business, with special regard to:

(a) Undertaking operations in Government bonds and foreign exchange;
(b) Advising the Minister of Finance on changes in the discount rate and in the rate on advances;
(c) Appointing, promoting, and transferring managerial officers.

In the performance of his functions, the Governatore was assisted by a private secretarial office (Gabinetto del Governatore), entrusted with confidential work, and a research department in charge of economic and statistical analysis. Moreover, the representatives of the Istituto Nazionale per i Cambi con l'Estero (National Foreign Exchange Institute) and the Bank of Italy abroad (in Paris, Zurich, Brussels, London, New York, Rio de Janeiro and Buenos Aires) were responsible directly to the Governatore and reported to him regularly on foreign developments.

In addition, the Governatore occupied, ex-officio, the following positions: member of the board of the Corporazione della Previdenza e del Credito, Head of the Ispettorato per la Difesa del Risparmio e l'Esercizio del Credito, President of the Istituto Mobiliare Italiano and its autonomous section (Consorzio per Sovvenzioni su Valori Industriali), President of the Consorzio di Credito per le Opere Pubbliche, President of the Istituto di Credito per le Imprese di Pubbliche Utilità, director of the Istituto Nazionale per i Cambi con l'Estero, head of the Ispettorato per le Operazioni in Cambi e Divise, and director of the Bank for International Settlements. This personal liaison by its Governatore made the Bank of Italy the key institution in the money and credit system of the country, both in the domestic field and with regard to foreign financial relations.

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The Direttore Generale and Vice-Direttore Generale were in charge of all routine operations. In addition, the Direttore Generale was entrusted with the performance of the functions of the Governatore in the latter's absence or incapacity. The detailed work of the Amministrazione Centrale was carried out by a Segretario Generale (general secretary) and a number of Capi Servizio (chiefs of departments), who were managerial officers in charge of the various departments (personnel, accounting, rediscount and advances, Government bonds, Treasury operations, foreign financial operations, foreign exchange control, supervision of credit institutions, taxation and fiscal matters, bank note printing, legal matters, etc.). The Central Administration had at its direct disposal about one thousand employees, out of a total personnel of about seven thousand for the whole bank.

It should be pointed out that the shareholders exercised no authority at their general meetings, and that the members of the Consiglio Superiore were prominent citizens who held the position in an honorary capacity, principally because of the high prestige attached to the office rather than as an active function. As a result, the Governatore, assisted by the Direttore Generale and the Vice-Direttore Generale, had a practically unrestricted control over the policy and administration of the bank. Traditionally, in case the office of Governatore became vacant, the Direttore Generale succeeded to it, and the Direttore Generale was usually replaced by one of the general directors of the Ministry of Finance; the position of Vice-Direttore Generale, however, was usually filled from the ranks of the bank. The Governatore of the Bank of Italy in 1939 was Dr. Vincenzo Azzolini, who had been Direttore Generale del Tesoro (General Director of the Treasury) in 1925--1928; he was appointed Direttore Generale of the bank in 1928 and became Governatore in 1931. The position of Direttore Generale was occupied thereafter by Dr. Pasquale Troise, who had been Direttore Generale delle Dogane e Imposte (General Director of Customs and Excises) from 1928 to 1931. The Vice-Direttore Generale was Professor Niccolo Introna.

The Branch Organization

The Amministrazione Centrale did not conduct banking operations directly, but directed and controlled the activities of the Sedi, Succursali, Filiali and Agenzie.

The Sedi (chief offices) were situated in important cities; their location was determined by the statutes of the bank, having regard to the economic interests and political traditions of the various regions. The most important sedi (Rome, Milan, Turin, Genoa, Naples) were classified as Sedi di Prima Classe (chief offices of the first category).

The administration of each sede was placed in the hands of a Consiglio di Reggenza (Board of Regents), consisting of from seven to fourteen members. These included the manager of the sede, and prominent industrialists, merchants, and landowners appointed by the Consiglio Superiore of the bank. Also, the member of the Consiglio Superiore appointed by the shareholders of the sede was ex-officio a member of the sede's Consiglio di Reggenza. The Consiglio di Reggenza was entrusted with special functions such as passion on commercial paper submitted for discount, supervision over the execution of directives and instructions issued by the Amministrazione Centrale, the opening and closing of vaults, and the approval of disposal or liquidation of outstanding assets. One of the regents was designated by the Consiglio Superiore

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as censore (auditor) of the sede and charged with the auditing of accounts and balance sheets. It was the duty of the regents to take direct charge of the sede in case of absence of the Direttore and Vice-Direttore.

The Succursali (branches) were situated in the administrative centers of Italian provinces*; the succursale in Rome was annexed to the Amministrazione Centrale and functioned as the latter's operating department. Each succursale was administered by a manager and a number (from four to ten) of consiglieri (counselors), who were appointed by the Consiglio Superiore and had functions similar to those of the regents of a sede.

There was little difference between sedi and succursali. Both types of establishments conducted the same operations under strict control of the Amministrazione Centrale, to which they were required to submit all important transactions for approval and to report regularly with regard to their position and accounts. In both cases, despite the functions formally entrusted to regents and counselors, the actual conduct of business was in the hands of the Direttore, who was the legal head of the sede or succursale in dealings with both the Central Administration of the bank and third parties. The Direttore of a sede or succursale was assisted by a Vice-Direttore (assistant manager) who acted on behalf of the manager during the latter's absence or incapacity. In addition, there were a cashier, who was in charge of the tellers' operations, and a number of Capi Uffici (chiefs of bureaus), in charge of the various sections of the sede or succursale (secretarial, accounting, foreign exchange, foreign clearing, clearing house, supervision of credit institutions, etc.)

The Agenzie (agencies) were subsidiary offices which were under the direct control of sedi or succursali and were usually situated in centers of minor economic and political importance.

The bank's offices in the Italian colonies were classified as Filiali (branches), with a status similar to that of the succursali in the metropolitan territory; the manager, however, was in sole charge of them, as there were no counselors in their administrative set-up.

Operations

The Bank of Italy was entrusted with the exclusive privilege of note issue in all Italian territories and with general banking functions. It did not, however, conduct a commercial banking business. Specifically, the

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*Agrigento, Alessandria, Apuania (Massa), Arezzo, Ascoli Piceno, Avellino, Belluno, Benevento, Bergamo, Biella, Brescia, Cagliari, Caltanissetta, Campobasso, Caserta, Castellammare di Stabia, Catania, Catanzaro, Chieti, Como, Cosenza, Cremona, Cuneo, Ferrara, Fiume, Foggia, Forli, Gorizia, Imperia, L'Aquila, La Spezia, Lecce, Lucca, Macerata, Mantova, Messina, Modena, Novara, Padova, Parma, Pavia, Perugia, Pesaro, Pescara, Piacenza, Pisa, Pistoia, Potenza, Ravenna, Reggio Calabria, Reggio Emilia, Roma, Rovigo, Salerno, Sassari, Savona, Siena, Siracusa, Teramo, Terni, Trapani, Trento, Treviso, Udine, Varese, Vercelli, Verona, Vicenza Viterbo, Zara.

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bank was authorized to:

(a) Rediscount commercial paper on behalf of those credit institutions subject to the supervision of the Ispettorato;
(b) Discount Treasury bonds, and receipts of merchandise deposit issued by official warehouses;
(c) Make advances to credit institutions and private firms and individuals on the security of Government bonds and commodities delivered into official pools;
(d) Make investments in Government and Government-guaranteed bonds;
(e) Purchase and sell gold and foreign exchange;
(f) Accept deposits on custody, fixed, time and current accounts;
(g) Perform banking operations on behalf of third parties;
(h) Perform operations and services on behalf of the Government Treasury;
(i) Operate clearing houses and provide banking and credit facilities for them.

In the performance of its operations, the Bank of Italy followed certain customary practices. The bank discounted Government and Government-guaranteed bonds if maturing within four months and bills in foreign currency if issued in Italy and payable abroad. Finance paper was eligible for discount if used for the production of necessary raw materials and if it had a seasonal character in harmony with the production cycle of such materials. In general, bills drawn for speculative purposes or stock exchange transactions were refused; no limit was placed upon the total of discounts for any borrower. Discounted bills could be renewed at maturity, but a partial payment was usually required. The discount rate was uniform for all borrowers and all transactions and was fixed by the Minister of Finance on the proposal of the Governatore of the bank. The discount rate was last changed, before the outbreak of the war, on May 18, 1936, when it was lowered from 5 to $4\frac{1}{2}$ percent.

The only type of advance made by the bank was the four-month advance in current account, except the one-day advances for clearing-house payments. The bank usually made advances up to 85 percent of the value of gold and Treasury bills and 80 percent of other securities, and up to two-thirds of the value of commodities. The value of collateral was not permitted to fall more than one-half of the difference between its original value and the amount of the advance. The value of pledged securities was calculated at stock exchange quotations or at nominal value, whichever was lower; the value of pledged merchandise was determined by experts. The rate on advances was usually the same as the discount rate and was uniform for all advances.

In addition, the Bank of Italy had the following special duties:

(a) It acted as agent for, and conducted operations for the account of, the Istituto per la Ricostruzione Industriale, the Istituto Mobiliare Italiano and its autonomous section (Consorzio per Sovvenzioni su Valori Industriali), the Consorzio di Credito per le

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Opere Pubbliche, and the Istituto di Credito per le Imprese di Pubblica Utilita;

(b) It was entrusted with the liquidation of the Credito Fondiario (gia della Banca Nazionale nel Regno);

(c) It supervised and controlled credit institutions in accordance with the existing legislation and with the directives issued by the Ispettorato; every two months it reported the statements of condition of the credit institutions to the Ispettorato.

(d) It served as the executive representative of the Istituto Nazionale per i Cambi con l'Estero and the Ispettornto per le Operazioni in Cambi e Divise.

The Bank of Italy paid to the Italian State a tax on its note issue; the tax was fixed at one-tenth of the discount rate with a minimum of 0.5 percent, the taxable note issue being the amount of notes in circulation exceeding the gold and foreign exchange reserves and the advances to the State. On the other hand, the Government paid to the bank a sum of 30 million lire per annum to cover the expenses incurred by the latter in connection with services rendered the Treasury. The profits of the bank were distributed as follows: 20 per cent to special reserves set up with the authorization of the Ministry of Finance, a fixed amount of 281,060 lire to the liquidating administration of the Credito Fondiario (gia della Banca Nazionale nel Regno), a fixed 6 percent divident to share holders, and the balance to the Treasury.

Balance Sheet and Profit and Loss Account

The balance sheet of the Bank of Italy, shown on the following page for the end of 1939, was divided into three parts.

The first part included the total sight liabilities (notes in circulation, demand drafts outstanding, and current accounts) and the legal reserves maintained against such liabilities. Note issue represented about 90 percent of the total sight liabilities, indicating clearly the predominant role of the bank as issuing agency rather than as depository of reserve funds for the account of credit institutions. The reserves against such liabilities were less than 12 percent at the end of 1939, consisting largely of gold on hand, which represented about 88 percent of total reserves.

The second part of the balance sheet included the items arising from current operations of the bank. On the liability side the most important items were the capital and reserves, the Treasury's current account, and the time deposits (largely judicial deposits and deposits for account of credit institutions in liquidation); in addition there was a large category of "other liabilities" of an undefined character. On the asset side, the following items were particularly significant:

(1) The "Gold deposited abroad due by the State" represented gold transferred to the Italian State in 1915 and deposited in London as security for war loans. Since 1931 the

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BANK OF ITALY

Balance Sheet, December 31st, 1939.

Assets:			Liabilities:	
Gold in hand	L. 2,738,138,622.83		Notes in circulation	L. 24,432,169,200.00
Balances abroad	393,450,775.00		Demand drafts outstanding	1,218,343,302.58
Total Reserve	3,131,639,437.83		Current accounts	1,268,021,393.13
			Total sight liabilities	26,918,533,895.71
Gold deposited abroad, due by the State	1,772,798,105.00		Capital	300,000,000.00
Cash in hand	801,168,633.79		Statutory reserve	119,278,300.47
Inland bills	4,832,768,068.33		Extraordinary reserve	65,814,888.32
Bills for collection	24,142,610.74		Time deposits	490,903,935.59
Advances to customers			Treasury current account	474,998,772.79
Against Government securities and mortgage bonds L. 2,991,192,978.72			"Internal Debt Sinking Fund Office" current account	12,389,634.12
Against silk and cocoons 4,128.20			"Institute for Industrial Reconstruction" sinking fund	143,419,559.95
	2,991,197,106.92		Other liabilities	974,452,808.25
Investments (Government Securities owned by the Bank)	777,293,835.53		Net profits for the Year	117,319,428.48
Current accounts in the Kingdom:				
Deferred payments at clearing houses 16,787,421.11				
Other accounts 41,453,740.64				
	58,241,161.75			
Advances to the Treasury--extraordinary	8,000,000,000.00			
Advances to the Treasury--temporary	1,000,000,000.00			
Premises	113,656,090.03			
Credit with Institute for Industrial Reconstruction	4,708,097,530.74			
Other assets	1,376,108,643.02			
	L. 29,617,111,223.68			L. 29,617,111,223.68
Securities and other valuables deposited	47,700,847,278.51		Securities and other valuables deposited	47,700,847,278.51
	L. 77,317,958,502.19			L. 77,317,958,502.19
Amounts written off in past year	206,358,350.06		Amounts written off in past year	206,358,350.06
TOTAL	L. 77,524,316,852.25			L. 77,524,316,852.25

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bank maintained a corresponding claim against the Italian State, although this claim on gold was not included among the reserves against notes and other sight liabilities.

(2) The "Advances to the Treasury" included the temporary unsecured advance of 1,000 million lire agreed upon by the bank in its convention with the Italian State in 1936, and subsequent extraordinary advances totalling 8,000 million lire and secured by Government bonds.

(3) The "Credit with the Institute for Industrial Reconstruction" represented the balance of various advances made by the Bank of Italy through the I. M. I. and the Consorzio per Sovvenzioni su Valori Industriali in connection with the transfer to the I. R. I. of industrial holdings of the Banca Italiana di Sconto, Banca Commerciale Italiana, Credito Italiano and Banco di Roma.

(4) The "Inland bills" represented paper rediscounted by the bank on behalf of other institutions - mainly on behalf of institutions financing pools of agricultural commodities and of the Consorzio per Sovvenzioni su Valori Industriali.

(5) The "Advances to customers" included advances on Government and Government-guaranteed bonds and, to a limited extent, on mortgage bonds issued by quasi-public mortgage institutions.

The third part of the balance sheet consisted of custody accounts and included stocks and other securities held for the account of the I.R.I., the I.M.I. and other credit institutions either in operation or in liquidation.

The application in 1936 of the provision withdrawing from the Bank of Italy the privilege of private discount for the general public resulted in a decline of the bank's total non-governmental discounts and advances (including the I.R.I. account) from 9.8 to 7.6 billion lire and in a decline of its profits from 100.8 million to 71 million lire between 1935 and 1936. In order to alleviate this situation, the bank entered the field of indirect Government financing in an extensive way. This field embraced:

(a) Compulsory and free pools of agricultural commodities were financed by credit institutions which made advances by rediscounting bills, usually three-month paper, with the Bank of Italy.

(b) Advances on Government contracts, with particular regard to armament industries, were made by the Consorzio per Sovvenzioni su Valori Industriali, which obtained its means for these operations by rediscounting short-term renewable bills with the Bank of Italy.

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As a result of these rediscounting operations -- for the financing of commodity pools and armaments -- the item "inland bills" of the bank's balance sheet rose from 1,267 million at the end of 1936 to 4,833 million lire at the end of 1939.

(c) The Bank of Italy played an important part in competion with other banks in financing, through advances on Government securities, subscription to compulsory loans and payment of capital levies in 1936-1938. The bank's advances on Government securities rose from 1,599 million lire in 1936 to 2,991 million lire in 1939.

It is evident that through the expansion both of direct advances to the Treasury and of rediscounts for and advances to credit institutions and private business, the activities of the Bank of Italy were increasingly confined to short, middle, and long-term financing of the Treasury. These operations were highly profitable, as can be seen from the steady increase in the net book profits of the bank from 71 million lire in 1936 to 117 million lire in 1939, despite a rise in its operating costs from 249 to 344 million lire during the same period. Although this increase in the bank's profits was evidently due to official operations and although the bank had been transformed into an institution of public law, its administration, severly schooled in the conservative tradition of the late Governor Bonaldo Stringher, consistently reacted against this tendency, forced upon the bank by the Government and by events. Firstly, the bank decreased its holdings of Government securities from 1,400 - 1,500 million lire in 1935 - 1936 to 700 - 800 million lire in 1939, during a period of rapid expansion in the public debt. Secondly, it invested more profits in real estate, with the purpose of safeguarding the bank's position against inflation and decreasing the net profits to be turned over to the State. This point is clearly demonstrated by the spectacular rise in two items, expenditures for and amortization of real estate (which, being included in the operating costs of the bank, were deducted from gross profits):

	Real Estate Expenditures	Amortization	Total Book Profits	Payment to the Treasury
		(in millions of lire)		
1935	1.5	28.0	100.9	-
1936	2.3	35.9	71.2	32.0
1937	5.3	35.6	98.8	41.0
1938	10.2	47.8	131.4	60.6
1939	10.4	62.1	117.3	52.1

Through this cautious policy, the Bank of Italy presumably succeeded in building up important secret reserves invested in real estate. Obviously, it is impossible to estimate their amount, but under the inflationary conditions prevailing in Italy these assets might prove of considerable value in the liquidation or reorganization of the bank.

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7. Istituti di Credito di Diritto Pubblico

At the end of 1939 there were five Istituti di Credito di Diritto Pubblico (credit institutions of public law), namely, the Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, Monte dei Paschi di Siena, and Istituto di San Paolo di Torino. These banks were non-profit making institutions, whose capital consisted of public funds paid in either by the State or by local authorities. The operations of each institution and its specific functions in the development of the national economy were laid down in statutes, which were approved by decrees issued by the Head of the Government, after consultation with the Council of Ministers and with the advice of the technical committee of the Corporazione della Previdenza e del Credito.

Banco di Napoli

The Banco di Napoli is the oldest Italian bank. It was founded in 1538 by two philanthropic citizens of Naples who, with a view to combating usury, set up a pawnshop (Sacro Monte della Pieta) and provided it with a fund for free loans up to 10 ducats and for loans in excess of that amount at moderate interest. During the latter part of the century, the Monte developed deposit and banking services, including the transfer of money by drafts and the issuance of checks. During the course of the following centuries, the institution went ahead with both its philanthropic work and its banking business, taking part in the various vicissitudes of the country and gaining in importance. The Monte became a bank, the Banca Nazionale di Napoli, in 1794, and underwent several reorganizations during the nineteenth century. In 1860, the new Italian Government reorganized it as the Banco di Napoli, an institution authorized to issue notes legal tender in all of Italy and to transact general banking business and entrusted it with the financial and economic development of southern Italy. With the concentration of note issue in the Bank of Italy in 1926, the Banco di Napoli continued its activites as a non-profit ordinary banking institution.

The Banco di Napoli had no shareholders. Its capital of 500 million lire consisted of endowment funds from private and public sources. As a result, the bank paid no dividends, but allocated its profits partly to purposes of public interest or social welfare and partly to its ordinary and special reserves. General supervision of the Banco di Napoli was vested in a Consiglio Generale (a General Council with powers similar to those of a general meeting of shareholders in a privately incorporated bank) of 52 members, nominated by public authorities of the cities and provinces of Naples and Bari and of all other provinces where the bank maintained offices; these members were appointed by Royal Decree for terms of two years. The administration of the bank was entrusted to a Consiglio d'Amministrazione (Board of Directors), which included a Direttore Generale (General Manager), nominated by the Minister of Finance and appointed by the King,

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and four members, two being appointed by the Government and two being elected by the Consiglio Generale. The Direttore Generale was assisted in his functions by a general secretary, appointed by the Minister of Finance. The Direttore Generale was the actual executive head and carried on the day-to-day management of the bank. The position was held in 1939 by Mr. Giuseppe Frignani, who had previously been political secretary of the Fascist Federation of Ravenna (1921-1926) and under-secretary to the Ministry of Finance (1926-1927); he also occupied the executive position of Vice-President of the Corporazione della Previdenza e del Credito.

The Banco di Napoli maintained its head office in Naples and branches in 192 localities, situated mainly in southern Italy. In addition, it owned entirely the Banca del Sud, which was the second bank in order of importance in Sicily, with a head office in Messina and nineteen branches throughout the island. The interests and financial activities of the Banco di Napoli extended outside Italy; before the war, the bank operated in Albania through a subsidiary, the Banco di Napoli Albania, and held almost the entire capital of the Banco di Napoli Trust Company of New York and of the Banco di Napoli Trust Company of Chicago; in addition, it maintained agencies in New York and Buenos Aires. The Banco di Napoli also held non-banking participations, of which the most important, because of its economic and strategic character, was the Magazzini Generali, Silos e Frigoriferi dell'Italia Meridionale (General Warehouses, Silos and Cold Storage Houses of Southern Italy), which maintained its establishments in various parts of southern Italy. In addition, the Banco di Napoli maintained an financed an Istituto per lo Sviluppo Economico dell'Italia Meridionale (Institute for Economic Development of Southern Italy), a non-profit foundation for assisting the establishment, transformation, and reorganization of industrial enterprises, the improvement of public utility services, the development of means of communication, and the intensification of commercial relations and maritime traffic.

The bank was particularly interested in the agriculture of southern Italy and in shipping and overseas trade; it was the principal institution for the transfer of emigrant remittances from the western hemisphere; and it handled the funds and finances of provinces and municipalities.

Internally, the Banco di Napoli consisted of a general banking unit and four special sections; namely: the Cassa di Risparmio (Savings Bank), the Credito Agrario (Agricultural Credit), the Credito Fondiario (Mortgage Credit), and the Monte di Pegni (Pawnshop). The assets and liabilities of these sections were accounted for separately and were not included in the balance sheet of the banking unit. The statement of the banking unit was as follows:

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BANCO DI NAPOLI
(Banking unit)

Balance Sheet as of December 31, 1939

(In million lire)

Assets		Liabilities	
Cash on hand and with banks	788	Capital	500
Due from correspondents	1,627	Reserves	1,027
Bills discounted	1,852	Deposits and savings accounts	2,416
Loans to public institutions	676	Due to correspondents	2,728
Mortgage loans	380	Other liabilities	1,464
Loans against securities	441		
Government obligations	1,176		
Investments in other institutions	242		
Other assets	953		
	8,135		8,135
Securities deposited (end of 1938)	6,505	Securities deposited (end of 1938)	6,505

Banco di Sicilia

The Banco di Sicilia was founded in 1843 by Ferdinand II Bourbon, King of Naples and Sicily, as an official institution with a capital fund provided by the Government. It transacted business through two autonomous departments, one for the Court and the other for the general public. In 1860, the new Italian Government took over and reorganized the Banco di Sicilia as an institution authorized to issue notes, legal tender in all of Italy, and to transact general banking business and entrusted it with the financial and economic development of Sicily. In 1926, its note issue privilege was transferred to the Bank of Italy; thereafter, the Banco di

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Sicilia operated as a non-profit ordinary banking institution In its organization and operations the Banco di Sicilia was similar to the Banco di Napoli. Its general supervision was entrusted to a Consiglio Generale (General Council) of 24 members nominated by the city and the province of Palermo and by the Consigli dell'Economia Corporative (Economic Corporative Councils) of all other provinces where the bank maintained offices; the members were appointed by Royal Decree for terms of two years.. The administration of the bank was entrusted to a Consiglio d'Amministrazione (Board of Directors), which consisted of a Direttore Generale (General Manager) nominated by the Minister of Finance and appointed by Royal Decree, and four Consiglieri (Directors), two of whom were appointed by the Government and two elected by the Consiglio Generale. In 1939, the Direttore Generale of the bank was Mr. Giuseppe dell'Oro.

The Banco di Sicilia maintained its head office in Palermo and 84 branches and agencies in other cities, of which 70 were in Sicily. After 1936, when its New York subsidiary, the Banco di Napoli Trust Company of New York, the Banco di Sicilia restricted its activities to the domestic field only. Its internal organization included a banking unit and four special sections; namely: the Cassa di Risparmio (Savings Bank), the Credito Agrario (Agricultural Credit), the Credito Minerario (Mining Credit), and the Credito Fondiario (Mortgage Credit). The accounts, assets and liabilities of these sections were included in the general statement of condition of the bank. At the end of 1938, the balance sheet of the bank was as follows:

BANCO DI SICILIA

Balance Sheet as of December 31, 1938

Assets		Liabilities	
	(in million lire)		
Cash	625.9	Capital	230.0
Correspondents	348.3	Reserves	248.2
Bills discounted	671.2	Deposit and savings accounts	1,157.2
Advances against securities	197.5	Correspondent accts.	1,102.7
Term loans	453.9	Other liabilities	972.0
Investments	577.3		
Participations	73.3		
Other assets	762.7		
	3,710.1		3,710.1
Securities deposited	2,417.0	Securities deposited	2,417.0
	6,127.1		6,127.1

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Although the bank conducted commercial operations as its main line of business, the funds collected through its savings department and its loans to Sicilian agriculture and mining represented about one-third of the balance sheet of the bank. Of particular importance for the economy of the island, was the Banco di Sicilia's financing of the sulphur mining and processing industries and its export trade.

Banca Nazionale del Lavoro

The Banca Nazionale del Lavoro, an outright Fascist institution, was originally founded by the Italian Government in 1913 as the Istituto Nazionale di Credito per la Cooperazione (National Credit Institution for Cooperatives), a public institution for credit to cooperative associations and federations. In 1927, the Istituto was transformed by the Fascist Government into the Banca Nazionale del Lavoro e della Cooperazione; in 1929, its name was changed to Banca Nazionale del Lavoro. A decree dated August 12, 1938 approved new bylaws of the bank, which confirmed the public character of the institution, "finally founded upon the corporative economy in accordance with the aims of the Labor Charter."

The capital of the Banca Nazionale del Lavoro amounted in 1939 to 400 million lire. This included the original fund of the Istituto Nazionale di Credito per la Cooperazione, contributions made by public insurance institutions, savings banks, the Banco di Napoli and the Banco di Sicilia, funds allocated by the Government, and accumulated profits of the bank transferred from the reserves to capital account. The Banca Nazionale del Lavoro paid neither dividends nor interest on this capital fund, but placed the larger part of its profits into ordinary and extraordinary reserves and allocated the remainder to relief, social, and cultural organizations of the Fascist regime. The bank was under the general supervision of a Consiglio d'Amministrazione (Board of Directors) of 18 members. This included representatives of the Ministry of Finance, the Ministry of Corporations, the Ministry of Agriculture and Forestry, the Bank of Italy, the National Institute of Insurance, the National Fascist Institute of Social Insurance, the National Fascist Institute of Cooperatives, the National Fascist Confederation Of Industrial Workers, and the National Association of the War Veterans; the Ministry of Corporations, however, played the dominant role. The management was entrusted to a Direttore Generale (General Manager) appointed by the Government. He was the executive head of the bank and was assisted by a general secretary, who also acted as secretary to the Consiglio d'Amministrazione. In 1939, the Direttore Generale of the Bank was Dr. Arturo Osio, a forceful, intelligent, and ambitious personality who maintained most intimate relations with the upper hierarchies of the Fascist Party.

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The Banca Nazionale del Lavoro had its head office in Rome and 78 branches in other Italian towns, in addition to four branches in East Africa, one branch in Albania, and three special offices in Spain. During the 'thirties, the Banca Nazionale del Lavoro was used as an instrument for the enforced liquidation of small and middle-sized banks, particularly people's banks (such as the Banca Popolare Agricola Commerciale di Pavia, in 1928) and banks controlled by Catholic organizations (such as the Banca delle Marche e degli Abruzzi, in 1939); as a result, its branch system largely grew from the absorption of branches and activities of closed institutions. In 1938, the Banca Nazionale del Lavoro initiated its expansion outside of Italy's metropolitan territory, first by obtaining from the Comitato dei Ministri (against the advice of the Ispettorato) the authorization to have branches in Italian East Afric (Ethiopia); then by establishing offices in Spain (Malaga, Barcelona, Madrid) for the purpose of handling banking services for the account of Italian forces and civilians there; and later on by opening a branch in Tirana immediately after the Italian occupation of Albania. In addition, in 1938 the bank started and developed a service of remittances from Italian workmen in Germany. The political significance of this foreign expansion of the bank in those critical years is quite obvious.

The operations of the Banca Nazionale del Lavoro were conducted through its banking unit and several autonomous sections. The banking unit conducted general banking business, particularly that of a commercial character. Through a special department, the Fishery Credit Department, and through offices set up in fish markets, the banking unit financed fishing activities and fish industries, providing banking facilities for and making advances to approximately 4,000 clients, mainly fishermen and fishmongers of minor importance. In addition, the banking unit was entrusted with the collection and deposit of membership fees and other funds of the workers' syndicates and other Fascist organizations. The autonomous sections of the bank were three; namely, the Credito Fondiario (Mortgage Credit), the Credito Cinematografico (Motion Picture Credit), and the Credito Alberghiero e Turistico (Hotel and Tourist Credit). These sections were provided with certain funds and subsidies by the Government and were authorized to borrow on short-term from the banking unit and to issue bonds for long-term investments and participations.

The growth of the Banca Nazionale del Lavoro during the 'thirties was exceptionally rapid. After a reorganization in 1929, when its capital was reduced from 250 to 160 million lire, the bank's assets expanded from 740 million lire in 1929 to 2,695 in 1935 and to 5,731 in 1939; a considerable portion of the business of the bank was obviously due to its special position in the political and economic organization of the Fascist structure. In 1938, the Ispettorato, which had followed with considerable anxiety the

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growth of the bank, conducted an investigation which resulted in the transfer of seventeen of its branches to other institutions. The Ispettorate reported favorably as to the working and organization, both technical and administrative, of the bank and made no suggestions for its reorganization or for changes in policy. It was generally believed, however, that the political character of the institution made it impossible for the inspectors to pass judgement upon the basic soundness of its credit policies. The 1939 balance sheets of the bank and its autonomous sections are given below:

BANCA NAZIONALE DEL LAVORO

(Banking Unit)

Balance Sheet as of December 31, 1939

Assets		Liabilities	
	(in million lire)		
Cash on hand and with banks	685.3	Capital	225.0
Correspondents	320.9	Reserves	8.0
Loans and advances	1,197.9	Deposits and current accounts	2,718.1
Bills and one-year Treasury bonds	1,372.8	Banks and correspondents	505.6
Investments	230.6	Other liabilities	649.5
Participations	47.8		
Other assets	128.4		
State contribution for fishery credit	25.5		
Autonomous Section for Cinema Credit	22.3		
Autonomous Section for Hotel and Thurist Credit	14.7		
	4,106.2		4,106.2
Securities deposited	1,624.8	Securities deposited	1,624.8
	5,731.0		5,731.0

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Autonomous Section for Mortgage Credit

Assets		Liabilities	
Investments in stocks and mortgage bonds	22.4	Capital	57.5
Mortgage loans	464.5	Reserves	26.6
Autonomous Section for Hotel & Tourist Credit	3.3	Bonds outstanding	436.4
Other assets	94.3	Banca Nazionale del Lavoro	13.6
		Other liabilities	50.4
	584.5		584.5

Autonomous Section for Cinema Credit

Assets		Liabilities	
Loans and advances	70.3	Capital	57.6
Participations	13.5	Reserves	11.2
Other assets	22.2	Rediscounts	6.8
		Other liabilities	30.4
			106.0

Autonomous Section for Hotel and Tourist Credit

Assets		Liabilities	
Participations	16.7	Capital	50.0
Contributions to guarantee funds	109.0	Guarantee funds	125.6
Government securities	5.9	Other liabilities	1.2
Mortgage bonds	9.9		
Mortgage loans	3.2		
Banca Nazionale del Lavoro	31.3		
Other assets	.8		
	176.8		176.8

Monte dei Paschi di Siena

The Monte dei Paschi di Siena was established in 1624 by Ferdinand II, Grand Duke of Tuscany, who authorized it to issue bonds up to 200,000 ducats, carrying interest at 5 per cent per annum and secured by the grazing lands of the Grand Duchy. The funds thus collected were to be used for loans to needy persons at an interest rate of 5½ per cent per annum. The duty of supervision over the Monte passed in 1872 to the municipality of Siena, which exercised it through a Consiglio Direttivo (Board of Directors) trusted with administrative functions. In 1939, the general manager of the Monte was Mr. Pietro Valiani.

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The Monte was a regional institution, which had its head office in Siena and maintained an extremely wide net of offices (4 branches and 171 agencies) in Tuscany and surrounding provinces, in addition to branches in Rome and Naples. After closing its savings section in 1936, the Monte dei Paschi operated as an ordinary banking institution; its activities were directed particularly toward agriculture and local industries in Tuscany. The balance sheet of the Monte at the close of 1939 was as follows:

MONTE DEI PASCHI DI SIENA

Balance Sheet as of December 31, 1939

Assets		Liabilities	
	(in million lire)		
Cash	140.4	Capital and reserve funds	85.9
Correspondents	504.2	Deposits and current accounts	1,271.6
Bills discounted	204.9	Correspondents	668.1
Loans and advances	307.6	Other liabilities	141.9
Investments	573.0		
Participations	46.5		2,167.5
Other assets	300.9		
	2,167.5		
Securities deposited	762.5	Securities deposited	762.5
	2,930.0		2,930.0

Istituto di San Paolo di Torino

The Istituto di San Paolo di Torino was established in 1563 as a pawnshop. Its capital fund was supplied by religious and charitable institutions with a view to providing facilities for loans on chattel to needy persons at moderate interest rates. The Istituto developed later on as a savings institution and used its expanded resources for loans on the security of farmland and urban real estate. It was reorganized in 1932, when it undertook ordinary banking business as its major activity and confined mortgage lending and pawnshop operations to two autonomous sections. Its Consiglio d'Amministrazione (Board of Directors) consisted of locally prominent personalities, who were appointed by the public authorities of the city and province of Turin. The Direttore Generale (General Manager) of the Istituto was, in 1939, Mr. Alfredo Lenge.

The Istituto di San Paolo di Torino had its head office in Turin and a net of 96 branches covering the various provinces formerly belonging to the Kingdom of Piedmont (Piedmont, Liguria), in addition to two branches maintained in Milan and Rome. The section of Credito Fondiario (Mortgage Credit) was managed

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separately from the banking unit and financed autonomously by the issue of mortgage bonds; its accounts were not included in the statement of condition of the banking unit. Both through its banking and mortgage operations, the Istituto represented a most important agency in the financing of agriculture in Piedmont and Liguria. The balance sheet of the Istituto at the end of 1938 was as follows:

ISTITUTO DI SAN PAOLO DI TORINO

(Banking unit)

Balance Sheet as of December 31, 1938

Assets		Liabilities	
(in million lire)			
Cash	109.5	Capital and reserve funds	105.3
Discounts	271.3	Deposits and current accounts	1,145.6
Loans and advances	469.6	Other liabilities	189.1
Investments	379.7		
Participations	39.5		
Other assets	170.4		
	1,440.0		1,440.0
Securities deposited	1,032.2	Securities deposited	1,032.2
	2,472.2		2,472.2

Mortgage Credit Section

Assets		Liabilities	
(in million lire)			
Mortgages	637.6	Capital and reserves	30.3
Investments	13.0	Bonds outstanding	643.7
Other assets	76.9	Other liabilities	53.5
	727.5		727.5
Securities deposited	62.7	Securities deposited	62.7
	790.2		790.2

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8. Banche di Interesse Nazionale

At the end of 1939 there were three Banche di Interesse Nazionale (Banks of National Interest), namely, the Banca Commerciale Italiana, Credito Italiano, and Banco di Roma. Banche di interesse nazionale were those banking institutions which, having been organized in the form of privately-incorporated companies and operating on a national scale (with branches in thirty provinces or more) were recognized as such by a Royal Decree issued by the Head of the Government. The capital of the Banche di interesse nazionale consisted of registered shares held by private individuals or bodies of Italian nationality. Shareholders of foreign nationality, who had acquired ownership of their shares before 1936, were allowed to retain them, provided that they expressly renounced the right of voting at the general meeting of shareholders. The Banche di interesse nazionale were regulated by statutes approved by decrees issued by the Head of the Government after consultation with the Council of Ministers and upon the advice of the technical committee of the Corporazione della Previdenza e del Credito. Courts could not order the publication and enforcement of amendments to the statutes of these banks, after adoption by the general meeting of shareholders, unless such amendments had been approved by decrees issued by the Head of the Government.

In 1934, during the course of the operations for divesting banks of their industrial assets, the Istituto di Ricostruzione Industriale acquired from industrial interests their share participations in these banks; it thereby became the majority shareholder in all three. In 1939, these three banks operated exclusively as commercial banking institutions, their general policies being determined by the I. R. I.

Banca Commerciale Italiana

The Banca Commerciale Italiana (generally known in Anglo-Saxon countries as B. C. I. and in Italy as Comit) was the outstanding banking institution of Italy and the center of a wide net of international subsidiaries. Traditionally connected with large industrial groups and international commercial interests, during the inter-war period the bank played an important role in the cooperation between high finance, heavy industries, and Fascist policy. The bank also acted as the financial agent for Vatican interest in Italy and abroad.

In 1939, the Comit was administered by a Consiglio d'Amministrazione (Board of Directors) presided over by Senator Ettore Conti, a leading public utility industrialist (President of the Interese Elettriche Conti, in Milan), who had been a member of several international committees of the League of Nations. The Vice-Chairman of the Consiglio was Senator Luigi Spezzotti, textile industrialist, former Under-Secretary

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of Finance (1924-1925) and a locally prominent personality in the province of Udine. The Consiglio d'Amministrazione also included Senator Piero Puricelli, whose company, Industrie Riunite delle Strade, played an important role in the Italian and German road-building programs; Mr. Guido Donegani, the able head of the Montecatini chemical trust; Mr. Bernardino Nogara, who unofficially represented Vatican interests in the bank; Mr. Enrico Parisi, a private banker of Rome; and Mr. Paolo Signorini, President of Cirio, Italy's leading fruit and vegetable canning concern. The I. R. I. participated in the Consiglio and supervised the management of the bank through two Sindaci, Mr. Teodoro d'Ippolito and Mr. Pasquale Saraceno. The management was entrusted to two consiglieri delegati, Mr. Alberto d'Agostino and Mr. Raffaele Mattioli, both drawn from the personnel ranks of the bank and reputed among the best banking technicians of Italy. The anti-semitic legislation in Italy resulted in the removal, at the end of 1938, of two of the general managers of the bank (Mr. Giorgio di Veroli, now in the United States, and Mr. Ugo de Benedetti) and of other executive and managerial officers, in addition to a number of employees of lesser importance.

The Comit had its head office in Milan and 108 branches covering all important commercial and industrial centers of the country. Abroad, the bank maintained branches in London, New York, Istanbul, and Izmir, and representatives in Berlin and Belgrade. In addition, the Comit held a controlling participation in the capital of an extensive network of foreign subsidiaries, namely:

1. The Comit held half of the capital (7.5 million Swiss francs) of the Banca della Svizzera Italiana, the remaining half being distributed among Swiss private (non-banking) groups and other interests (including the Vatican), which did not participate actively in the work of the bank. The bank had its head office in Lugano, a branch in Zurich, and four branches in Italian-speaking cantons.

2. The Comit held the entire capital (10 million francs) of the Banque Commerciale Italiana, France, a subsidiary institution set up for the purpose of autonomous management of the Comit's offices on the French Riviera and at Casablanca (Morocco).

3. The Comit owned entirely the Hrvatska Banka D. D. (capital 20 million dinars), with head office in Zagreb (Yugoslavia) and a branch in Susak (Yugoslavia).

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4. The capital of the Banca Ungaro-Italiana (20 million pengoes), seventh largest bank in Hungary, was held almost entirely by the Comit, some shares however being in the hands of Hungarian nationals. The bank, an old established institution, maintained its head office in Budapest and seven branches and a score of agencies in other cities.

5. The capital of the Banca Commerciale Italiana e Romena (100 million lei), one of the largest Rumanian banks, was held exclusively by the Comit. The bank maintained its head office in Bucharest and eight branches in other important cities in Rumania.

6. The Banca Commerciale Italiana e Bulgara (capital 40 million lei), fourth largest bank in Bulgaria, was also owned entirely by the Comit.

7. In Greece, the Comit owned the Banca Commerciale Italiana e Greca, an institution with a capital of 60 million drachmas, with head office in Athens and branches in Piraeus and Salonica.

8. The capital of the Banca Commerciale Italiana per l'Egitto (500,000 Egyptian pounds) was held almost entirely by the Comit, private Egyptian interest holding only 5 to 10 per cent. The bank had its head office in Alexandria and branches in Cairo and Port Said.

9. The rather extensive Italian banking interest in Latin America were represented principally by the Banque Francaise et Italienne pour l'Amerique du Sud. The majority of the capital and the management of this institution were controlled in 1939 by the Banca Commerciale Italiana, the Banque de Paris et des Pays Bas playing the role of leading minority shareholder; a small portion of the capital, however, was also held by Vatican interests and private (non-banking) Latin American groups. Before Italy's entry into the war, the bank maintained its central administration in Paris, headquarters for its South American branches in Montevideo, and branches in Argentina, Uruguay, Chile, Colombia, and Brazil. In addition, the Comit held important participations in the capital of the Banco Italiano--Lima (Peru's outstanding commercial bank) and the Banca Italiana-Guayaquil in Ecuador. In 1938, a number of officers and employees of the Comit were transferred from the Comit, as a result of the anti-semitic legislation in Italy, to similar positions in these Latin American subsidiaries.

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The Comit was the "big business" bank which provided banking services and credit facilities to large industrial concerns and handled the largest part of the country's foreign exchange and trade operations. Its balance sheet at the end of 1939 was as follows:

BANCA COMMERCIALE ITALIANA

Balance Sheet as of December 31, 1939

Assets		Liabilities	
	(in million lire)		
Cash on hand	1,059.5	Capital	700.0
Money at call, bills receivable, and Treasury bills	4,100.2	Reserves	155.0
Current accounts and advances	2,527.5	Deposits and current accounts	7,327.9
Loans on securities	110.8	Other liabilities	1,383.9
Government securities and securities guaranteed by the State	574.3		
Bonds and shares	154.1		
Participations in affiliated foreign banks	173.8		
Other assets	866.1		
	9,566.3		9,566.3
Securities deposited	10,054.6	Securities deposited	10,054.6
	19,620.9		19,620.9

The position of the Comit, as indicated by this balance sheet, was extremely liquid; its cash on hand, money at call, and holdings of bills and Government securities represented about two-thirds of the assets (excluding custody accounts). On the other hand, its money at call included the balances due to the Comit by the I. R. I., so that the Comit's credit to the Government and Government agencies probably accounted for nearly half of the bank's assets.

Credito Italiano

The Credito Italiano was the second largest banking institution of Italy. The Credito did not have an industrial background and an international scope comparable to the Comit and pursued in general more conservative policies. It played, nevertheless, a most important role in the economic development of Italy, particularly in Piedmont, Liguria, and Lombardy.

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The Consiglio d'Amministrazione of the Credito in 1939 included political and aristocratic figureheads, who did not participate actively in the administration of the Bank. Such were the Chairman of the Consiglio, Senator Count Pier C. Venino; the Vice-Chairman, Mr. Carlo Orsi; and various members, such as Marquis Giacomo Medici del Vascello, Count Giuseppe Pavoncelli, and Mr. Antonio La Mecca. Business interest were represented in the Consiglio by three well-known industrialists; namely, Senator Giovanni Agnelli, the founder and owner of the Fiat automobile works at Turin, Mr. Giacinto Motta, owner and President of the Edison Societa di Elettricita Italiana at Milan, and Count Lorenzo Bruzzo, a Vatican-made nobleman connected with shipyard and steel industries in Genoa. Responsibility for the management of the Bank was entrusted to two Consiglieri Delegati, Mr. Mino Brughera and Mr. Giovanni Stringher, both with long banking experience and high professional reputation (Mr. Stringher was the son of the late Governor of the Bank of Italy).

The Credito maintained its registered head office in Genoa, but its central administration was situated in Milan. The establishment comprised 123 branches in Italy in addition to an operating office in London and a representative's office in New York. The Credito was directly connected with a number of banking institutions operating abroad, namely:

1. The Banque Italo-Francaise de Credit, a small institution with head office in Paris and branches in Nice and Tunis. Its capital (15.5 million francs) was entirely owned by the Credito.

2. The Banca Dalmata di Sconto, with head office in Zara (Italy) and branches in Sibenik and Split (Yugoslavia). The Credito held the entire capital (2.5 million lire) of this bank, which had been originally established by the Banca Italiana di Sconto and was maintained for political rather than business reasons.

3. The Banco Italo-Egiziano, third among Egypt's leading banks. In 1939, this bank had its head office in Alexandria and through a net of 21 branches played an important role in the economic life of Egypt, chiefly by financing cotton production and export. The bank had been established during the 'twenties as a joint venture of the Banco di Roma, Banca Italiana di Sconto, and Credito Italiano. The Banco di Roma maintained its participation in the bank but ceased to play the leading role in its management.

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4. The Banque Italo-Belge. The Credito held a 12.5 per cent participation in the capital of this bank, which had its head office in Antwerp and operated largely in Latin America. The Credito had formerly held a 25 per cent interest and had taken an active part in the bank's affairs. During the 'thirties, however, its capital was doubled (from 50 to 100 million Belgian francs), and the Italian Government did not allow the Credito to use its option to take up new shares; as a result, administration and management of the bank passed entirely into Belgian hands.

5. Banca Italiana per la Cina. The Credito held the entire capital (1 million U. S. dollars) of this bank, which handled a rather limited commercial business in Shanghai.

The balance sheet of the Credito as of the end of 1939 was as follows:

CREDITO ITALIANO

Balance Sheet as of December 31, 1939

Assets		Liabilities	
	(in million lire)		
Cash and balances at call with banks	706.4	Capital	500.0
Bills receivable and Treasury bills	4,068.1	Reserves	117.6
Current accounts	2,083.0	Deposits and savings accounts	2,478.8
Government securities and debentures	801.7	Current accounts	4,211.6
Other assets	690.7	Other liabilities	1,034.9
	8,349.9		8,349.9
Securities deposited	7,338.8	Securities deposited	7,338.8
	15,688.7		15,688.7

Banco di Roma

The Banco di Roma, originally founded by financial interests closely connected with the Vatican, later on came under the control of industrial, speculative, and nationalist groups which made of it a financial instrument of Italian political expansion in the Eastern Mediterranean and the Red Sea areas. This involved the bank in a series of grave crises and the institution underwent two major reorganizations, one in 1913 and the other in 1923. Under the Fascist regime, the bank followed a policy of

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colonial expansion and during the Ethiopian campaign it provided banking and other services for Italian military and labor forces in East Africa. In 1936 -- obviously as a remuneration for this assistance -- it was granted a banking monopoly for the newly created Italian Empire in Ethiopia; this monopoly ceased in 1938 when the Banca Nazionale del Lavoro also received permission to open branches in that area.

The Chairman of the Consiglio d'Amministrazione of the Banco di Roma in 1939 was Professor Felice Guarneri, well-known economist who had occupied the position of Minister for Foreign Trade and Exchanges from 1934 to 1938. The Vice-Chairman, Mr. Antonio Pesenti, was the President of Italy's leading cement industry, the Italcementi, and a member of the House of Deputies. Among the member of the Consiglio were Senator Arturo Bocciardo, a leading Genoese industrialist and President of the Government-owned Terni iron and steel works, Mr. Terenzio Chiesa, a member of the House of Deputies and President of the Societa Elettrica Trentina, and other personalities prominent in nationalist and Fascist political circles. The management was entrusted to a technical banker, Mr. C. P. Verol, who before becoming the Consigliere Delegato of the Banco di Roma had been one of the central managers of the Credito Italiano.

The Banco di Roma had its head office in Rome and 111 branches spread all over metropolitan Italy, in additionsto 19 branches in Italian colonies, 16 of which were in Italian east Africa. Abroad, the Banco di Roma maintained operating offices in Switzerland (at Lugano), Malta, Turkey (at Istanbul), Syria (at Beirut and five other cities), Palestine (at Haifa, Jerusalem, Gaffa and Tel Aviv) and Iraq (at Bagdad); and representatives' offices at Berlin, London, and New York. The two offices of the Banco di Roma in France (Paris and Lyon)were placed, in 1923, under the autonomous management of a subsidiary institution, the Banco di Roma France,entirely owned by the Banco di Roma. The Banco di Roma also held a minority participation in the Banco Italo-Egiziano, and retained the chairmanship of the Consiglio d'Amministrazione in this bank; however, the management of this institution was controlled by the Credito Italiano.

The balance sheet of the Banco di Roma at the end of 1939 was as follows:

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BANCO DI ROMA

Balance Sheet as of December 31, 1939

Assets		Liabilities	
(in million lire)			
Cash funds with central bank, and funds with other banks in Italy and abroad	771.7	Capital	200.0
Portfolio, Treasury bills and sight funds	2,323.2	Reserve funds	46.5
Balances due by correspondents	1,461.5	Deposits on current & savings accounts	1,665.0
Secured advances	533.2	Balance due to correspondents	3,304.9
Investments	216.9	Other liabilities	583.1
Banking participations	26.7		
Other assets	447.1		
	5,800.3		5,800.3
Securities deposited	5,656.2	Securities deposited	5,656.2
	11,456.5		11,456.5

The banks of national interest served as banche d'appoggio for the major public utility enterprises and industrial concerns of the country. A list of the principal concerns with which each of these banks was connected is given below:

Banca Commerciale Italiana

1. Public utilities - Electrical: SIP - Societa Idroelettrica Piemonte, Generale Idroelettrica Cisalpina, Terni-Societa per l'Industria e l'Elettricita, Meridionale d'Elettricita, Generale Elettrica della Sicilia, Elettrica Sarda, Italian Super-power Corporation (I. R. I. group); Adriatica d'Elettricita (Volpi group); Telephones: STET - Torinese Esercizi Telefonici (I. R. I. - Stet group).

2. Shipping: Italia, Lloyd Triestino, Tirrenia, Sabaudia (I. R. I. - Finmare group).

3. Shipyards: Cantieri Riuniti dell'Adriatico, Odero-Terni Cantieri (I. R. I. group); Piaggio e C.

4. Heavy industries: Ilva - Alti Forni e Acciaierie d'Italia, Stabilimento di Dalmine, Reggiane Officine Meccaniche Italiane (I. R. I.-Finsider group); Silurificio Italiano (I. R. I. group).

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5. Mining: Monte Amiata; Arsa Societa Anonima Carbomifera (I. R. I. group).

6. Chemical industry: Montecatini (Donegani group); Italgas.

7. Public works and road building: Industrie Riunite della Strada (Puricelli group).

8. Textile industry: Chatillon, Clerici, Cotonificio Triestino, Cotonificio Veneziano, Cotonificio Toscano, Cotonificio Crespi, Il Fabbricone.

9. Paper industry: Cartiere Burgo (I. R. I. group).

10. Processing industry: Cirio, Societa Molini e Pastificio Pantanella

Credito Italiano

1. Public utilities - Electrical: Societa Edison (Motta group, with I. R. I. participation); Romana di Elettricita (I. R. I. group); Telephones: TETI - Societa Telefonica Tirrena, SET - Societa Esercizi Telefonici (I. R. I. group).

2. Shipyards: Ansaldo, Cantieri di Pozzuolo (I. R. I. group).

3. Heavy industry: Miani e Silvestri (I. R. I. group); Acciaierie e Ferriere Lombarde-Falck; Fiat (Agnelli group).

4. Chemical industry: Pirelli Italiana (Pirelli group); Distillerie Italiane; Ferragno.

5. Textile industry: Ogna-Candiani, Rivetti, Snia Viscosa.

Banco di Roma

1. Heavy industry: Italiana Ernesto Breda per Costruzioni Meccaniche, Fabbrica Automobili Isotta Fraschini, Ercole Marelli S. A. (I. R. I. group).

2. Italcementi -- Fabbriche Riunite Cemento (Pesenti group)

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9. Other Commercial Banks

Societa per Azioni di Credito Ordinario

The Societa per Azioni di Credito Ordinario (privately-incorporated companies for ordinary credit) were limited liability companies organized under the general provisions of the code of commerce and company laws and authorized by the Ispettorato to engage in the collection of savings, banking services, and the extension of credit. These companies operated as commercial banks within one region or a few provinces, their activities being closely related to the local industrial, commercial and agricultural life. None of them had attained national importance. At the end of 1939, there were 160 Societa per Azioni di Credito Ordinario, their combined balance sheet being as follows:

SOCIETA PER AZIONI DI CREDITO ORDINARIO

Balance Sheet as of December 31, 1939

(in million lire)

Assets		Liabilities	
Cash and balances at call with banks	1,056	Capital	1,151
Current accounts	1,332	Reserves	423
Loans and advances	4,838	Deposits	5,676
Correspondents	1,613	Correspondents	1,383
Other assets	5,536	Other liabilities	2,742
	14,375		14,373
Securities deposited	8,486	Securities deposited	8,486
	22,861		22,861

The Societa per Azioni di Credito Ordinario were concentrated particularly in northern Italy; the group included some of the most influential banks owned by Catholic circles in that region. Those Societa per Azioni di Credito Ordinario having total assets of more than 500 million lire are listed on the following page, together with certain balance sheet figures and pertinent comments:

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Institution	Last balance sheet available	Capital	Deposits	Total Assets
		(in million lire)		
Banco Ambrosiano Milan - 19 branches	1939	60	478	1,501
	Was owned by financial interests closely related to Vatican and north Italian Catholic circles; its Consiglio d'Amministrazione included conservative and aristocratic personalities. Engaged particularly in financial operations with landowners around Milan and small and medium textile plants in northern Lombardy.			
Banca d'America e d'Italia Milan - 26 branches	1939	200	624	975
	Capital was owned almost entirely by the Transamerica (Giannini's financial group of San Francisco, California). Operated as a commercial institution, conducting its business particularly among Italian merchants and landowners in Liguria, Campania, and Tuscany, who had returned from the United States. Acted as agent of the Bank of Italy in foreign exchange dealings, particularly in the field of emigrants' remittances from California, through the associated Bank of America N. T. and S. A. at San Francisco.			
Banco di Santo Spirito Rome - 97 branches	1939	30	242	951
	Founded in 1606. Although registered as a privately-incorporated bank, derived its capital funds from public sources. Played an important role among industrial and commercial interests of Rome and Lazio.			
Credito Commerciale Cremona - 11 branches	1939	40	163	804
	Important local institution operating in the agricultural zone southeast of Milan.			

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Institution	Last balance sheet available	Capital	Deposits (in million lire)	Total assets
Banca Toscana Florence - 129 branches	1939	30	436	786
The second largest bank in Tuscany.				
Credito Romagnolo	1937	24	470	748
Important local institution in the Emilia and Romagna regions.				
Banca Nazionale dell'Agricoltura Milan - 102 branches	1939	60	888	1,321
Originally established by private interests as a special institution for agricultural credit, it engaged in general banking business in northern and central Italy in addition to financing current agricultural operations.				
Banca Cattolica del Veneto Vicenza - 130 branches	1938	50	314	632
In 1930, absorbed a number of local Catholic banks in the Veneto, thus becoming the most important banking institution of the region. Controlled by local Catholic groups and organizations.				
Banco di Chiavari e della Riviera Ligure Chiavari - 22 branches	1937	25	112	625
The most important local bank on the Riviera east of Genoa, privately owned by a Dall'Orso family and closely connected with second-rank shipping and shipyard interests around Genoa (Cianc, Quaglia, Zanchi).				
Banca Provinciale Lombarda Bergamo - 22 branches	1938	25	236	557
Established in 1932 as a result of the merger of several local banks in the provinces of Bergamo, Pavia, and Lodi.				
Banca Belinzaghi Milan - --	1939	20	157	611
A private bank in corporate form.				

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Banche Cooperative Popolari

The Banche Cooperative Popolari (People's Cooperative Banks) were limited liability companies organized on a cooperative basis under the provisions of the code of commerce and of special laws and authorized by the Ispettorato to engage in collection of savings and extension of credit. The Royal Decree of November 6, 1926, No. 1830, required these banks to have a capital of 300,000 lire or more and to maintain a ratio of one to five between their capital and reserve funds and their savings deposit liabilities. Holding shares in the banche cooperative popolari was open to any person, but limited to a maximum of 5,000 lire per member.

The banche cooperative popolari were particularly numerous in northern Italy, where they had been originally introduced by Luigi Luzzatti in 1865 with a view to providing credit facilities to farmers and artisans. No special restrictions were placed on the field of their operations; these banks, with their important resources, engaged in the financing of agriculture, middle-size trade, and middle and small-size industries. At the end of 1939 there were 276 banche cooperative popolari; their combined balance sheet was as follows:

BANCHE COOPERATIVE POPOLARI

Balance Sheet as of December 31, 1939
(in million lire)

Assets		Liabilities	
Cash and balances at call with banks	395	Capital	255
Current accounts	957	Reserves	337
Loans and advances	3,432	Deposits	4,304
Investments	1,763	Correspondents	2,091
Correspondents	456	Other liabilities	1,203
Other assets	1,185		
	8,190		8,190
Securities deposited	5,476	Securities deposited	5,476
	13,666		13,666

A number of these banche cooperative popolari were controlled by or connected with Catholic organizations. Only one among the banche cooperative popolari, the Banca Popolare Cooperativa Anonima di Novara, achieved a position of national importance. This bank, established in 1872, had its head office in Novara and 84 branches, situated mainly in Piedmont and eastern Lombardy. It was closely connected with agricultural and textile industries, particularly with the woollen industry around Biella in Piedmont. Because of its participation in the financing of raw material imports (wool and cotton) and the exportation of manufactured goods, it was authorized to act as agent of the Bank of Italy in foreign exchange dealings. The balance sheet of the Banca Popolare di Novara at the end of 1939 was as follows:

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BANCA POPOLARE COOPERATIVA ANONIMA DI NOVARA

Balance Sheet as of December 31, 1939
(in million lire)

Assets		Liabilities	
Cash	162	Capital	74
Bills discounted	1,330	Reserves	136
Current accounts	640	Deposits	1,114
Loans against securities and advances	216	Current accounts	1,259
Other assets	697	Other liabilities	462
	3,045		3,045
Securities deposited	2,298	Securities deposited	2,298
	5,343		5,343

There were only two other banche cooperative popolari with balance sheets totalling more than 500 million lire, namely, the Banca Popolare di Milano S.C.A. (total assets 1,085 million lire), and the Banca Mutua Popolare di Verona S.A.C. (total assets 541 million lire). Both institutions were important local banks in their respective areas of operations, the provinces of Milan and Verona, where each maintained a score of branches.

Ditte Bancarie

The Ditte Bancarie, or private banking firms with unlimited liability on the part of the owners or partners, numbered only 71 at the end of 1939 and played a small role in the Italian economy. At the end of 1937 - last year for which statistical information is available - there were 161 banking firms with total capital and reserves of 190 million lire and total deposits of 567 million lire. These banking firms were situated mainly in a few important cities, particularly Milan, Genoa, Turin; a number of them, being Jewish-owned, were closed at the end of 1938. They generally engaged in stock market and exchange operations, acting as financial agents or trustees for a restricted and very select clientele rather than as general bankers. The Banco Rossi, in Genoa, deserves special mention; in 1939, its declared capital and reserves were only 1 million lire, but in a modest and unobtrusive way it transacted banking business running into several tens of million lire, chiefly with shipowners, exporters, and manufacturers. The Banco Rossi was a typical and important Genoese institution whose credit was practically unlimited and which extended credit often without collateral to its faithful clients. This type of bank, however, was rapidly disappearing from the Italian market.

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Foreign Banks

The growth of powerful Italian banks with an extensive system of foreign subsidiaries and branches, and the policy of extreme nationalism pursued by Fascism after 1922, resulted in an almost complete exclusion of foreign financial interests from Italy. The opening and operation of branches by foreign banks were subject to authorization and supervision by the Ispettorato; no special rules or restrictions were applied to them.

By far the most important foreign institution in Italy until 1939 was the National City Bank of New York, which maintained a branch in Genoa (closed in 1938) and a branch in Milan (closed in 1939); this bank engaged in the financing of some Italo-American trade and managed the Italian accounts and funds of American interests. The American Express Company, Inc., held the capital (2.5 million lire) of the Americana Expressa S.A.I., which maintained small branch offices in Rome, Florence, and Milan, doing mostly forwarding business and travel bureau work, plus a small sideline of banking.

Among British banks, Barclays Bank S.A.I. (a subsidiary of Barclays Bank Limited) conducted some business in connection with Italo-British trade and kept the accounts of British residents in Italy through an office in Rome.

Other foreign institutions in Italy included a French bank, the Credit Commercial de France, which transacted a rather insignificant business through a branch in Milan; two Hungarian banks, Ungarische Escompte-und Wechsler-Bank and the Magyar Altalanos Hitelbank, which conducted exchange business for account of Hungarian trade and tourists through their agencies in Fiume; and two Buenos Aires banks, the Nuevo Banco Italiano and the Banco de Italia y Rio de la Plata, which maintained offices in Genoa and Milan, serving chiefly as financial agents for Italo-American interests in Argentina.

Certain balance sheet figures (available as of December 31, 1938) of branches of foreign banks operating in Italy are given below:

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CONDITION OF FOREIGN BANKS IN ITALY

As of December 31, 1938

(in million lire)

	National City Bank of New York	Barclays Bank S.A.I.	Banco de Italia y Rio de la Plata	Nuevo Banco Italiano	Americana Expressa S.A.I.	Credit Commerciale de France	Magyar Altalanos Hitelbank	Ungarische Escompte-und Wechsler-Bank
Cash on hand and with other institutions	33.5	2.9	3.1	3.4	9.7	5.6	0.8	0.5
Correspondents	19.0	--	3.3	0.3	3.5	1.6	--	--
Loans and discounts	6.6	19.4	39.5	12.2	8.1	7.3	3.1	0.7
Securities	--	17.0	6.9	5.5	0.3	--	--	--
Total assets	90.2	88.8	79.3	31.8	31.3	15.1	6.0	2.8
Capital	4.0	50.0	5.0	5.0	2.5	1.0	0.5	0.3
Deposits	3.7	2.2	17.6	20.8	20.8	1.7	2.3	1.2
Correspondents	69.4	32.1	41.0	0.1	1.0	11.1	1.3	0.9

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10. Savings Institutions

Casse di Risparmio e Monti di Credito su Pegno di Prima Categoria

The Casse di Risparmio e Monti di Credito su Pegno di Prima Categoria (Savings Banks and Pawnshops of First Category) were municipal, provincial, or interprovincial savings institutions which had developed during the course of the last century. These two types of institutions were always classed together and were subject to the same laws and regulations. Virtually the only difference between them was that the monti di credito su pegno di prima categoria, which being specifically authorized to conduct savings and credit operations, also continued to make loans secured by the pledge of personal property. The two types are grouped together in the following text under the general title "casse di risparmio". There were in addition monti di credito su pegno of lesser importance which were not authorized to transact banking business; they were regulated by Royal Decree of May 25, 1939, No. 1279, and were confined to loans on chattels.

In Northern Italy both types of savings institutions generally originated as banking departments of public pawnships, with capital funds provided and administration controlled by municipal or provincial charity or welfare organizations. In Central Italy the casse di risparmio had been generally organized by associations of persons with the purpose of benevolent non-profit activities; the founders of a cassa di risparmio retained the right to appoint the members of the consiglio d'amministrazione. In Southern Italy the casse di risparmio developed from the monti frumentari, which were municipal offices making loans to farmers in money or in kind; the local municipality provided the capital funds and appointed the administrators of the cassa di risparmio. In some cases casse di risparmio had been founded by a combination of public organizations and private associations, each group contributing part of the capital and appointing part of the consiglio d'amministrazione. As a result of mergers, almost all the casse di risparmio in existence before the war derived their funds from a variety of sources and were controlled by a variety of organizations and authorities, their administration being regulated by certain provisions of the original charters inserted in their statutes.

The casse di risparmio were generally regulated by the Testo Unico (collection of laws) of April 25, 1929, No. 967, and by the Royal Decree of February 5, 1931, No. 225, as amended by the Royal Decree of March 12, 1936, No. 375. Their organization and administration were subject to the supervision of the Comitato di Ministri, which approved the statutes and appointed the president and vice-president of the consiglio d'amministrazione of each cassa di risparmio. The non-commercial character of these institutions was evidenced by the fact that the law prohibited the payment of interest on contributions made by members and founders, as well as any participation of the directors in profits. Casse di risparmio with less than 5 million lire of deposits were not allowed to continue

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operations under the 1929 law but were merged with the leading cassa di risparmio situated in the province or in a nearby province; thus the Cassa di Risparmio delle Provincie Lombarde originated from the fusion of eight casse di risparmio formerly operating in the various provinces of Lombardy. A further law of December 14, 1939, No. 1922, required the merger of all casse di risparmio which had capital funds and deposits of less than 30 million lire and which were located outside provincial capitals. The Comitato di Ministri could also compel the organization of provincial and interprovincial federations of casse di risparmio, and regulate their functions. The purpose of such federations was to coordinate the operations of, and accumulate a common reserve fund for, the federated casse. The casse di risparmio in the various Venice provinces and Tuscany provinces functioned through such federations.

In 1911 the Associazione delle Casse di Risparmio Italiane was formed in Rome. The association provided a central information organ for promoting closer relations and the exchange of reciprocal services among members, acted as an advisory office on legal, administrative, financial, and fiscal matters of general interest, and issued a monthly bulletin, the Rivista delle Casse di Risparmio. This association promoted, in 1921, the establishment of the Istituto di Credito delle Casse di Risparmio Italiane, with which casse di risparmio could deposit government bonds and draw against it bankers' checks for an equivalent amount; these checks were freely payable by any other cassa di risparmio. The institute thus facilitated the transaction of bank business between its members on a national scale.

The typical business of the casse di risparmio was to receive savings deposits and current account deposits, on which interest was paid at the rate fixed by the Ispettorato; in addition, they could also issue savings certificates on a discount basis. The law required the casse di risparmio to place their funds in safe liquid assets, restricted their investments in mortgage loans and their lines of credit opened on mortgage security to not more than one-fourth of capital and deposits, and provided that, except in the case of public institutions, advances should be made only on government and government-guaranteed securities and mortgage bonds. Within these limits the casse di risparmio could freely determine their investment operations, which included:

(a) granting of overdraft facilities;

(b) discount of commercial and agricultural paper;

(c) advances on government and government-guaranteed securities and mortgage bonds;

(d) purchases and holdings of government and government-guaranteed bonds and shares of the Bank of Italy;

(e) loans on mortgages;

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(f) advances and loans to public authorities and institutions;

(g) advances on the security of collectible rents, royalties, and salaries (scheduled repayments not to exceed one-fifth of the salaries);

(h) advances to cooperative associations and federations; and

(i) participation in special institutions, regional federations, and national organizations for agricultural and mortgage credit.

(j) In the case of monti di credito su pegno di prima categoria, loans on chattels.

At the end of 1939 there were in operation 89 casse di risparmio, and only 7 monti di credito su pegno di prima categoria. The balance sheets of the casse di risparmio and the monti di credito su pegno at that date were as follows:

CASSE DI RISPARMIO

Balance Sheet as of December 31, 1939
(In million lire)

Assets		Liabilities	
Cash on hand and with banks	1,949	Capital funds	1,623
Correspondents	685	Savings deposits and certificates	17,135
Bills discounted	1,286	Current accounts	1,263
Advances and current accounts	651	Correspondents	583
Mortgage loans	1,808	Other liabilities	4,217
Loans by written agreements	3,911		
Special operations authorized by the statutes	1,651		
Securities owned	8,649		
Real estate	371		
Other assets	4,443		
Total	25,404	Total	25,404

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MONTI DI CREDITO SU PEGNO DI PRIMA CATEGORIA

Balance Sheet as of December 31, 1939
(In million lire)

Assets		Liabilities	
Cash on hand and with banks	41	Capital funds	68
Correspondents	4	Savings deposits and certificates	344
Bills discounted	39	Current accounts	50
Advances and current accounts	129	Correspondents	15
Mortgage loans	34	Other liabilities	97
Loans by written agreements	47		
Special operations authorized by statutes	15		
Securities owned	164		
Real estate	21		
Other assets	80		
Total	574	Total	574

For the casse di risparmio, the major item of investment consisted of government and government-guaranteed securities, which accounted for about one-third of their assets. Among the lending operations, the largest items were loans by written agreement (mutui chirografari), usually secured by title to revenue from properties or securities, and special operations authorized by the statutes; these types of lending were used particularly for the financing of provincial and municipal administrative authorities and public institutions and organizations (enti morali). Thus the major activity of the casse di risparmio was the directing of savings toward public uses.

By far the most important cassa di risparmio was the Cassa di Risparmio delle Provincie Lombarde. It had its head office in Milan; it was supervised by a Commissione Centrale di Beneficenza (Central Welfare Committee), the members of which were appointed by the mayor of Milan and the authorities of the various Lombard provinces; and it maintained branches or agencies in more than 200 localities situated in the provinces of Alessandria, Bergamo, Brescia, Como, Cremona, Genoa, Mantova, Milan, Novara, Pavia, Piacenza, Sondrio, Varese, and Vercelli. The president of the Cassa was Marquis Senator Giuseppe de Capitani d'Arzago, who was also president of the Associazione delle Casse di Risparmio Italiane and the International Thrift Institute. The Cassa operated, in addition to its banking unit, two special sections, one for mortgage credit and the other for agricultural credit. The order of importance of the leading casse di risparmio by amount of deposits as of the end of 1936, the last date for which comparable figures are available, is given as follows:

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Deposits Held By Leading Casse di Risparmio
As of December 31, 1936
(in million lire)

Cassa di Risparmio delle Provincie Lombarde	5,066
Cassa di Risparmio di Torino	1,956
Cassa di Risparmio del Banco di Napoli	1,348
Cassa di Risparmio del Banco di Sicilia	832
Cassa di Risparmio di Firenze	735
Cassa di Risparmio di Verona e Vicenza	669
Cassa di Risparmio di Bologna	671
Cassa di Risparmio di Genova	581

Casse di Risparmio Postali and Cassa dei Depositi e Prestiti

The system of Casse di Risparmio Postali (Postal Savings Offices) was originally set up by Law No. 2779 of May 27, 1875. These offices acted merely as agencies for the collection of savings, the management and investment of funds thus collected being entrusted to a central agency in the Ministry of Finance at Rome, the Cassa dei Depositi e Prestiti (Deposits and Loan Bureau). The law of 1875 was subsequently revised several times, and a so-called Testo Unico, No. 453, coordinating the various provisions, was issued on January 2, 1913.

The casse di risparmio postali were installed as part and parcel of the local postoffices, which numbered about 11,300 and covered the entire metropolitan and colonial territory of Italy. The postoffices thus became the branch offices of a centralized banking organization. They received savings deposits and kept current accounts, issued passbooks inscribed to the name of the depositor and to bearer, entered subsequent deposits on the books, paid out sums in cash or in postal checks, transferred funds within Italy and abroad, were official depositories for compulsory deposits made by order of courts and public administrations, accepted orders for the purchase of government bonds, met semi-annual interest payments on government bonds, and transacted banking services on behalf of public institutions and other public bodies, including municipalities and provinces. In addition, the casse di risparmio postali collected long-term funds by the issue of postal savings certificates on a discount basis. No amounts of less than 5 lire or more than 1,000 lire were accepted by the casse for deposit, and deposit accounts exceeding 20,000 lire carried no interest. Deposits with the casse di risparmio postali were exempt from attachments or other restrictions applied by courts and administrative authorities. Depositors were required to present their passbooks to a cassa every year (the presentations to be made on any day between April 1 and December 31) for the auditing of accounts and the crediting of interest payments; deposits not claimed in this way became the property of the casse after the passage of 1, 3, 5, or 30 years, depending upon the amount of the credit balance.

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The technical functioning of the casse di risparmio postali was supervised by the Ministry of Communications. The casse transferred the funds collected to the Cassa dei Depositi e Prestiti, which was a Direzione Generale (General Section) of the Ministry of Finance, and was autonomously administered by a Direttore Generale (General Director) of the Ministry, under the supervision of a committee consisting of three representatives of the Senate, three representatives of the House of Deputies, three high-ranking government functionaries (Consiglieri di State) appointed by the Council of Ministers, and one representative of the State auditing board (Corte di conti).

In addition to the funds of the casse di risparmio postali, the Cassa dei Depositi e Prestiti administered State funds assigned for civil and military pensions, the sums earmarked for amortization of the public debt, and the funds of social insurance institutions and of various provident organizations on behalf of public employees. The Cassa dei Depositi e Prestiti was authorized to receive deposits in cash and to hold Government, provincial, and municipal bonds, Treasury bills, and shares and bonds of incorporated companies. In fact, the Cassa dei Depositi e Prestiti was called upon to provide the major part of the capital funds of special Government lending agencies (Istituto per la Ricostruzione Industriale, Istituto Mobiliare Italiano, Consorzio Nazionale per il Credito Agrario di Miglioramento, etc.). Deposits were either voluntary or compulsory, the latter being classified as those made by order of courts or administrative authorities, or given as security for or in discharge of legal obligations.

The casse di risparmio postali and the Cassa dei Depositi e Prestiti were not subject to the supervision of the Ispettorato. The conditions, terms, and interest rates for their operations were determined by the Minister of Finance.

The savings collected by the Cassa dei Depositi e Prestiti were used mainly in making loans to the Government and to provinces, municipalities, and Government agencies; to a minor extent, they were invested directly in Government bonds. The law required that no less than half of the savings deposits of the casse di risparmio were to be invested in Government and Government-guaranteed bonds, so as to insure a large reserve of liquid assets with which to meet any contingencies; apparently, however, this rule was not strictly observed. Loans to provinces, municipalities and Government agencies could be made for duly authorized public works, for the redemption of bonds, and the purchase of public buildings; the maximum term was fixed at fifty years, repayment to be made gradually by fixed annual payments.

At the end of 1939, the casse di risparmio postali had total deposits amounting to 32,007 million lire, distributed over 17,760,000 accounts (average 1,800 lire per account). The distribution of deposits by provinces was as follows:

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Deposits of the Casse di Risparmio Postali
By Types and Regional Distribution
As of December 31, 1939

(In millions of lire)

Provinces	Passbook Accounts	Welfare Organization Accounts	Judiciary Accounts	Savings Certificates	Total
Piedmont	1,193.8	16.0	7.7	4,174.4	5,391.9
Liguria	505.7	12.4	6.0	1,273.1	1,797.2
Lombardy	669.0	18.7	12.1	3,376.6	4,076.4
Venice (Trento)	53.3	2.9	1.4	122.7	180.3
Venice	399.9	.9	4.3	1,339.6	1,744.8
Venice (Trieste)	38.4	-	2.1	172.1	212.7
Emilia	234.1	3.3	4.5	1,224.3	1,466.2
Tuscany	217.5	.9	5.2	1,080.8	1,304.4
Marche	82.1	1.1	1.4	440.3	525.0
Umbria	51.1	.4	1.3	226.0	278.8
Lazio	503.9	1.8	16.0	2,747.0	3,268.7
Abruzzi e Molise	233.9	2.0	3.4	903.8	1,143.2
Campania	455.4	4.5	10.9	1,961.0	2,431.8
Puglie	219.6	3.2	11.6	1,222.0	1,456.3
Lucania	102.1	1.0	1.1	358.1	462.4
Calabria	226.1	1.7	5.5	781.3	1,014.6
Sicily	412.3	4.0	12.9	1,759.0	2,188.2
Sardinia	106.1	3.3	2.8	363.6	475.8
Lybia	20.9	3.5	-	61.6	86.0
Italian East Africa, Agean Islands	86.9	-	3.9	176.8	266.7
Other accounts 1/	2,234.3	.4	-	1.6	2,236.4
Total	8,045.6	82.3	114.1	23,765.6	32,007.7

1/ Other accounts included mainly those of the casse's special services for Italians abroad; also those of military and naval postoffices.

As of the same date, the Cassa di Depositi e Prestiti reported its financial condition as follows:

Cassa dei Depositi e Prestiti
Principal Items in Statement for December 31,1939
(In millions of lire)

Invested Funds		Available Funds	
Loans	7,287	Due to casse di risparmio postali	32,008
Government bonds	5,592	Postal current accounts	2,425
Advances to the Treasury	2,012	Deposits	644
Treasury current account	21,731	Savings bonds	148
Participations	322	Other available funds	505

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As the figures above indicate, the Cassa dei Depositi e Prestiti obtained practically all of its resources through the casse di risparmio postali and placed the bulk of them at the disposal of the Treasury on current account. With only limited liquid reserves or paper eligible for discounts and advances at the Bank of Italy, the institution was dependent for its liquidity primarily upon the ability of the Treasury to meet its obligations.

Casse Rurali e Artigiane

The Casse Rurali e Artigiane (Rural and Artisan Savings and Credit Societies) were cooperative associations formed by farmers and townspeople for the purpose of improving their material condition by collecting savings and providing loan facilities to members. These casse originated in northern Italy in 1893 as a result of the pioneering social work of a Catholic priest, Luigi Cerrutti; they rapidly spread all over Italy, generally remaining closely connected with local Catholic organizations. The number of casse rurali e artigiane was over 2,600 during the 'twenties, but contracted during the course of the 'thirties to only 1,815 at the end of 1939. A large part of the casse then in existence were in a state of liquidation or inactivity.

The casse rurali e artigiane were regulated by the Testo Unico (collection of laws) of August 26, 1937, No. 1706. The law provided that farmers and artisans should constitute at least four-fifths of the membership of a cassa and fixed the minimum membership at 40 persons, the minimum capital at 30,000 lire, and the minimum shares per member at 50 lire. The casse could be organized on the basis of either limited or unlimited liability of the members. They were authorized to receive savings and current deposits; to extend short-term advances on promissory notes; to grant agricultural credit and to make mortgage loans (up to 5 years) for current operations and, under certain conditions, for land improvement; and to invest liquid funds in government securities and mortgage bonds. They also acted as intermediaries between special lending institutions for agricultural credit and borrowing farmers. The casse could deal with non-members provided these operations did not exceed one-quarter of their total operations. They were required to earmark in a special fund government bonds equal to 10 per cent of their deposits and to assign nine-tenths of their net profits to reserves. The casse di risparmio were entrusted with giving technical and financial assistance to the casse rurali e artigiane.

At the end of 1939, 335 casse rurali e artigiane filed financial statements, giving the following combined balance sheet:

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335 CASSE RURALI E ARTIGIANE
Combined Balance Sheet as of December 31, 1939
(in million lire)

Assets		Liabilities	
Cash on hand and with banks	71	Reserves	32
Correspondents	19	Savings deposits	487
Bonds discounted	100	Correspondents	7
Current accounts	59	Other liabilities	150
Loans	61		
Other assets	146		
Total	556		556

11. Special Public Lending Institutions

Medium- and long-term financing operations were the special field of public and quasi-public lending institutions, which may be classified in three groups, namely: institutions for the financing of industrial activities and public works, institutions for the financing of agriculture, and institutions for the financing of real estate.

Special Institutions for Industrial Financing

The financing of industrial activities and public works was exercised by two major institutions, the Istituto Mobiliare Italiano, and the Istituto per la Ricostruzione Industriale, and by two minor institutions, the Consorzio di Credito per le Opere Pubbliche, and the Istituto di Credito per le Imprese di Pubblica Utilita.

The Istituto Mobiliare Italiano (Italian Institute for Medium-Term Industrial Financing), usually referred to as I. M. I., was created by Royal Decree Law of November 13, 1931, No. 1398. It was reorganized by Royal Decree Law of March 12, 1936, No. 376, which coordinated its medium-term operations with the short-term operations of the Consorzio per Sovvenzioni su Valori Industriale (Consortium for Advances on Industrial Securities). The law of May 21, 1940, No. 657, transferred to the I. M. I. the assets, liabilities, and functions of the Istituto di Credito Navale (Institute for Naval Credit), which was placed in liquidation. These various amendments to the original law were embodied in new statutes of the I. M. I. published in the Gazzetta Ufficiale of February 10, 1941, No. 35.

The capital of the I. M. I. was fixed at 551.1 million lire distributed in 5,511 shares of 100,000 lire each underwritten by the Cassa dei Depositi e Prestiti, the Banco di Napoli, the Banco di Sicilia, the Monte dei Paschi di Siena, the Istituto di San Paolo di Torino, eighteen savings banks, the Istituto Nazionale Fascista della Previdenza Sociale, the Istituto Nazionale delle Assicurazioni, fifteen private insurance companies, and the Societa Italiana Strade Ferrate Meridionali. The shareholders received a fixed dividend of 5 per cent; the remaining profits were assigned to reserves.

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The I. M. I. was supervised by a consiglio d'amministrazione (board of directors), consisting of the president of the institute (the governor of the Bank of Italy was ex officio president) and eighteen consiglieri, of whom six were appointed by the Comitato di Ministri (in charge of savings and credit), and twelve were elected by the general meeting of shareholders. The administration of the I. M. I. was entrusted to a comitato esecutivo (executive committee) consisting of the president and five members appointed by the consiglio d'amministrazione. Auditing of the accounts and operations of I. M. I. was exercised by five sindaci appointed by the consiglio d'amministrazione and three sindaci elected by the general meeting of shareholders. The comitato esecutivo in 1939 included, in addition to Dr. Vincenzo Azzolini (the president), Dr. Pasquale Troise (general manager of the Bank of Italy and Professor Alberto Beneduce (president of the Istituto per la Ricostruzione Industriale and of the Soxieta Italiana Strade Ferrate Meridionali).

The I. M. I. did not maintain a special management and operating organization, but used the technical facilities of the central administration and branch system of the Bank of Italy. The managers of the offices of the bank acted as local representatives of the I. M. I. and were directly responsible to the governor of the Bank of Italy, in his capacity as president of the I. M. I.

The I. M. I. was authorized to transact credit operations for terms not exceeding twenty years, and to issue in the market mortgage-type tax-exempt bonds, amortizable during such periods. The bonds could be secured by industrial stocks held by the I. M. I. or could represent a general obligation of the institution; they could be purchased and held by any credit, insurance, or public institutions, and could be used as security for advances from the Bank of Italy. In practice the bulk of the funds used by the I. M. I. were derived from the issuance of such bonds. The financial operations of the I. M. I. included:

(a) loans to Italian industries guaranteed by securities, mortgages, or other assets;

(b) participation in the share capital of Italian corporations;

(c) other financial operations necessary for accomplishing the purposes of the institute, except the collection of savings deposits.

The balance sheet of the I. M. I. for March 31, 1939 was as follows:

ISTITUTO MOBILIARE ITALIANO
Balance Sheet as of March 31, 1939
(in million lire)

Assets		Liabilities	
Cash with banks	75	Capital	551
Securities	97	Reserves	29
Loans	1,048	Bonds outstanding	935
Participations	386	Other liabilities	119
Other assets	28		
	1,634		1,634

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The Consorzio per Sovvenzioni su Valori Industriali (Consortium for Advances on Industrial Securities) operated as the short-term financing section of the I. M. I., but maintained an autonomous administration and a legal personality. It was originally organized by Royal Decree Law of December 20, 1914, No. 1375, subsequently amended several times, and in 1936 it was reorganized. The various amendments to the 1914 law were embodied in new statutes published in the Gazzetta Ufficiale of February 10, 1941, No. 35.

The capital of the Consorzio amounted to 20 million lire, half of which was contributed by the Cassa dei Depositi e Prestiti, and the remaining half by the Bank of Italy, the Banco di Napoli, the Banco di Sicilia, nine savings banks, and eleven other banks; the participants were allowed to receive one-half of the net profits remaining after allocation of 5 per cent to reserves and payment of a 5 per cent divident on the capital.

The president of the I. M. I. and governor of the Bank of Italy, Dr. Vincenzo Azzolini, was also the ex officio president of the Consorzio. The Consorzio was supervised by a comitato esecutivo centrale (central executive committee) which consisted of thirteen members, representing the various participants; this comitato appointed a giunta (subcommittee) of six members in charge of administration. As in the case of the I. M. I., the Consorzio did not maintain a special management and operating organization, but used the technical facilities of the central administration and branch system of the Bank of Italy. In particular, the regents of the sedi and the counselors of the succursali of the Bank were entrusted with supervision over discount operations performed by the local managers of the bank on behalf of the Consorzio.

The entire business of the Consorzio consisted of the discount of paper with a term not exceeding six months; only paper with a term not exceeding four months could be rediscounted at the Bank of Italy. The paper discounted could be, and usually was, renewed at maturity. The paper eligible for discount included industrial or commercial paper bearing two signatures, or bills bearing only one signature but covered by adequate security. Acceptable security included industrial shares quoted on Italian stock exchanges (provided their market quotation was justified by the dividends distributed during the previous three years), industrial raw materials, semi-manufactured and manufactured goods, warrants issued by official warehouses, and mortgages on ships. Advances were limited to 50 per cent of the current value of the security pledged. The Consorzio was also authorized to discount paper secured by lien against payments due from the government to the borrowing company; this type of lending was used for the financing of industries working on government orders. The Consorzio usually charged an interest rate one per cent above the rediscount rate of the Bank of Italy.

The Consorzio was authorized to procure resources by rediscount with and advances from the Bank of Italy and other institutions, and by issuing its own obligations. The legal limit for ordinary rediscount operations with the Bank of Italy was determined by the Minister of Finance, with the advice of the governor of the Bank of Italy; this limit was fixed at 500 million lire in 1935. No limits, however, were imposed upon the Consorzio's rediscounting with the Bank of Italy of paper secured by government orders. In addition, the Consorzio rediscounted part of its portfolio with the Bank for International Settlements, thus providing an investment for the funds held by this bank in

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Italy. The issue of its own obligations, which were for terms of one to five years, ceased after 1936 to represent an important source of funds for the Consorzio.

At the end of 1939, the balance sheet of the Consorzio was as follows:

CONSORZIO PER SOVVENZIONI SU VALORI INDUSTRIALI
Balance Sheet as of December 31, 1939
(in million lire)

Assets		Liabilities	
Cash with the Bank of Italy	30	Capital	200
Government and government-guaranteed bonds	215	Obligations outstanding	314
Discounts	2,802	Rediscounts	2,380
Securities deposited	1,304	Securities deposited	1,304
Other assets	49	Other liabilities	202
	4,400		4,400

The Royal Decree Laws of September 5, 1938 (No. 1480), November 15, 1938 (No. 1873), and March 25, 1939 (No. 574), entrusted the I. M. I. and the Consorzio with the financing of operations involving unusual risks in connection with the program for national autarky and for war preparation. In order to perform these special functions, the I. M. I. and the Consorzio set up a section financed by the issue of a special series of I. M. I. bonds, up to 50 million lire, and by the rediscount operations of the Consorzio with the Bank of Italy. This section was administered jointly by the I. M. I. and the Consorzio with the advisory assistance of a technical committee formed by delegates of the Ministries of Finance and Corporations, the Fascist Confederation of Industrialists, the National Research Board, and the I. M. I. To meet eventual losses, the section was provided with a reserve fund of 22 million lire, of which 5 million was contributed by the I. M. I., 6.5 million lire by the Consorzio, and the balance by the Bank of Italy.

In connection with these special operations, the Consorzio was authorized by Law of November 20, 1939, No. 1710, to transact operations not only directly with private industrial companies, but also with an intermediary financial agency, the E. F. I., or Ente Finanziamenti Industriali (Industrial Financing Agency). The E. F. I. was incorporated in Rome on July 27, 1939, with an authorized capital of 100 million lire and a paid-up capital of 30 million, underwritten by private industrial companies engaged in war production as follows:

	(in million lire)
Fiat, Torino	20
Rombrini Parodi Delfino, Genova	20
Metallurgica Italiana, Milano	1¼
Italiana Pirelli, Milano	13
Dinamite Nobel, Milano	11
Metallurgica Bresciana gia "Tempini," Brescia	7
Generale di Esplosivi e Munizioni, Milano	5
Italiana Ernesto Breda, Milano	5
Cantieri Navali Riuniti, Genova	3
Cantieri del Tirreno, Genova	2

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The E. F. I. acquired the claims of these companies on the State and discounted them with the Consorzio; this device gave to the Consorzio a direct claim on the E. F. I. and therefore a somewhat greater measure of security.

The Istituto per la Ricostruzione Industriale (Institute for Industrial Reconstruction), generally known as I. R. I., was established by Royal Decree Law of January 23, 1933, No. 5, and charged with two specific functions, for the performance of which two autonomous sections were originally set up: the Sezione Smobilizzi Industriali (Section for Liquidation of Industrial Assets), with a capital of 500 million lire, and the Sezione Finanziamenti Industriali (Section for Industrial Financing), with a capital of 100 million lire. The capital of both sections was subscribed by government agencies, namely, the Cassa dei Depositi e Prestiti, the Istituto Nazionale delle Assicurazioni, and the Cassa Nazionale delle Assicurazioni Sociali.

The primary purpose of the I. R. I. was to take over the industrial investments of various financial companies, namely: (1) the Istituto di Liquidazione (holding the substantial investments of the Banca Italiana di Sconto - bankrupt in 1922 - and the minor investments of the Banca Agricola Italiana - closed in 1930); (2) the Societa Finanziaria Italiana and the Societa Elettro-Finanziaria (holding the investments of the Credito Italiano); and (3) the Sofindit (holding the investments of the Banca Commerciale Italiana). In addition, the I. R. I. took over the Banco di Roma's industrial investments, held either by the bank itself or by the Istituto di Liquidazione and the Consorzio per Sovvenzioni su Valori Industriali as a guarantee for loans and advances to the bank. Simultaneously, the I. R. I. acquired from the industrial concerns taken over from the various financial institutions, their controlling participations in the share capital of the Banca Commerciale Italiana, the Credito Italiano, and the Banco di Roma. All of these operations were effected through the Sezione Smobilizzi Industriali.

The Sezione Finanziamenti Industriali engaged in long-term industrial financing for a brief period but was abolished in March 1936, its assets and liabilities being assumed by the other Sezione. Then on June 24, 1937, a complete reorganization was effected by the Royal Decree Law, No. 905. The Sezione Smobilizzi Industriali disappeared as a separate entity, and the I. R. I. became a holding company charged with the management of government investments in, and with the financing of, industrial undertakings of national and strategic importance, in conformity with the economic policies of the Fascist regime as formulated by the various corporations. It also retained on behalf of the government a controlling interest in the three banks of national interest.

The I. R. I. was specifically entrusted with the following tasks:

(a) the management on behalf of the Minister of Finance of those parcels of stock not assigned by law to the state as its exclusive property (proprieta demaniale);

(b) the liquidation of those parcels of stock which had come into the I. R. I.'s possession through its various transactions and the government no longer desired to retain;

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(c) the acquisition of, participation in, and financing of those industrial undertakings formed for national defense, national autarky, and the industrial and and agricultural development of Italian East Africa;

(d) the acquisition of, or participation in, existing or new undertakings, in cases where this was deemed to be necessary for the promotion or improved management of existing I. R. I. interests.

The I. R. I. was placed under the immediate jurisdiction of the head of the government, who approved the statutes and appointed the president and vice-president of the institute. Professor Alberto Beneduce, one of the best brains of Italian finance and a former social-democrat who had assisted Bonaldo Stringher in the stabilization of the lira in 1927, was president of the I. R. I. from 1933 to 1939; he was succeeded by the vice-president Dr. Francesco Giordani, a chemistry scientist, member of the Italian Academy of Arts and Sciences, and professor at the University of Naples. The I. R. I. was supervised by a consiglio d'amministrazione, which included (in addition to the president and the vice-president) three officials from the Ministry of Finance: the Director-General of the Treasury, the Director-General of State Real Property, and the Director-General of State Movable Property; the Director-General of Industry from the Ministry of Corporations; a delegate from the Ministry for Foreign Trade and Exchanges; a delegate from the Office of the General Commissioner for War Production; and the General Accountant of the State. The management of the I. R. I. was vested in a giunta esecutiva (executive committee) consisting of the president, the vice-president, and the Director-Generals of State Real Property, of State Movable Property, and of Industry. This committee was assisted by a technical advisory board, which included representatives of the Fascist confederations of industrialists and industrial workers, executive officers of industries controlled by the I. R. I., and technical specialists on matters under consideration by the board. The sindaci (auditors) of the I. R. I. were appointed by the Corte dei Conti (State Auditing Board) and the Ministers of Finance and Corporations. The I. R. I. was administered from a central office in Rome; its operations, however, were carried out by the branch system of the Bank of Italy, which acted as the financial agent for the I. R. I.

Under the law of June 1937, the I. R. I. was endowed with a capital fund of 1,000 million lire, formed by its accumulated reserve. Of its profits, 25 per cent was assigned to reserve funds, 10 per cent was used for training managerial personnel, and the balance was paid to the State. No provision was made for dividends to holders of the original share capital; hence it may be assumed that this was repaid. The I. R. I. was authorized to issue mortgage-type bonds for terms of not less than 20 years, either registered or to bearer, including various special series secured by industrial shares, which could be exchanged at the option of the holder for the underlying shares; the pledged securities were placed in special accounts and managed separately on behalf of the respective bondholders. The bonds issued by the I. R. I. were exempt from taxation, could be purchased by credit, insurance, and public institutions, and were eligible for advances from the Bank of Italy. The I. R. I. was also authorized to obtain loans on industrial securities, or advances on government or government-guaranteed bonds, to borrow by discounting bills and commodity

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warrants, and to obtain funds in any other way (except by acceptance of deposits) from any credit institutions, including the Bank of Italy.

The I. R. I. was authorized to enterinto financial arrangements with the concerns in which it held stock, and with institutions of public law the capital of which was partially or wholly owned by the state. The acquisition or sale of industrial securities valued at more than 10 million lire required previous authorization of the Minister of Finance. In cases where such transactions gave the I. R. I. control over one-half or more of the voting power in the undertaking, or where it reduced the existing voting power of the I. R. I. to less than one-half, the transaction required the previous authorization of the head of the government.

In addition to holding and administering certain parcels of stock directly, the I. R. I. also maintained affiliated financial companies in charge of special classes of stock, as follows:

(a) The Societa Torinese Esercizi Telefonici, or Stet, created in 1933 with a capital of 400 million lire. The Stet took over the I. R. I.-held stock of electrical and telephone groups, namely, the Sip, Stipel, Telve, and Timo.

(b) The Societa Finanziaria Marittima, or Finmare, created in 1936 with a capital of 900 million lire. The Finmare took over the I. R. I.-held stock of the major Italian shipping lines, namely, Italia, Lloyd, Triestina, Adriatica, and Tirrenia.

(c) The Societa Finanziaria Siderurgica, or Finsider, created in 1937 with a capital of 900 million lire; the capital was raised to 1,800 million lire at the end of 1939, 86 per cent of the new shares being placed among private investors and 14 per cent being taken over by the I. R. I. The Finsider took over the I. R. I.-held stock of leading iron and steel industries, namely, the Ilva, Terni, Stabilimento di Dalmine, and Acciaierie Cornigliano, in addition to a controlling interest in six other less important mining and steel companies.

These three affiliated financing companies issued special series of twenty-year 4 per cent bonds, denominated I. R. I.-Stet bonds, I. R. I.-Finmare bonds, and I. R. I.-Ferro bonds, up to amounts equal to their respective capital. These bonds were secured as to principal and interest by the stock of the operating enterprises held by the respective companies; they were also guaranteed by the State. The bondholders received, in addition to the 4 per cent guaranteed interest, a participation in profits (determined by a complicated formula) up to a further 2 per cent; also they had the right to exchange their bonds par for par into shares of the respective financial companies.

No balance sheets or statements of condition were contained in the annual reports issued by the I. R. I. and its affiliates. The I. R. I.'s report for 1939, however, indicated clearly the predominant role which it played in Italian industry:

(a) In the iron and steel industry, the I.R.I.-Finsider owned the four major enterprises, producing 75 per cent of the iron output and 45 per cent of the steel output in Italy.

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(b) In the shipping industry, the I.R.I.-Finmare owned 90 per cent of the Italian shipping tonnage and controlled all shipping lines subsidized by the government.

(c) In the shipbuilding industry, the I.R.I. controlled all major shipyards, with a capacity of 78 per cent of the merchant shipping, 98 per cent of the naval shipping, and 72 per cent of the submarine production of the country.

(d) In the armament industry proper, the I.R.I. controlled virtually the entire national production.

(e) In the chemical industry, the I.R.I. participated on a fifty-fifty basis with the Cartiere Burgo (paper industry) in an undertaking for the development of national cellulose and with the Pirelli company (rubber industry) in an undertaking for the production of artificial rubber.

(f) In the public utilities field, the I.R.I.-Stet owned telephone companies providing services to 52 per cent of all subscribers, and in the electrical field the I.R.I. held an interest of 25 per cent in companies having an output of 27 per cent of the national power production.

(g) In addition, the I.R.I. held important participations in aircraft and motor industries and in other companies.

New fixed investments made in 1939 in undertakings controlled by I. R. I. were reported to amount to over 1,250 million lire. The resources for these investments had been obtained from three sources, namely, 700 million lire from the sale of parcels of stock by the I. R. I., 300 million lire from liquid funds made available to the I. R. I. from an unspecified source (presumably the I. M. I. and the Consorzio per Sovvenzioni su Valori Industriali), and 260 million from the issuance of new shares by the operating companies.

The financial relations of the I. R. I. with the Ministry of Finance were regulated by the provisions of the Royal Decree Law of January 17, 1935, No. 6, which prolonged until 1971 the payment of government subsidies to the I. R. I., at the rate of 285 million lire per annum. These sums were intended primarily to cover losses on the liquidation of assets. Under a convention signed in 1936, the I. R. I. assumed an obligation toward the Bank of Italy for 4708 million lire, thereby funding various outstanding debts due to the Bank, the I. M. I., the Consorzio, and others. Arrangements were then made for the settlement of this consolidated debt in thirty-five years, during which the I. R. I. was scheduled to pay to the Bank interest at the rate of 0.75 per cent on the whole amount, in addition to annual amortization payments. As security for the repayment of this debt, the I. R. I. maintained with the Bank a permanent and irrevocable deposit of government bonds with a par value of 1,630 million lire; title to these bonds was to pass to the Bank in 1971, while the income thereon was to be applied in the meanwhile to the service

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of the I. R. I. debt to the Bank. The Bank continued to carry the full amount of the I. R. I. debt among its assets, while among its liabilities appeared a sinking fund built up from amortization payments. At the end of 1939 this fund amounted to 143 million lire, having apparently been constituted almost wholly out of the income from the deposited government bonds.

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The Consorzio di Credito per le Opere Pubbliche (Credit Consortium for Public Works) was organized in 1919 with a capital of 100 million lire subscribed by the Cassa dei Depositi e Prestiti, the Istituto Nazionale delle Assicurazioni, savings banks, credit institutions of public law, and insurance companies for the purpose of making loans for public works to provinces, municipalities, and other public agencies. The Consorzio was authorized to issue mortgage-type, tax-exempt bonds which carried interest at 4 1/2 per cent; its loans were secured by special lien on public revenues or guaranteed by the State. In 1926 the Consorzio was reorganized and empowered to conduct operations in foreign markets. Under this provision, the Consorzio placed, in 1927, two bond issues in the United States through J. P. Morgan & Co., one for $4.5 million, which was repaid in 1937, and the other for $7.5 million, due in 1947 ($3.8 million were outstanding at the end of 1940). These dollar bond issues were guaranteed by the Italian Government and further secured by a fixed portion of the annuities payable by the Italian Government to shipping companies (this security was valuable because the shipping companies held assets in the United States against which eventual claims might be enforced). In 1936 the Consorzio set up an autonomous section with a capital of 100 million lire for the financing of public works in Italian East Africa. The activities of the Consorzio declined progressively after 1937, owing chiefly to the heavy strain that was placed upon Italy's financial resources by autarkic and armament projects. At the beginning of 1940 the Consorzio was coordinated with other similar institutions, the governor of the Bank of Italy being appointed ex officio to the presidency of the Consorzio.

Its balance sheet at the close of 1939 was as follows:

CONSORZIO DI CREDITO PER LE OPERE PUBBLICHE
Balance Sheet as of December 31, 1939
(in million lire)

Assets		Liabilities	
Cash with banks	374	Capital	102
Advances to Treasury	41	Reserves	51
Securities	76	Section for Italian East Africa	107
Loans	6,203	Bonds outstanding	6,193
Other assets	173	Other liabilities	414
	6,867		6,867

The Istituto di Credito per le Imprese di Pubblica Utilita (Credit Institute for Public Utilities) was founded in 1924 with a capital of 150 million lire subscribed by the Cassa dei Depositi e Prestiti, the Istituto Nazionale delle Assicurazioni, the Istituto Nazionale Fascista della Previdenza Sociale, savings banks, credit institutions of public law, and insurance companies.

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The purpose of the Istituto was to make loans to private concerns carrying out works, erecting plants, or making alterations needed for utilizing concessions granted by the State, provinces, and municipalities in the public utility field. The Istituto issued mortgage-type, tax-exempt bonds and made loans secured either by mortgage on properties and plants, or by liens on the revenue of the borrowing companies. The activities of the Istituto were practically confined to the two-year period 1931-32; with the growth of the I. M. I. and I. R. I., it entered into a state of inactivity and gradual liquidation. Its balance sheet at the end of 1938, given below, reflected a progressive contraction over preceding years.

ISTITUTO DI CREDITO PER LE IMPRESE DI PUBBLICA UTILITA
(Balance Sheet as of December 31, 1938
(in million lire)

Assets		Liabilities	
Unapid capital	105	Authorized capital	150
Cash with banks	72	Reserves	54
Loans	1,086	Bonds outstanding	1,036
Securities	21	Other liabilities	51
Other assets	7		
	1,291		1,291

In 1940 the governor of the Bank of Italy was appointed ex officio to the presidency of the Istituto.

Agricultural Lending Institutions

At the end of 1939, there was one central institution for agricultural credit, operating on a nation-wide basis, the Consorzio Nazionale per il Credito Agrario di Miglioramento. In addition there were ten special institutions operating on a regional basis, as follows:

Istituto Federale di Credito Agrario per il Piemonte, in Piedmont;

Sezione di Credito Agrario dell'Istituto Federale delle Casse di Risparmio delle Venezie, and Sezione di Credito Agrario dell'Istituto di Credito Fondiario delle Venezie, in the Venice Regions (Venice, Trento, Trieste);

Sezione di Credito Agrario delle Casse di Risparmio delle Provincie Lombarde, in Lombardy;

Istituto di Credito Agrario per la Liguria, in Liguria;

Istituto Federale di Credito Agrario per la Toscana, in Tuscany;

Sezione di Credito Agrario per l'Emilia e la Romagna della Cassa di Risparmio di Bologna, in Emilia and Romagna;

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Istituto di Credito Agrario per l'Italia Centrale, in Central Italy;

Sezione di Credito Agrario del Banco di Napoli, in Southern Italy;

Sezione di Credito Agrario del Banco di Sicilia, in Sicily;

Istituto di Credito Agrario per la Sardegna, in Sardinia.

The Consorzio Nazionale per il Credito Agrario di Miglioramento (National Consortium for Agricultural Credit for Land Improvement) was established by Royal Decree Law of July 29, 1927, No. 1509, to supplement the activities of preexisting land and agricultural credit institutions. Its capital, amounting to 269.5 million lire, was subscribed by the agricultural credit sections of the Banco di Napoli and the Banco di Sicilia, and by the Istituto Nazionale delle Assicurazioni, the Istituto Nazionale Fascista della Previdenza Sociale, the Istituto Nazionale Fascista per l'Assicurazione contro gli Infortuni sul Lavoro, the Istituto San Paolo di Torino, the Monte dei Paschi di Siena, the Istituto di Credito della Casse di Risparmio Italiane, the Banca Nazionale del Lavoro, and various savings banks. The resourcesof the Consorzio were supplemented by the issue of mortgage bonds, which were exempt from taxation and could be purchased and held by credit, insurance, and public institutions. The Consorzio was authorized to issue such bonds up to eight times its capital; at the end of 1939 the outstanding amount of bonds was a little more than double its capital funds. The Consorzio played an important role in the difficult task of funding short-and medium-term farm indebtedness into long-term loans (up to 50 years), besides financing farm improvements (particularly land reclamation and irrigation).

The Consorzio extended agricultural credit and financed land reclamation works throughout the country. Special agreements between the Consorzio and the various regional institutions defined the limits of their respective operations. Operations with long-term maturity and in large amounts were usually allocated to the Consorzio, while operations with shorter terms and in smaller amounts were generally handled by the regional institutions. The regional institutions were not authorized to issue bonds (with the exception of Sezione di Credito Agrario dell'Istituto di Credito Fondiario delle Venezie) or to receive deposits (with the exception of the Istituto di Credito Agrario per l'Italia Centrale and the Istituto di Credito Agrario per la Sardegna). They obtained their resources from various sources, namely:

a) their capital and reserve funds, supplied by savings banks and credit institutions of public law

b) subsidies and advances granted by the State,

c) advances from savings banks and credit institutions of public law,

d) rediscounts of short-term paper at the Bank of Italy.

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These regional institutions were administered by the founding savings banks and credit institutions of public law, with the participation of sindaci and consiglieri appointed by the Comitato dei Ministri.

The principal items of the balance sheets of the agricultural credit institutions at the end of 1939 are shown in the table on the following page.

Mortgage Lending Institutions

At the end of 1939, there was one central institution for mortgage credit, operating on a nation-wide basis, the Istituto Italiano di Credito Fondiario. In addition there were ten special institutions operating on a regional basis, as follows:

Credito Fondiario dell' Istituto di San Paolo di Torino, in Piedmont;

Credito Fondiario della Cassa di Risparmio delle Provincie Lombarde, in Lombardy;

Istituto di Credito Fondiario della Regione Tridentina, in the Trento and Bolzano provinces;

Istituto di Credito Fondiario del Friuli Orientale, in the province of Udine;

Istituto di Credito Fondiario delle Venezie, in the Venice regions;

Credito Fondiario della Cassa Risparmio di Bologna, in Romagna and Emilia;

Credito Fondiario del Monte dei Paschi di Siena, in Tuscany and Central Italy;

Credito Fondiario del Banco di Napoli, in Southern Italy;

Credito Fondiario del Banco di Sicilia, in Sicily;

Credito Fondiario Sardo, in Sardinia.

The Istituto Italiano di Credito Fondiario (Italian Institute for Mortgage Credit) was organized in 1891 with a capital of 100 million lire subscribed by the Bank of Italy and other public and private institutions. The Istituto was placed under the special supervision of a government commissioner, and its management and operations were entrusted to the Bank of Italy. The Bank of Italy was represented by its direttore generale, Dr. Pasquale Troise, and by two capi servizio of the bank, in the consiglio d'amministrazione of the Istituto. Dr. Angelo Di Nola, another capo servizio of the Bank of Italy, was general manager of the Istituto for several years but was dismissed at the end of 1938, as a result of the anti-Semitic legislation. The Istituto was

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Agricultural Credit Institutions, as of December 31, 1939
(in thousands of lire)

	Principal Asset Items				Principal Liability Items			
	Cash on Hand and with Banks	Investments in Securities & Real Estate	Loans for Current Operations	Loans for Land Improvement	Capital & Reserve Funds	Advances from State & Other Sources	Deposits & Other Accounts	Mortgage Bonds Outstanding
Cons. per Credito di Miglioramento	33,882	17,951	--	876,095	296,000	--	--	578,894
Ist. di Credito per il Piemonte	10,961	20	481,427	39,866	56,646	1,582	--	--
Sez. dell'Ist. delle Casse di Risp. delle Venezie	31,875	75,315	104,623	41,465	113,007	97,954	--	--
Sez. dell'Ist. di Credito Fondiario delle Venezie	52	322	--	198,199	19,251	--	--	190,867
Sez. della Cassa di Risp. delle Prov. Lombarde	315	--	419,666	70,584	102,886	--	--	--
Ist. di Credito per Liguria	658	1,190	2,996	15,741	14,886	6,666	--	--
Ist. di Credito per la Toscana	6,928	2,186	4,091	126,284	56,743	1,580	--	--
Sez. della Cassa di Risp. di Bologna	3,945	2	--	18,415	19,115	1,582	--	--
Ist. di Credito per l'Italia Centrale	4,327	8,117	31,752	34,985	42,006	31,844	8,898	--
Sez. del Banco di Napoli	53	2,779	647,957	154,136	214,599	179,793	--	--
Sez. del Banco di Sicilia	--	6,629	173,554	36,261	73,012	175,707	--	--
Ist. di Credito per la Sardegna	5,373	22,839	34,056	32,537	82,999	--	25,868	--
Total	98,369	137,350	1,900,122	1,644,568	1,091,150	496,708	34,766	769,761

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authorized to issue long-term mortgage bonds, which were exempt from taxation, could be purchased and held by credit, insurance, and public institutions, and were eligible for advances from the Bank of Italy. It was also authorized to make loans on mortgage security, either in cash or in mortgage bonds.

The regional institutions obtained their resources through their capital, subscribed by savings banks and credit institutions of public law, and by the issue of mortgage bonds. Their activities were confined to specified provinces.

The principal items of the balance sheet of the Istituto Italiano di Credito Fondiario and the regional institutions for the end of 1939 are shown in the table on the following page.

Other Special Lending Institutions

At the end of 1939 there were a few other special lending institutions in existence, both public and private, but they were generally inactive and their importance in the credit system of the country was insignificant.

The Istituto Nazionale di Credito per il Lavoro Italiano l'estero was founded by law of April 17, 1925, No. 473, with a capital of 100 million lire for financing Italian enterprises in foreign and colonial territories. It was reorganized in 1929, when it was authorized to extend its activities to domestic resettlement projects.

The Istituto Nazionale di Credito Edilizio, incorporated in Rome in 1925, issued mortgage bonds and operated as central credit organ for corporations and cooperative societies engaged in real estate financing.

The Sezione Autonoma di Credito per le Piccole Industrie e l'Artigianato organized in 1928 with a capital of 9 million lire, made use of advances from the Banco di Napoli and the Banco di Sicilia to assist handicrafts and home and village industries.

A number of other institutions, organized on a cooperative basis or as enti morali (public law bodies), administered welfare and pension funds of employees of public and private institutions, made loans to members, and invested in government securities and mortgage bonds.

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Mortgage Credit Institutions, as of December 31, 1939
(in thousands of lire)

	Assets				Liabilities			
	Investments in Securities	Investments in Real Estate	Loans on Mortgages	Assets	Capital	Reserves	Outstanding Bonds	Other Liabilities
Istituto di Credito Fondiario	60,442	6,494	854,912	77,962	60,000	47,305	842,670	49,835
Banca Nazionale del Lavoro	22,389	23,681	469,000	59,366	57,500	26,561	441,000	49,375
Credito Fondiario Sardo	17,815	6,192	129,787	16,701	23,000	1,320	127,686	18,489
Istituto di San Paolo di Torino	18,632	4,373	653,659	42,140	20,707	14,595	660,015	23,487
Cassa di Risparmio delle Provincie Lombarde	56,377	22,782	1,435,446	86,620	--	66,688	1,453,483	81,054
Istituto di Credito Fondiario Tridentina	5,982	2,752	62,965	13,640	10,000	2,445	63,114	9,780
Istituto di Credito Fondiario del Friuli	44,548	15,981	1,117,692	119,406	106,022	16,888	1,092,552	82,165
Istituto di Credito Fondiario delle Venezie	7,506	7,694	472,681	25,211	--	8,266	478,544	26,282
Cassa di Risparmio di Bologna	7,137	28,864	483,916	56,954	2,000	8,046	483,953	83,872
Monte dei Paschi di Siena	--	87	223,143	2,193	50,000	4,923	161,419	9,081
Banco di Napoli	3,324	540	43,720	5,012	10,000	486	40,422	1,688
Banco di Sicilia	2,678	5	23,131	2,247	3,000	601	22,303	1,157
Total	246,830	119,445	5,970,052	507,452	341,229	198,124	5,368,161	436,265

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12. Stock Exchanges [1]

General Position in the Italian Economy

The principal Italian stock exchange was located in Milan. Of secondary importance were those located in Rome, Turin, Genoa, Trieste, Naples, Bologna, Florence and Palermo. The Milan exchange's lists contained practically every important Italian corporation, in addition to the Government issues which were traded on all of the exchanges, while trading on the smaller exchanges usually was concentrated in the issues of some industry which had local importance.

Little securities trading was done in Italy which did not involve the use of either the exchange floor or the facilities of an exchange member. While the Italian banks were comparatively active in securities trading, both as agents for their customers and as principals, and although numerous split-commission men, or commissionari, acted for customers in securities transactions, no organized markets for securities existed elsewhere than on the exchanges proper.

Securities trading was of comparatively minor importance in the economic life of Italy, and the exchanges did not occupy an important place in the nation's economy. The relative unimportance of securities trading was partly due to the fact that securities, other than Government obligations, were not widely owned in Italy, as they are in the United States; it was due also to the fact that the significance of private capital as an economic force has been on the wane in Italy ever since the introduction of Fascism.

Government of the Exchanges

The exchanges were completely under the control of the Italian Government. The Minister of Finance had broad powers of inspection and discipline and would prescribe or alter business methods. Even comparatively minor details, such as settlement dates and hours of trading were prescribed by ministerial decree. Decisions of the Minister relating to the administration of the exchanges were final.

The nation's stock brokers were organized into a single syndicate -- Federazione Nazionale Fascista degli Agenti di Cambio. The commissionari also were grouped into a syndicate. Both syndicates, together with certain related groups, made up the Confederazione Fascista delle Aziende del Credito e Dell'Assicurazione.

In addition to the national organizations, each exchange had its own administrative organization as well. The exchange's board of governors (Comitato direttivo) consisted of a president, vice-president, and 1 to 5 other members, varying with the exchange.

1/ Section contributed by Trading and Exchange Division of Securities and Exchange Commission.

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All members of the board were appointed by the Minister of Finance who was supposed to consult with the brokers' syndicate in making his appointments. This board constituted the real administrative body of each exchange and its decisions on day-to-day matters of administration were ordinarily ratified by the Minister. Nevertheless, the Minister also stationed at each exchange a government inspector (ispettore del Tesoro) who was responsible directly to the Minister.

Securities Admitted to the Exchanges

In Italy, transactions in any security could be effected on the floor of any exchange, whether or not the security had been formally admitted to the exchange. Formal admission to the exchange, however, conferred two basic privileges upon the issue which it would not otherwise have possessed. Until they were admitted to the list, issues could be traded only on a private basis on the exchange between any two negotiating parties; they could not be bid for or offered publicly. Moreover, until they were listed, the execution prices of issues did not appear on the official price lists compiled and published by each exchange.

All negotiable Government securities were listed automatically on all exchanges. As for other issues, listing was practically automatic if the Government's requirements were met. Only organization which had completed two years of corporate life and had published statements covering the period were eligible to list. A heavy tax was paid to the Government upon admission. Accounting standards and other details, which the American exchanges may by right prescribe, were entirely under the Italian Government's jurisdiction. An issue could be listed on more than one Italian exchange and, as a matter of fact, such leading issues as Fiat and Montecatini were listed on most of the country's exchanges.

The number of corporations with securities listed on the Italian exchanges did not total 300 and was less than 10 per cent of all Italian corporations. Yet scarcely a single Italian company of any size was omitted from the list and the assets represented by these listed corporations constituted the bulk of Italian industry and finance. The list included banking institutions, utilities, navigation companies, mining and manufacturing concerns and a variety of other enterprises. Particularly important as speculative favorites in Milan were such outstanding issues as Snia Viscosa, Montecatini, Fiat, Edison, U.N.E.S., Petroli d'Italia and Pirelli.

Membership on the Exchanges

Prior to 1925, memberships on the exchanges were not fixed in number, but in that year the Fascist Government undertook a sweeping reorganization of the exchanges in the course of which the number of memberships was fixed for each exchange: the number varied with the size of the exchange, Milan having 90 and Turin 45. Membership was not a property right; unlike membership on an American exchange, it could not be sold by its holder.

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New members were appointed to vacancies by the Minister of Finance and, upon appointment, received a royal commission which placed them in the position of a quasi-public official. Candidates had to be high school graduates, must have served an apprenticeship with a broker or bank, and had to be members of the Fascist party. Persons having a financial interest in any banking institution were barred from membership as well as former members who had failed and had not completely paid off their outstanding obligations.

Brokers' customers were afforded a limited degree of protection against brokers' insolvency by provisions requiring each broker to put up and maintain certain funds when he went into business. The size of the fund varied with the exchange; for example, brokers at Milan and Genoa each had to deposit 1,000,000 lire; those in Rome, Turin and Trieste, 800,000 lire; and those in Naples, Florence, Bologna and Palermo, 500,000 lire. Half of each broker's fund was placed on deposit with the Banca d'Italia while the remaining half was pooled by the brokers of each exchange in a common account administered by the governing board of the exchange 1/. If a broker failed, 25 per cent of the common fund was available to pay the insolvent broker's creditors. The Banca d'Italia then turned over to the exchange that part of the broker's bond which it held, and if this were not adequate to make up the deficit in the common fund, each participating broker had to deposit his pro rata share of the deficit within 15 days.

Brokers were forbidden to speculate in securities. This prohibition, however, was interpreted as preventing only stock transactions for term settlement; purchases and sales by brokers for their own account which contemplated immediate settlement were not barred nor were transactions by brokers in State issues in any way restricted. Brokers were forbidden to have any interest in a banking institution, but were not prohibited from acting as officers or directors of other enterprises.

The duly appointed stock broker possessed two special privileges. In the first place, every transfer of a security, whether listed or not, in theory had to be recorded with a stock broker who, upon payment of a prescribed commission, issued to the buyer and seller an official document attesting the sale (contratto di borsa). However, enforcement of this provision was not easy because of the fact that prior to World War II few Italian issues were in registered form 2/. Unlike American stocks, Italian securities were issued to the bearer with attached coupons which were detached for the collection of dividends or interest. Accordingly, transfers without benefit of the stock broker were easily arranged. The second unique privilege of the stock broker was the right to make public bids and offers in the railed-off trading area on the floor of the bourse to which he belonged.

1/ However, participation in the common pool was not compulsory. If a broker refused to participate in the pool, his bond had to be larger than that of a participating broker, and the whole of it was placed on deposit with the Banca d'Italia.

2/ Issues of insurance shares were an exception to this general rule. such issues by law had to be in registered form.

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Trading Methods on the Exchanges

The three professional groups which figured in the Italian security business were the Italian banks, the commissionari, and the stock brokers. The two former groups dealt actively for their own accounts in addition to acting as agents for customers.

Some of the orders which originated with the customers of the banks and commissionari were filled without resorting to the exchange floor; the banks or commissionari simply bought from or sold to their customers the stock offered or required 1/. When an order was executed on an exchange, the stock broker charged customers brokerage based upon a scale of commissions fixed by law. However, he split such commissions on a 50-50 basis with the commissionari and the banks.

The execution proper took place, of course, upon the exchange floor which prior to this was open each morning for 2 1/2 hours, except for a midsummer recess of two weeks. Members of the public were permitted limited access to certain areas on the floor, while the commissionari and bank representative had somewhat greater privileges. However, a certain part of the floor -- the corbeille or recinto delle grida -- was railed off and was accessible only to the stock brokers and certain other authorized persons. Within this area, trading was carried on publicly and in listed securities only.

Orders could be for cash (a contanti), or for the term settlement (a termine). Orders to buy or sell a contanti could be in any amounts. When executed, they imposed upon the buyer or seller very much the same responsibilities as the buyer or seller in the American stock market; that is to say, the buyer had to pay for and the seller had to deliver his securities within a fixed period after the transaction was completed. Orders to buy or sell a termine have no equivalent on the American exchanges. Upon execution, these orders required the buyer and seller respectively to pay for and deliver their securities on the next settlement date following the transaction 2/.

As transactions were effected on the exchange floor, they were registered upon a large recording board which ordinarily occupied a prominent place on one wall of the trading room. A

1/ This was particularly true, for example, with respect to small cash orders for the purchase or sale of Government bonds, which banks commonly filled for their customers out of their own portfolio. It should be noted, however, that these sales were not exempted from the legal requirement that transactions be recorded with a stock broker.

2/ In addition to buying and selling actual securities for term settlement, speculators might buy options to purchase a security for term settlement (contratto a premio). This operation, which was not especially common, is equivalent to the purchase of a call in the American market.

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record of sales volume also was maintained and was shown for each issue as a single cumulated total. The record shown on this board went to make up the official list published daily by the exchange -- Listino Ufficiale della Borsa. The published list showed the opening closing, high and low prices for each issue and its trading volume.

Financing and Settling Exchange Transactions.

Cash transactions involved no problems of financing and the method of settlement was extremely simple. At the close of a day's business, each broker verified his transactions with every other broker, and securities and cash were promptly exchanged. The financing and settling of transactions for the term settlement, however, occurred only once a month in a period designated by the Minister of Finance; it usually commenced about the 23rd of the month and was not completed until the last day of the month.

The term settlement contained a number of distinct steps. In the first step, each customer who had traded for term settlement was required to indicate whether he planned to make payment or delievery at the end of the month or whether he wished to have the broker make arrangements to carry over his commitment to the next settlement. The next step in the process consisted of the arrangement of carryovers for those buyers who did not propose to pay for their stock at the month-end and for those sellers who did not propose to make delivery. The broker arranged the carryover for buyers by lending them funds until the next settlement date which he, in turn, had acquired from various sources; and he arranged the carryover for sellers by borrowing securities.

After the carrying over of speculating buyers and sellers had been arranged, the brokers settled the obligations and demands which existed among them. Through the exchange's clearing room (stanza di compensazione), which was operated by the Banca d'Italia, each firm's security balance in each issue and each firm's money balance was determined. As the final step in the settlement, the broker received from or delivered to the bank the cash balance and the security balances involved.

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13. Private Insurance Institutions

The Legal Set-up

Unlike many other large countries, Italy had no special insurance contract law. Relations between insurer and policy holders were regulated in a rather general manner by the Codice di Commercio of 1882, which was written at a time when the law of insurance contracts was in its early stage of development. The code's section dealing with insurance contracts set up certain standards for the duties and obligations of the insurer and the policy holder. According to the provisions of this law, the insurer was liable for damages arising from war and civil strife only if this had been especially agreed upon.

State supervision of the insurance business had long been practiced and was put on a new legal basis in the Royal Decree Law No. 966 of April 29, 1923, and in the related regulation of January 4, 1925. The 1923 law made insurance companies subject to supervision of the Ministry of Commerce which was then succeeded in the performance of this function by the Servizio dell Assicurazione in the Ministry of Corporations. Insurance companies had to obtain authorization from this office, given upon the presentation of evidence of their legal establishment; life insurance companies had to possess a capital stock -- or in case of mutuals a guarantee fund -- of not less than 10 million lire, of which at least 50 per cent had to be fully paid and they had to present for examination the basis of calculation of their mortality and disability tables, the rates of interest which were to be used in the computation of premiums and underwriting reserves, and their schedules of rates. Foreign companies, whether they were engaged in the life or non-life business, had to maintain a legal representative in the Kingdom. They had to submit proof that they had been regularly transacting an insurance business in their country of origin for at least ten years, and the authorization to do business in Italy was granted only under the condition that reciprocal treatment would be provided for Italian companies in the home country of the applicant.

Life insurance companies were also required to deposit in a bank a bond of 2 million lire in cash or in government securities, and to present to the Ministry of Corporations, every three years, a technical summary of their mortality experience and of the rate of interest realized on the investments of their reserve funds. The rate schedules and the policy conditions could not go into force without the previous approval of the Ministry. Of the initial deposit of 2 million lire, 1,500,000 lire might be used as an investment of the mathematical reserve which had to be kept in separate accounts for the sole benefit of Italian policy holders.

All insurance companies were also obliged to report monthly to the Ministry of Corporations the facts concerning the amount of business done and the total business outstanding, and to submit at

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the end of each year a detailed analysis of the condition of their reserves. The Ministry of Corporations had the authority to order inspections at the domicile or the general agency of insurance companies, and at their branches, in order to control the proper observance of the provisions set down in the decree.

Section 2 of the law of 1923 provides that the mathematical reserves of both life and non-life insurance companies had to be invested in one or more of the following:

1. Securities issued or guaranteed by the Italian Government.

2. Bonds issued by institutions authorized to make loans on real estate in Italy.

3. Annuities due in the Kingdom.

4. Real estate located in the Kingdom, free of mortgages.

5. Loans guaranteed by first mortgages on real estate in an amount not exceeding one-half of the value of the property.

6. Loans on life insurance policies within the limits of the surrender value.

7 Cash deposits in savings banks and in the Deposit and Loan Bureau up to 5 per cent of the reserve.

8. Shares of the Bank of Italy and of the Italian Institute for Mortgage Credit.

9. Other investments authorized by the Minister of National Economy.

Indemnity insurance companies had to deposit an initial amount of 200,000 lire if they desired to transact only one class of insurance and 500,000 lire if they wished to transact more than one class. They had to have a capital stock, or in case of mutuals a guarantee fund, of not less than five million lire of which at least 2.5 million lire had to be fully paid up.

The organization of credit and insurance enterprises and personnel in the corporative state is described on page 22. The national federation of insurance companies coordinated the activities of national syndicates of life, accident and liability, fire, hail, and transport insurance companies and reinsurance companies, respectively.

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Among the many private organizations of insurance companies which dealt with technical questions of mutual concern to their members were:

1. The Comitato delle Compagnie di Assicurazioni Marittime in Trieste, which regulated competitive practices and issued premium tariffs.

2. The Concordato Italiano Incendio in Milan, which aimed at the reduction of fire risks.

3. The Consorzio Italiano delle Assicurazioni Aeronautiche, which distributed risks among its members and served as an intermediary between buyers and sellers of insurance in the aeronautical field.

4. The Consorzio Italiano Assicurazione Corpi di Navi, which distributed the risks of ship insurers. Each application for ship insurance was to be submitted to this association, which determined the premium and other conditions of the policy. Certain extraordinary risks were allotted to each member.

General Statistics

In 1940 there were 119 insurance companies in Italy, of which 32 were branches of foreign corporations; of the 87 Italian companies 66 were share companies, 5 co-operatives and 16 mutual institutions. In 1938, insurance companies employed approximately 8,600 persons as office personnel and in addition 3,300 agents. Foreign companies played a diminishing role in the Italian insurance business; there was in the thirties a noticeable tendency for foreign companies either to surrender their Italian business to already existing Italian companies or to transfer portfolios to newly established Italian companies in which the original company retained some control. In 1939, foreign insurance corporations obtained little more than 3 per cent of the total premium income, mostly in the fire, transport and liability line. In the life insurance market they have been almost completely eliminated. On the other hand, Italian companies derived a very substantial amount of their premium income from foreign countries. In 1938, the direct premium income of insurance companies in Italy and their reinsurance premium income obtained in foreign countries amounted to Lire 3,164 million of which a total of Lire 890 million (28 per cent) was obtained outside Italy. In 1937, just over three-quarters of the Italian companies' domestic business was written direct, but only just under half of their foreign business. In 1939, the entire business of Italian and foreign companies in Italy was composed of 43 per cent life, 15 per cent transport, 12 per cent fire, and 8 per cent liability.

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The following tabulation shows the investments of the mathematical and legal reserves of Italian insurance companies in 1936:

Investments	Millions of Lire	Per cent of total
Government bonds and other securities guaranteed by the government	1,171	20.5
Mortgage bonds	285	5.0
Annuities due from the State	1,364	23.9
Real estate	1,169	20.5
Mortgage loans	1,081	19.0
Loans on life insurance policies	332	5.8
Deposits	30	0.5
Shares of the Bank of Italy and of the Italian Institute for Mortgage Loans	1	0.0
Loans to employees guaranteed by salaries	17	0.3
Investment in public work agencies	91	1.6
Investment in insurance and other enterprises	110	1.9
Others	52	0.9
Total	5,703	100.0

The following tables summarize the available information concerning the premium income of insurance companies operating in Italy in 1939:

	Life Insurance	Other Insurance	Total
Derived in Italy	1,248.4	1,389.0	2,637.5
Derived in foreign countries	206.2	268.9	475.1
	1,454.7	1,657.9	3,112.6

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Premium Income Derived in Italy in 1939 according to Insurance Branches

(in millions of lire)

Branch	Domestic Companies	Foreign Companies	Total
Life	1,286.5	6.2	1,292.8
Transport	389.5	15.2	404.8
Fire	302.0	29.0	331.0
Liability	203.1	19.6	222.7
Hail	181.4	4.0	185.4
Accident	126.6	10.6	137.2
Others	103.3	4.6	107.9
Total	2,592.6	89.2	1/2,681.8

1/ Including sum credited to policy holders from profits of companies

Underwriting conditions were said to be fairly stable in Italy before the war, their main features being an intense competition in the fire insurance line which led to insufficient rates in certain sections of that business. The accident and liability business continued to give unsatisfactory results notwithstanding strenuous efforts to improve competitive practices. Statistical information for the years after 1938 is rather scant because of official restrictions put on its release to foreign countries. However, the Italian insurance business was dominated by two principal trends: On the one hand, there was a continuous and rapid expansion in the volume of business, particularly in the life insurance branch -- a development readily explained by the lack of outlets for surplus funds in a rigidly controlled economy. At the same time, earnings of most companies were unsatisfactory due to higher taxes, declining yields of investment types suitable for insurance companies, and larger risks arising from the war which insurers were unable to offset by higher premiums.

The Leading Companies

Italian insurance business was dominated by three companies: a public law body, the Istituto Nazionale delle Assicurazioni; and two outstanding private companies, the Assicurazioni Generali of Trieste, and the Riunione Adriatica di Sicurta of Trieste. Among the mutual companies, by far the most important institution was the Reale Mutua which was established in 1828.

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The Istituto Nazionale delle Assicurazioni, which held a preeminent position in Italian life insurance, was a corporation of public law standing. It possessed a nominally independent management but was by law placed under the supervision of the Ministries of National Economy and Finance. The members of its board of directors, including the chairman, none of whom could be a government official, were appointed by Royal Decree. The I.N.A. (as it was customarily called) was established by the law of April 4, 1912, and was to have become a monopoly in the Italian life insurance field on January 1, 1923. During the interim period private companies were greatly hampered in their operations by numerous restrictions and many of the smaller companies withdrew from the life insurance field and transferred their portfolios to the I.N.A.

Confronted with numerous protests of foreign governments, which threatened to cancel licenses of Italian insurance companies, and in view of the acquisition by Italy of the former Austrian city of Trieste, headquarters of the two leading private companies, the Assicurazioni Generali and the Riunione Adriatica, the Fascist Government decided to cancel the monopoly provisions of the law of 1912 and by virtue of a Royal Decree in 1923 permitted life insurance companies to continue business in Italy. Certain privileges provided by the law of 1912 remained reserved to the Istituto, in particular a complete guarantee of its policies by the State Treasury. The decree also provided that private enterprises had to cede to the Istituto, a quota share of each risk assumed decreasing, from decade to decade, from 40 per cent to 10 per cent. A corresponding part of each premium payment to private insurance companies had to be forwarded to the Istituto. All contracts written in the Kingdom had to be reported to the Istituto within 30 days, with the Istituto having the power to refuse to take its quota if it considered the risk unacceptable. The I.N.A. performed, therefore, two functions: on the one hand, it operated a direct life insurance business for its own account and at the same time acted as a compulsory reinsurance agency for private companies.

No complete balance sheet for the I.N.A. is available and it is believed that none were published. At the end of 1939, it had outstanding life insurance policies for a capital sum of 19.1 billion lire, and annuities of 86 million lire. Direct business accounted for a capital sum of 16.6 billion lire and annuities of 82 million lire (9,448,000 policies); the share of the Istituto in reinsured policies made up a capital sum of 2.5 billion lire and annuities of 4 million lire (474,000 policies). The capital funds of the Istituto amounted to 344 million lire (State guarantee fund of 153 million and a surplus of 191 million), and its mathematical reserves to 5,414 million lire. Premium income in 1939 was 830 million lire on direct business, and 98 million on reinsured policies. Net profits in 1939 amounted to 77 million lire, of which 33 million was allocated to policy-holders.

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The I.N.A, owned the Fiume S. A. di Assicurazioni e Riassicurazioni and the Assicurazioni d' Italia, as well as one-third of the capital of the Unione Italiana di Riassicurazioni, a company which had substantial Italian and foreign backing from private insurance companies. Both the Fiume and the Assicurazioni d' Italia had derived great benefit from their association with the I.N.A. The principal business of the Fiume was in the accident and marine line; operations of the company expanded rapidly during the 'thirties. Three-fifths of the direct and nearly four-fifths of the indirect business of the Assicurazioni d' Italia consisted in 193[illegible] of fire and accident insurance, the rest being transport, aviation, hail insurance, and reinsurance.

The Assicurazioni Generali, dating from 1831, was not only by far the most powerful and largest private insurance company of Italy, but also one of the outstanding insurance corporations of Europe. Together with the Riunione Adriatica it had deeply penetrated into the underwriting business of Central Europe, of the Mediterranean countries, and of the Near East. Following the collapse of the Phoenix Life Insurance Company of Vienna in 1936, both companies expanded further in these areas, which they considered their natural field. The Assicurazioni Generali group comprised 60 insurance companies operating: 2 in Africa, [illegible] in Asia, 6 in America and the remainder in Europe, including L' Anonima Infortuni, L' Anonima Grandine, Milan; La Concorde, Paris; Erste Allgemeine Unfall and Schadensvers, AG Vienna; Ungarische Hagel und Rueck V.-A.G., Budapest; and Moldavia Generali V.-A.G., Prague. Among the companies associated with the Riunione were: Assicuratrice Italiana, Milan; L' Italiana, Milan; Unione Subalpina di Assecurazione, Turin; Lloyd Siciliano, Rome; Portugal Previdente, Lisbon; Rossija-Fonciere, Belgrad; La Fonciere, Budapest; Nordeuropa, Copenhagen; L' Orient, Istanbul; La Protectrice Vie, Paris; Le Phenix Bulgare, Sofia; etc.

The Assicurazioni Generali, in its income statement for 193[illegible], scheduled figures for five departments: fire, marine, burglary, general reinsurance and life. Burglary and reinsurance were comparatively small accounts; they represented, respectively, only 1.7 per cent and 4.5 per cent of total gross premium income, but in themselves they were of some importance. The most important section of the commercial business of the Assicurazioni was the fire account, with underwriting reserves maintained on a very high basis. The life insurance business yielded a net-premium income substantially in excess of that of all other accounts. Net claim payments equalled 29.4 per cent of the year's net premium income. Interest revenues represented a yield of 5.19 per cent on the mean of the underwriting reserves.

After appropriating 6 million lire to the general reserve, there was a total net profit of 25.[illegible] million against 23.6 million in 1937. The dividend, which was continued at 17 1/2 per cent, amounted to 21 million lire.

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Assicurazione Generali

Premium Income in 193[illegible]

(in millions of lire)

	Gross	Net
Fire and Glass	240.1	129.6
Marine	192.0	75.0
Burglary	15.0	[illegible].3
Reinsurance	39.9	27.7
Total Non-Life	487.0	240.6
Life	3[illegible]8.9	319.7

Abridged Balance Sheet - Dec. 31, 193[illegible]

(in millions of lire)

Liabilities		Assets	
Capital	120.0	Mortgage and policy loans	260.1
Reserves	303.0	Stocks and bonds	1,227.9
Net underwriting reserves	229.9	Insurance shares	229.1
" " " (Life)	2,160.4	Cash	252.7
Deposits by other companies	302.3	Deposits with other companies	407.2
Creditor accounts	126.5	Debtor accounts	264.[illegible]
Pension fund	79.7	Properties	680.0
Total	3,321.[illegible]	Total	3,321.[illegible]

The Riune Adrintica derived from the fire account fully two-thirds of the total non-life business in 193[illegible]. Fifty-eigh per cent of the marine, 54 per cent of the hail, 65 per cent of the miscellaneous business, and 17 per cent of the life insurance premium income were ceded to reinsurance companies. An associate office of the Riunione, L'Assicuratrice Italiana, was the reinsurance company of the Riunione Adriatica group. Interest revenue amounted to 6.1 million lire in 193[illegible] and the total profit to 11.1 million. A 16 per cent dividend which took [illegible] million lire was paid as in years prior to 193[illegible], and 3 million was appropriated to additional reserves, thus raising the latter to 20 million.

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Riunione Adriatica di Sicurta

1938 Premium Income

(in millions of lire)

	Gross	Net
Fire	185.8	110.8
Marine	45.6	19.2
Miscellaneous	77.6	34.5
Total Non-life	309.0	164.5
Life	228.8	190.6

Abridged Balance Sheet - Dec. 31, 1938.

(in millions of lire)

Liabilities		Assets	
Capital	50.0	Loans	133.7
Reserves and other funds	91.4	Stocks and bonds	603.1
Underwriting reserves(Net)	114.3	Insurance shares	39.5
" " (Life)	1,250.6	Cash	106.9
Other life reserves	32.3	Deposits with other companies	235.5
Deposits by other companies	122.6	Debtor accounts	120.7
Creditor accounts	96.9	Properties	465.7
Total	1,758.1	Total	1,758.1

In 1938, the chairmen of the board of directors and president of the Assicurazioni Generali, Edgardo Morpurgo, and the chairman of the board of the Riunione Adriatica, Arnoldo Frigessi di Rattalma, both internationally known and trusted insurance men whose families had long been associated with the two companies, had to retire from their positions together with several other high officers, managers and general agents, because of their Jewish birth. Count Volpi, former Minister of Finance, replaced Mr. Morpurgo and Mr. Suvich, former Italian Ambassador to the United States, became chairman of the board of the Riunione; however Mr. Frigessi, not being a practicing Jew, continued to hold the position of general manager. The other principal officers in these companies

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at the end of 1938 were: Assicurazioni Generali, vice chairmen - A. N. Cosulich and Senator G. Pitacco, and general managers - G. Baroncini and M. Sulfina; Riunione Adratica, vice chairmen - Enrico Parisi and A. Pirelli, and managing director - E. Marchesano.

The leading items from the balance sheets of three further large Italian insurance companies at the end of 1938 are shown below; none of these companies approached the two big private institutions in size.

Compagnia di Assicurazione di Milano

(in millions of lire)

Liabilities		Assets	
Underwriting reserves (Net)	30.2	Stocks and bonds	52.1
" " (Life)	21.0	Properties	90.5
		Debtor accounts	32.6
Balance sheet total	202.4		

Reale Mutua Societa di Assicurazioni (Est. 1828)

(in millions of lire)

Reserves and bonus fund	121.1	Stocks and bonds	125.5
Creditor accounts	74.2	Properties	73.6
Balance sheet total	240.3		

Compagnia Anonima di Assicurazione di Torino (Est. 1833)

(in millions of lire)

Underwriting reserves (Net)	29.8	Stocks and bonds	92.8
Underwriting reserves (Life)	39.9	Properties	62.0
Balance sheet total	187.8		

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CIVIL AFFAIRS HANDBOOK

on

I T A L Y

Section Five

on

M O N E Y A N D B A N K I N G

PART C

It has been necessary to comb every possible source of information in order to provide a picture of the wartime developments in the Italian banking and credit system. The rapid changes in the system due to the necessities of wartime financing and the desire on the part of the Fascist government to make a good showing has made it difficult to appraise many of these developments. Wherever possible data from several sources have been checked against one another.

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C. WARTIME DEVELOPMENTS

The fundamental changes introduced by the banking law of March 1936 and subsequent legislation brought into existence, by the end of 1939, a centralized credit system under comprehensive and strict government control. When, after nine months of non-belligerency, the Fascist Government decided on June 10, 1940, for active military intervention, the Italian credit system was quite prepared to undertake the various tasks connected with war financing. As a result, its legal structure, technical organization, and internal administration have remained generally unchanged throughout the war. An inflationary trend, however, has been accompanied by certain important adjustments in the currency system and has resulted in a general swelling of the balance sheets of credit institutions.

An inquiry into banking developments in Italy during wartime is made difficult by a lack of adequate information and statistical material. Aside from the usual difficulties in obtaining information on enemy countries, official Italian statistics are no longer available owing to severe restrictions imposed by the government upon their publication. The Italian Statistical Yearbook of 1942 (containing data for 1940) appeared without its section on the money and credit markets; the Bank of Italy omitted the balance sheet from its annual reports for 1941 and 1942; and under a rule issued by the Ispettorato in February 1943, no banks are any longer permitted to make public their annual reports. All this makes it extremely difficult to arrive at precise conclusions regarding Italy's banking and credit conditions; considerable reliance must be placed upon press reports and official or private estimates.

1. Currency

Note Issue of the Bank of Italy

The requirements arising from the war have occasioned fundamental changes in the existing system of note issue by the Bank of Italy, although they have led to certain technical measures designed to cope with special conditions:

(a) A decree of the Minister of Finance of November 25, 1942, authorized the issuance in Metropolitan Italy of notes which had been prepared by the Bank of Italy for circulation in Italian East Africa only; these notes were placed on the same legal basis as the other bank notes already in circulation. The measure was presumably taken with a view to meeting urgent currency needs, which the overtaxed facilities of the printing and engraving department of the Bank of Italy could not immediately satisfy.

(b) A decree of the Minister of Finance of December 18, 1942, authorized the Bank of Italy to issue a new type of bank notes in all the outstanding denominations (50, 100, 500, and 1,000 lire), and a decree of April 7, 1943 provided for the gradual withdrawal of old notes in denominations of 50 lire and 500 lire and for their exchange

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into new notes of the same denominations. These measures were presumably intended as a gradual replacement of currency with a view to forestalling Allied use of Bank of Italy notes seized in Italian East Africa and North Africa.

The latest official figure of notes in circulation issued by the Bank of Italy is of December 31, 1940. On that date, bank notes in circulation amounted to 51,305 million lire and other sight liabilities of the Bank to 5,239 million, representing increases over 1939 of 6,874 million (28 per cent) and 2,753 million (110 per cent), respectively. The reserve consisted exclusively of "gold on hand" valued at 2,282 million lire, a contraction of 456 million as compared with the end of 1939. "Balances abroad" (represented by dollar credits in New York), which amounted to 393 million lire in the 1939 statement, were no longer reported in 1940. As a result, the ratio of reserves to total sight liabilities had fallen from 11.6 per cent at the end of 1939 to 6.2 per cent at the end of 1940.

No further information concerning the note issue was made public until in August 1943 the Minister of Finance in the Badoglio Government announced that on July 20, 1943, the circulation had reached 96,541 million lire, or four times the figure for the end of 1939. This great expansion may in part have reflected a recent hoarding of currency by the public because of the threat of invasion, but more fundamentally it was due to the inflationary fiscal policy pursued by the Government in covering much of its war expenditures by borrowing from the Bank of Italy. The gold reserves of the Bank were probably lower in mid-1943 than at the end of 1940, some sales of gold from Italy to Switzerland having been reported.

State Coins and Notes

The Italian Government, with a view to covering war requirements of silver, nickel, and copper and to providing for the increased needs of subsidiary currency, proceeded to withdraw coins from circulation and to issue new coins made of cheaper alloys, as well as State notes.

Pursuant to the Royal Decree-Law of May 20, 1935, No. 874, which authorized the Ministry of Finance to withdraw silver coins and to issue State notes, on October 20, 1941, the Minister of Finance issued a decree providing for withdrawal of 5-lira silver coins within a period ending on November 30, 1941. These were replaced by new 5-lira State notes.

The Royal Decree-Law of June 24, 1940, No. 743, provided for the withdrawal of nickel coins in denominations of 2 lire and 1 lira by August 30, 1940, and authorized the Ministry of Finance to issue regulations for the withdrawal of nickel coins in denominations of 50 centesimi and 20 centesimi. Under the provisions of this law, on November 15, 1940, the Minister of Finance fixed January 31, 1941 as the time limit for the withdrawal of 50 centesimi coins. The 2 and 1 lira coins were replaced by new State notes of the same denominations; the 50 centesimi pieces were presumably replaced by acmonital (steel alloy) coins, the minting of which had been authorized by Royal Decree-Law of February 7, 1939, No. 907.

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According to press reports, similar measures were adopted in October 1940 with regard to copper coins, which were to be exchanged for new coins minted with a cheap alloy. Postage stamps enclosed in cellophane discs were also used as small change.

The new issues of State notes, and increases in the pre-war issue of 10-lira notes, were provided for in a series of decrees of the Ministry of Finance as follows:

Denominations	Date of Decree	Amount (In millions of lire)
10 lire	December 15, 1941	500
	December 23, 1942	500
	May 1, 1943	500
5 lire	June 15, 1940	1,000
	October 28, 1942	500
	May 1, 1943	500
2 lire	June 26, 1940	200
	June 2, 1941	100
	December 2, 1942	100
1 lira	June 26, 1940	250
	June 2, 1941	100
	December 2, 1942	50

As a result of these reported changes the authorized State circulation (notes and coins) at the middle of 1943 totalled 7,111 million lire, distributed as follows:

Notes	Amount (in millions of lire)	Coins	Amount (in millions of lire)
10 lire	4,000	50 centesimi	50
5 lire	2,000	20 centesimi	61
2 lire	400	10 centesimi	120
1 lira	400	5 centesimi	80

No figures are available on the outstanding amount of State notes and coins, but the total authorized amount increased from the end of 1939 to the middle of 1943 by 2715 million lire (61.7 per cent). Despite this expansion, acute shortages of subsidiary currency have been reported throughout Italy during the entire course of the war.

Use of Currency and Checks

The rapid expansion of note issue has caused grave concern among financial and banking authorities, and the Ministry of Finance, the Postal Savings Bank, and the Bank of Italy have intensified their campaign for popularizing the check as a means of payment for business and private transactions. The Bank of Italy has issued vaglia cambiari (cashier's checks) in fixed denominations in order to facilitate their

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being passed from hand to hand; these checks are practically equivalent to bank notes, as they are payable at sight at any office of the Bank of Italy and its correspondents and represent a direct obligation of the Bank, although they are not legal tender. According to press reports, "people make inexplicable difficulties about accepting these drafts, thereby obstructing the regular development of the economic life." At the end of 1940 the amount of bankers' checks (vaglia cambiari and assegni) issued by the Bank of Italy totalled 3,163 million lire, which was 1,950 million lire, or 160 per cent, higher than the figure for the end of 1939.

The Purchasing Power of the Lira

During the course of 1940 and 1941, according to official indices, wholesale prices rose by 32 per cent, retail prices by 44 per cent, and the cost of living by 35 per cent. Obviously, these average indices do not disclose the full extent of internal maladjustments of the price structure due to war restrictions; while prices of some agricultural commodities declined slightly below the 1939 level, other prices (for instance, of mineral products) increased by over 100 per cent. No information is available with regard to changes in Italy's official indices after 1941; however, general price increases have been reported and the three indices may have reached, by the end of 1942, an average level upward of 70 per cent above the prewar standard. By way of comparison it may be noted that wholesale prices in the United States and the United Kingdom increased by 35 per cent and 64 per cent respectively between August 1939 and December 1942.

Adjustments in wages and salaries to the higher cost of living were not made generally, but by specific measures for special categories of workers and employees. Statistical data regarding the development of wages and cost of living are no longer available, but up to 1940 the two indices showed a parallel movement, rises of 16 per cent being reported during the year for the hourly wages of industrial workers and of 17 per cent for the cost of living of the population at large.

Rationing and price control have resulted in the development of an illegal market, or "black market," in which transactions in goods are effected at prices higher -- often many times higher -- than official prices. These black market prices not only reflect the exceptional shortages of certain goods (particularly imported goods) and the excessive purchasing power in the hands of the public, but also contain a risk premium for the seller on account of the illegality of the transaction. The risk premium is unusually high in those countries, like Italy, which apply severe penalties against violators of rationing and price control regulations. Because of these factors, black market prices cannot be taken to indicate a natural price level which could be used as a yardstick for measuring the internal depreciation of the currency. On the other hand, they serve as a warning that the official prices are frequently equally artificial and unreliable as a yardstick of value for general economic purposes.

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2. Government Control over Credit Institutions

There were no major changes in government control over savings and credit, or over credit institutions. The Royal Decree-Law of March 12, 1936, No. 375, as amended by Royal Decree-Law of July 17, 1937, No. 1400, concerning the defense of savings and the granting of credit, was further amended by Royal Decree-Law of June 10, 1940, No. 933. The new law provided for an expansion of the Comitato dei Ministri, the policy-making body in the fields of saving and credit, and made certain other minor changes. The Comitato dei Ministri, originally consisting of the Ministers of Finance, Agriculture and Corporations, was extended to include the Minister of Public Works and the Minister for Foreign Trade and Exchanges, and also the Minister for Italian Africa whenever problems concerning Italian colonies were under consideration. In addition, the new law provided that lending operations in favor of municipalities, provinces and other public bodies -- heretofore limited to credit institutions of public law and savings banks -- could be effected, upon authorization of the Ispettorato, by all other institutions.

At the end of June 1942, the Comitato dei Ministri required all banks to prepare and deposit with the Ispettorato detailed returns every three months; it also prohibited the opening of new branches, except in special cases and by special authorization of the Ispettorato.

In general, the Ispettorato continued to pursue a policy aimed at simplifying the credit structure of the country. According to press reports, the number of credit institutions in operation declined from 1,727 in 1939 to 1,566 in 1941; this was accompanied by a reduction in the number of branches from 7,400 to 6,887. In addition to its various other activities, the Ispettorato undertook an inquiry in 1941 -- jointly with local authorities -- into the condition of banks in territories annexed to Italy and it also dealt with the foreign exchange, economic, and credit problems arising from the annexation.

3. The Sources and Distribution of Credit in the National Economy

The Collection of Savings

Under prevailing inflationary conditions, Italian banks have experienced a very large rise in deposits and other items of their balance sheets. According to the report of the Bank of Italy for 1941, savings and current accounts at credit institutions, commercial and savings banks, and the postal savings offices, increased from 98 billion lire in 1939 to 117 billion in 1940 and 146 billion in 1941. Deposits at the end of 1941 were distributed by groups of institutions approximately as follows:

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	Amount of Deposits (in million lire)	Per Cent Change From 1939
Credit institutions of public law	1/ 20,000	+66
Banks of national interest	28,000	+55
Privately-incorporated banks	1/ 18,000	+80
People's banks	1/ 10,000	+60
Savings banks	24,000	+28
Postal Savings Bank	46,000	+39

1/ Partly estimated.

The 1941 report of the Bank of Italy also disclosed that the total figure of deposits included 66 billion lire of savings accounts and 35 billion lire of interest-bearing savings certificates, issued mainly by the Postal Savings Bank and for small amounts by savings banks; the remainder, 45 billion lire, presumably represented entirely current accounts. These figures indicate that savings deposits rose proportionately faster than current accounts, the ratio of current accounts to total deposits declining from 36 per cent in 1939 to 32 per cent in 1941. The distribution of deposits among the various groups of institutions remained basically unchanged, but privately-incorporated banks gained proportionately more, while savings banks registered smaller gains than the other groups.

The total number of savings accounts in the country at the end of 1941 was reported at 19,545,299 (or 44.5 per cent of the total population), distributed as follows:

	Number of Savings Accounts
Credit institutions of public law	1,626,071
Banks of national interest	1,440,685
Privately-incorporated banks	1,761,763
People's banks	2,192,910
Savings banks	6,393,709
Postal Savings Bank	6,130,161

No information has been made public with regard to savings developments after 1941, with the exception of a press report (July 1942) that deposits with the postal savings offices exceeded withdrawals by about 1,000 million lire a month.

Heavy withdrawals from banks took place in many cities toward the end of 1942, generally as a result of air raids; these withdrawals resulted from the exceptional needs for liquid cash of families evacuating from bombed areas. Restrictions on withdrawals to 2,000 lire per customer were reported; however, those withdrawals did not cause any major disruption in the credit system of the country.

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The Distribution of Credit

Under the pressure of war requirements, banking funds have been directed chiefly toward the financing of war industries and purchases of Government securities. Italy's public debt was reported at 281 billion lire at the end of June 1941 and at 406 billion at the end of June 1943, as compared with 175 billion at the end of 1939. The net current debit balance due by the Treasury to Government contractors was reported by the Governor of the Bank of Italy at 16 billion lire at the end of 1940 (9 billion lire increase over 1938). The contribution of the Italian credit system to the financing of the war may be briefly described as follows:

a. The I.M.I. has assisted, through the usual procedure, in the provision of working capital for industrial activities on a medium-term basis.

b. Credit institutions have generally given their assistance -- on a short-term basis -- to productive activities related to the execution of war orders. These institutions provide credit facilities by discounting industrial paper secured by Government orders, maturities being scheduled in accordance with payments made by the Government to the firms.

c. The most important role, however, has been undertaken by the Consorzio per sovvenzioni su Valori Industriali, the functions of which are confined to absorbing claims on the State by Government contractors. In 1938, the Treasury had been authorized, for the financing of public works, to spread payments over thirty annual installments; the firms could, however, realize their claims prior to maturity by ceding them to the Treasury in exchange for special credit certificates eligible for advances from the Consorzio and other credit institutions.

A decree of January 13, 1941, extending these provisions, authorized the military administrations (War, Navy, and Air Ministries) to spread payments for current contracts in excess of 5 million lire and new contracts of 20 million lire over periods not exceeding ten years. The contracting companies may realize their claims prior to the receipt of annuities, however, by discounting with the Consorzio (directly or through the Ente Finanziamento Industriali) their own four-month paper secured by these credits. Usually this war paper is in turn rediscounted with the Bank of Italy

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outside the limits of ordinary rediscounts granted to the Consorzio. Contractors who discount their credits receive interest from the State at the same rate as that charged by the Consorzio, i.e. one-half per cent above the official discount rate. The Consorzio pays the same rate to the Bank of Italy on the rediscounts, so that eventually the Treasury, as the beneficiary from the Bank's surplus profits, receives back the interest it pays to contractors who discount their credits. Contractors who do not discount their credits receive interest from the State on the amount of their claim at the rate of a full 1 per cent above the official discount rate.

Little information has been made available with regard to the expansion and distribution of credit. However, it has been reported that between 1939 and 1941 the eighteen leading banks expanded their discounts of Treasury certificates and commercial bills from 19.1 to 28.7 billion lire and increased their holdings of Government bonds from 8.7 to 12.7 billion lire. It was further reported that institutions granting credit at medium and long term, including the Consorzio per Sovvenzioni su Valori Industriali, the I.M.I., and the Consorzio di Credito per le Opere Pubbliche, had undertaken in 1941 an aggregate volume of operations exceeding 17 billion lire.

The Istituto Centrale delle Banche e dei Banchieri

The flotation of Government bonds was handled in the past by a banking syndicate which included all important credit institutions and insurance companies and was headed by the Bank of Italy. In April 1943, a group of leading banks formed, under the auspices of the Confederazione Fascista delle Aziende del Credito e dell'Assicurazione, the Istituto Centrale delle Banche e dei Banchieri (Central Institute of Banks and Bankers), incorporated in Milan as a limited liability company with a capital of 50 million lire. The Istituto does not accept deposits nor conduct banking business. It represents the interests of 143 important banks which maintain a net of 1800 bank offices and have an aggregate capital amounting to 1.5 billion lire. Its functions are to assist the participating banks in the flotation of Government bonds; in lending operations to provinces, municipalities, and public bodies; in the financing of quasi-public activities (such as compulsory pools of agricultural commodities); in the distribution and allocation of credit to private activities; and in their relations with the Treasury, the various ministries, the special lending agencies, and the Istituto Nazionale per i Cambi con l'Estero. No information is available with regard to actual operations undertaken by the Istituto during its brief period of existence.

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4. Bank of Italy

The Bank of Italy was not affected by the war in its legal status, organization, and functions. A new Direttore Generale, Dr. Giovanni Acanfora (formerly Director-General of the Treasury at the Ministry of Finance) was appointed on June 26, 1940, to succeed the late Dr. Pasquale Troise. Dr. Acanfora became, subsequently, Minister for Foreign Trade and Exchanges in the Badoglio Cabinet, while retaining his position at the bank.

In 1941, the Bank of Italy opened new offices in Yugoslav territory annexed to Italy, namely, in Ljubljana, Split, Sibenik, Cattaro, and Cetinje; on the other hand its offices in Ethiopia were closed and those in other Allied-occupied areas came under the special jurisdiction of the military authorities of occupation. The Bank of Italy and the Istituto Nazionale per i Cambi con l'Estero also suspended the activities of their representative offices in London, New York, and Rio de Janeiro, the personnel of which was repatriated with the Italian diplomatic corps.

The latest balance sheet released by the bank is that which accompanied its annual report for 1940. This revealed a general expansion over 1939 of 33,091 million lire (from 77,524 million to 110,627 million), the largest part of the increase being accounted for by the item "Securities and Other Valuables Deposited" (+ 23,542 million lire). Temporary and extraordinary advances to the Treasury rose by 7,000 million lire; in addition, the Treasury exhausted its active current account with the bank (amounting at the end of 1939 to 475 million lire) and borrowed by special overdraft a sum of 1,043 million lire. Thus the total Treasury drafts on the bank during the year amounted to 8,518 million lire.

The annual report of the Bank for 1941 disclosed only a few minor figures of the balance sheet and profit and loss account, namely:

	1941	Change from 1940
	(in million lire)	
Inland bills	5,525	+ 692
Advances to customers	5,796	+ 2,358
Deferred payments at clearing houses	71	+ 42
Gross profits	607	+ 17
Net profits	172	+ 18

However, it contained the important statement that central bank credit had covered one-eighth of Government expenditures during the year -- this would signify an increase in the Bank's advances to the Treasury by 12 billion lire in 1941.

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BANK OF ITALY

Balance Sheet, December 31st, 1940

(in millions of lire)

Assets			Liabilities:	
Gold in hand	2,282.2		Notes in circulation	21,306.0
Balances abroad	-		Demand drafts outstanding	3,168.5
Total reserve	2,282.2		Current accounts	2,070.9
Gold deposited abroad, due by the State	1,772.8		Total sight liabilities	36,545.4
Cash in hand	1,041.8		Capital	300.0
Inland bills	4,932.9		Statutory reserve	155.5
Bills for collection	13.5		Extraordinary reserve	93.1
Advances to customers			Time deposits	593.2
Against Government securities and mortgage bonds	3,442.4		"Internal Debt Sinking Fund Office" current account	4.4
Against silk and cocoons	-		"Institute for Industrial Reconstruction" sinking fund	194.6
	3,442.4		Other liabilities	1,142.0
Investments (Government securities owned by the Bank)	817.8		Net profits for the year	154.2
Current accounts in the Kingdom:				
Deferred payments at clearing houses	29.3			
Other accounts	7.2			
	36.5			
Advances to the Treasury--Extraordinary	15,000.0			
Advances to the Treasury--Temporary	1,000.0			
Treasury current account	1,043.3			
Premises	120.4			
Credit with Institute for Industrial Reconstruction	4,708.1			
Other assets	3,071.0			
	39,182.5			39,182.5
Securities and other valuables deposited	71,252.6		Securities and other valuables deposited	71,252.6
	110,435.1			110,435.1
Amounts written off in past years	191.5		Amounts written off in past years	191.5
Total	110,626.6		Total	110,626.6

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The annual report for 1942 stated that the Bank's net profits for the year amounted to 173 million lire, or approximately the same amount as for 1941. No further significant data were given.

In order to attract banking and private funds and to counteract an accumulation of liquid money in the market, the Bank of Italy decided, as of December 12, 1942, to raise its interest rate on banking deposits from 1-1/2 to 3 per cent and to allow interest at the rate of 1-1/2 per cent on private deposits, which previously bore no interest.

5. Istituti di Credito di Diritto Pubblico

The number of credit institutions of public law was increased from five (Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, Monte dei Paschi di Siena, and Istituto di San Paolo di Torino) to six in May, 1943, when the Comitato dei Ministri classified as such the Banco di Santo Spirito, formerly registered as a Societa per Azione di Credito Ordinario (privately-incorporated bank).

Banco di Napoli -- The foreign activities of the Banco di Napoli underwent considerable changes as a result of the war. On June 14, 1941, its agency in New York and its subsidiaries in New York and Chicago (Banco di Napoli Trust Company of New York and Banco di Napoli Trust Company of Chicago) became affected by Executive Order 8785, freezing Italian assets in the United States. The New York agency was greatly restricted in its operations, but the two subsidiaries were permitted to continue their activities temporarily under United States Treasury General Licenses Nos. 47 and 47A; these licenses were revoked on December 11, 1941, the date of Italy's declaration of war against the United States. At the same date, the Banco di Napoli Trust Company of New York was closed by order of the New York State Superintendent of Banks, while the Banco di Napoli Trust Company of Chicago was taken over by the United States Treasury and placed in the hands of national bank examiners; both banks, as well as the New York agency, were later placed in liquidation. According to their last balance sheets, the position of both institutions appeared extremely liquid. On May 31, 1941, the Banco di Napoli Trust Company of New York reported "cash and due from banks" and "United States and other securities" at $13.5 million, in addition to "loans and discounts" amounting to $2.8 million, against $14 million of deposit accounts. On December 31, 1940, the trust company in Chicago held "cash on hand and with banks", "United States Government notes and bonds", and "State and municipal bonds" totalling $5.6 million against an equivalent amount of deposits.

Despite its elimination from the United States market, the Banco di Napoli has maintained, throughout the war, relations with the Western Hemisphere through its Buenos Aires office. The Banco di Napoli, Albania, which before the war had established its head office and fifteen branches in Albania, opened nine new branches in Athens and the Yugoslav and Greek territories which were annexed to Albania or to Italy (Dalmatia, Montenegro, and the Island of Corfu).

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During the course of the war, the bank expanded nearly all sections of its domestic activities, particularly those connected with war industries and food supply organizations, and increased the number of its branches from 192 to 202. According to the balance sheet for 1941, the resources of the Banco di Napoli (excluding "Securities deposited") totalled 12,777 million lire, an increase of 57 per cent over 1939. The various items of the balance sheet for 1941 are indicated in the following table:

BANCO DI NAPOLI

(Banking Unit)

Balance Sheet as of December 31, 1941

(in million lire)

Assets		Liabilities	
Cash on hand and with banks	1,632	Capital	500
Due from correspondents	3,047	Reserves	1,078
Bills discounted	2,467	Deposit and savings accounts	3,717
Loans to public institutions	697	Due to correspondents	5,317
Mortgage loans	425	Other liabilities	2,165
Loans against securities	1,192		
Government obligations	1,599		
Investments in other institutions	293		
Other assets	1,325		
Total	12,777	Total	12,777

The Direttore Generale of the Banco di Napoli, Mr. Giuseppe Frignani, was reportedly arrested early in August 1943 by order of the Badoglio Government, on the grounds of speculative and illegal operations in real estate conducted in Rome in combination with other leading elements of the Fascist regime.

Banco di Sicilia -- The balance sheet of the Banco di Sicilia for 1941 indicated an average expansion in all items (excluding "Securities deposited") of 36.5 per cent over 1938 -- the last prewar year for which a complete balance sheet is available. The expansion of the Banco di Sicilia was considerably smaller than that of the Banco di Napoli and than the average increases registered by other important banks. The balance sheet of the Banco di Sicilia for 1941 was as follows:

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BANCO DI SICILIA

Balance Sheet as of December 31, 1941

(in millions of lire)

Assets		Liabilities	
Cash	1,058	Capital	230
Correspondents	597	Reserves	296
Bills discounted	1,021	Deposit and savings accounts	1,210
Term loans	419	Correspondent accounts	1,479
Investments	696	Other liabilities	1,164
Other assets	1,178		
Total	4,969	Total	4,969

Banca Nazionale del Lavoro -- The growth of the Banca Nazionale del Lavoro has continued uninterruptedly during the course of the war. Its capital was increased from 225 million to 400 million lire by a Royal Decree Law of March 14, 1940 and was further raised to 500 million lire in June 1942, the necessary resources being provided by transfer of funds from the reserve to the capital account of the bank and by new contributions from the State. The report rendered in the House of Deputies on the 1940 decree-law disclosed that the capital increase had been made upon the advice of the Ispettorato, which considered the bank's capital inadequate "not with regard to protection of claims of third parties, but because of the fact that liquidity has been considerably impaired as a result of the participations assumed by the bank for political reasons (ragioni superiori)".

The activities of the bank during the course of the war have been connected mainly with Government financial operations (issue of Treasury loans), financing of armaments, lending to agriculture, and handling financial transactions in the field of Axis economic cooperation. The bank has been given charge of the financing of exports of goods to Germany and the handling of remittances of Italian workers in Germany; has played a leading role in the expansion of Italo-Spanish commercial relations through its branch in Madrid, which was provided in 1941 with an autonomous capital fund of 50 million pesetas; and has founded a subsidiary commercial company, the Anonima Commercio Ionico, operating in Dalmatia (Fiume, Zara, and Split) and the Ionian islands, with a branch in Croatia to stimulate Italo-Croatian economic relations. The bank also opened representative's offices in New York (April 1940, closed in June 1941) and in Buenos Aires (1941). The offices of the bank in Italian East Africa suspended operations in 1941 and were placed in liquidation by the British occupation authorities.

At the close of 1941, the Banca Nazionale del Lavoro maintained in Metropolitan Italy 130 offices, an increase of 52 offices over 1939. Its last available balance sheet, for 1940, combines all items of the banking unit as well as of the autonomous sections of the institution. The items in this combined balance sheet indicated a striking increase of 50 per cent over corresponding items for 1939; the balance sheet total rose by a further 96 per cent during 1941, to

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14,500 million lire. This rate of expansion far exceeds that registered by any other Italian bank; at the end of 1941 the Banca Nazionale del Lavoro surpassed in size any other bank, including the Banca Commerciale Italiana.

BANCA NAZIONALE DEL LAVORO

(Banking Unit and Autonomous Sections - Combined)

Balance Sheet as of December 31, 1940

(in million lire)

Assets		Liabilities	
Cash on hand and with banks	1,883	Capital	505
Correspondents	371	Reserves	179
Loans and advances	2,944	Deposits	4,178
Treasury notes	173	Banks and correspondents	737
Investments	516	Other liabilities	1,806
Mortgage credit	502		
Other assets	1,016		
Total	7,405	Total	7,405

By the beginning of 1943, the intricate financial-politcal tie-up of the Banca Nazionale del Lavoro had apparently grown to such an extent and caused such a deterioration in the bank's position, that a change of administrative and executive officers, and possibly an internal reorganization, became unavoidable. Both the President of the consiglio d'amministrazione, Senator Giuseppe Morelli, (a figurehead), and the direttore generale, Dr. Arturo Osio, resigned in March 1943; Mr. Vincenzo Lai, a member of the House of Deputies, was appointed to the presidency, while Mr. Alberto d'Agostino, formerly consigliere delegato of the Banca Commerciale Italiana and reputed among the best banking technicians of the country, reportedly took charge of the management of the institution.

Other Credit Institutions of Public Law -- No information is available with regard to wartime developments connected with the Monte dei Paschi di Siena and the Istituto di San Paolo di Torino. The Banco di Santo Spirito, an institution founded by Pope Paul V in 1605 and classified as istituto di credito di diritto pubblico in May 1943, has heretofore been among the largest societa per azion di credito ordinario. It plays a rather important role in Rome and the Lazio region and is authorized to conduct agricultural credit at short and medium term. In 1942, it raised its capital from 30 to 50 million lire.

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6. Banche di Interesse Nazionale

Between 1939 and 1941 deposits and current accounts with the banche di interesse nazionale rose by 9.5 billion lire; the greater part of the increase was due to expansion of discounts and advances by 8 billion lire, reflecting the demands for credit from current war production. The rise of Government long-term securities (0.5 billion lire) played an insignificant role. As the total issue of Treasury bills increased on an average of 1.4 billion lire per month, it appears that only a small proportion was taken up by these banks.

The annual report of the Istituto per la Ricostruzione Industriale for 1942 disclosed that capital, reserves, and deposits of the three banche di interesse nazionale had increased during the year by 5 billion lire to 36 billion lire (16 per cent), and that 14 billion lire were held by the banks in the form of cash, Government securities, and other liquid paper. The proportion of liquid assets to the total assets was maintained unchanged at 40 per cent.

Banca Commerciale Italiana -- While the internal administration and the domestic activities of the Comit have remained relatively unaffected by the war, notable changes have taken place in its extensive network of foreign subsidiaries.

1. By far the most important change has been the transfer of the Comit's participation in the Banque Francaise et Italienne pour l'Amerique du Sud to a financial group controlled by the Vatican; this group has thus gained control of approximately 70 per cent of the shares of the bank, the remaining 30 per cent being held by the Banque de Paris et des Pays Bas and private Latin American interests. The transfer to Vatican interests was disclosed in April 1943, and as a result of it the position of consigliere delegato of the bank passed from Mr. G. F. Malagodi (a Comit man) to Mr. Bernardino Nogara, who had previously unofficially represented Vatican interests in both the Comit and the Banque Francaise et Italienne. Political convenience on the part of the Comit and financial interests on the part of the Vatican may have determined the transfer. The position of the bank itself has become progressively more precarious as the impact of the war has spread to Latin America; its name appears on the British blacklist and the American Proclaimed List. The activities of its Brazilian branches were curtailed in 1941 in accordance with Brazil's general legislation prohibiting foreign banks from accepting deposits from Brazilian nationals; the branches themselves were placed in liquidation in 1942 in accordance with Brazil's war regulations. The bank, however, is still continuing operations in the other Latin American countries, although generally under some kind of Government supervision. Its Latin American headquarters are now situated in Buenos Aires.

2. Significant changes have also taken place in the Balkan subsidiaries of the Comit. During the course of 1940-1941, the management and staff of some of these institutions (particularly the Banca Commerciale Italiana e Romana and the Banca Commerciale Italiana

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e Bulgara) underwent reorganizations as a result of the application of anti-Semitic legislation by various countries. The capital of the Banca Commerciale Italiana e Romana was increased from 100 to 150 lei in 1941.

After the Italian attack on Greece in October 1940 the Banca Commerciale Italiana e Greca was taken over by the Greek government as enemy property, placed under a completely Greek management, and renamed the Hellenic Bank of Commerce. After the (status breakdown of Greek resistance, this change was undone, and the pre-war/restor-

According to unconfirmed reports, the Comit ceded its interest in the Hrvatska Banka of Zagreb to a German financial group in April 1943. Between the end of 1939 and the end of 1941, under prevailing inflationary conditions, this bank had increased its capital from 5 million dinars to 20 million kunas (1 dinar - 1 kuna) and had expanded its balance sheet from 50 million dinars to 377 million kunas; the latter increase, however, consisted largely of balances held in cash or with other banks, an indication of the relative inactivity of the institution.

3. The operations of the Banca Commerciale per l'Egitto were suspended in 1941 and the offices of the Comit in London and New York were closed and placed in liquidation in 1940 and 1941, respectively, as a result of the declaration of a state of war between Italy and the United Kingdom and Italy and the United States.

The balance sheet of the Comit for 1941 (exlusive of "Securities deposited") indicated an increase of 3,604 million lire, or 4% per cent, over 1939; the detailed items were as follows:

BANCA COMMERCIALE ITALIANA

Balance Sheet as of December 31, 1941

(in million lire)

Assets		Liabilities	
Cash on hand	935	Capital	700
Money at call, bills receivable and Treasury bills	5,522	Reserves	165
Current accounts and advances	4,191	Deposits and current accounts	9,831
Government securities and securities guaranteed by the State	477	Other liabilities	2,474
Bonds and shares	188		
Other assets	1,857		
Total	13,170	Total	13,170

In March 1943 it was reported that Mr. Antonio Rossi, a general manager of the bank formerly in charge of its foreign financial

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relations, had been appointed consigliere delegato to succeed Mr. Alberto d'Agostino, who had become the Direttore Generale of the Banca Nazionale del Lavoro.

Credito Italiano -- As in the case of the other leading banks, the impact of the war has caused significant shifts in the foreign activities of the Credito Italiano.

1. The London and New York offices were closed in 1940 and 1941, respectively, and placed in liquidation.

2. The Banco Italo-Egiziano reportedly has been allowed to continue operations under the control of a supervisory Egyptian commissioner; its connections with the Credito Italiano, however, have been suspended. Similarly, the Belgian management of the Banque Italo-Belge has moved its head office from Antwerp to London and suspended any relations with the Credito Italiano.

3. The Banca Dalmata di Sconto has increased its capital from 2.5 million to 10 million lire and expanded its net of branches in Italian-annexed and occupied areas.

4. The Credito opened new representative offices in Zurich and Berlin in 1941.

The Credito has expanded, during the war, the number of its branches and agencies in Italy; its balance sheet at the end of 1941 (exclusive of "Securities deposited") indicated an increase of 3,909 million lire, or 47 per cent, over 1939.

CREDITO ITALIANO

Balance Sheet as of December 31, 1941

(in million lire)

Assets		Liabilities	
Cash and balances at call and with banks	877	Capital	500
Bills receivable and Treasury bills	5,270	Reserves	123
Current accounts	3,491	Deposits and savings accounts	3,700
Government securities and debentures	1,092	Current accounts	6,280
Other assets	1,539	Other liabilities	1,666
Total	12,269	Total	12,269

Banco di Roma -- The course of the war forced the Banco di Roma to a retrenchment from the positions it had occupied in prewar years in Africa and the Middle East, but brought about an expansion of its activities in the Adriatic and Aegean Seas.

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The branches of the Banco di Roma in Malta, Syria, Palestine and Iraq suspended operations as a result of the state of war between Italy and the United Kingdom; similarly, its representative offices in London and New York were closed in 1940 and 1941, respectively. Of its extensive net of branches in Italian colonies, those in Ethiopia were closed and placed in liquidation in 1941, while those in Somaliland, Eritrea, and Libya came under the special jurisdiction of British occupation authorities.

During the Greek campaign, the Banco di Roma provided banking and other services for the Italian forces, and upon the occupation of Dalmatia and Greece it opened branches in Ljubljana, Susak, Split, Cattaro, Sibenik, San Nicola of Crete (headquarters of Italian troops), and other Aegean islands.

The balance sheet of the Banco di Roma (exclusive of "Securities deposited") at the close of 1941 indicated an expansion of 3970 million lire, or 68 per cent, over 1939, an increase proportionately greater than that registered by other leading banks, with the exception of the Banca Nazionale del Lavoro.

BANCO DI ROMA

Balance Sheet as of December 31, 1941

(in million lire)

Assets		Liabilities	
Cash, funds with central bank and funds with other banks in Italy and abroad	950	Capital	300
Portfolio, Treasury bills and sight funds	3,819	Reserves	58
Balances due by correspondents	2,285	Deposits on current and savings accounts	2,924
Secured advances	1,341	Balances due to correspondents	5,518
Government and Government-guaranteed bonds	513	Other liabilities	970
Other assets	862		
Total	9,770	Total	9,770

7. Other Commercial Banks

No changes of particular significance were reported during the war with regard to other banking institutions. The process of banking deflation, however, continued, the number of societa per azioni di credito ordinario and banche cooperative popolari being reduced from 439 in 1939 to 394 in 1941. This movement coincided with an expansion in the number of domestic branches of the large banks.

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Among the societa per azioni di credito ordinario, the Banco Ambrosiano and the Banca Nazionale dell'Agricoltura each increased their capital in 1941 from 60 to 80 million lire; the capital of the latter bank was subsequently raised (in 1943) to 100 million lire. The Banca d'America e d'Italia -- owned by the Transamerica Giannini financial group of San Francisco -- was placed under sequester by the Italian Government and operated under special jurisdiction.

A new law, regulating the banche cooperative popolari, was promulgated in 1942; it made no change in previous regulations of a general character, but provisions were coordinated with those of the civil code and adjusted to the private character of the institutions. The Banca Popolare Cooperativa Anonima di Novara, the largest among the people's banks, increased its capital from 74 million in 1939 to 155 million lire in 1941; increases of capital were also registered by other people's banks.

Among the foreign banks, Barclays Bank and the Americana Espressa were placed under sequester and in liquidation by the Italian Government, following the declaration of a state of war between Italy and Great Britain and between Italy and the United States. The branches in Italy (Genoa and Milan) of the Banco de Italia y Rio de la Plata suspended operations in 1940.

8. Savings Institutions

As a result of the policy of merger of small casse di risparmio with the leading savings bank of each region, the total number of these institutions was reduced from 89 in 1939 to 79 in 1941. At the end of 1941, the Cassa di Risparmio delle Provincie Lombarde reported 1,802,324 pass-book accounts, totalling 6,445 million lire; its loans and discounts amounted to 3,500 million lire, including 1,277 million lire in Treasury bills.

The balance sheet of the Cassa dei Depositi e Prestiti for 1940 indicated some significant changes as compared with 1939.

CASSA DEI DEPOSITI E PRESTITI

Balance Sheet as of December 31, 1940

(in million lire)

Invested Funds		Available Funds	
Loans	7,378	Due to Casse di Risparmio Postali	37,074
Government bonds	18,171	Postal current accounts	3,253
Advances to the Treasury	1,965	Deposits	729
Treasury current account	15,089	Savings bonds	155
Participations	321	Other available funds	453

During the year, the Cassa increased its holdings of Government

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bonds by 12,579 million lire, presumably in order to comply with the requirement -- which earlier had apparently been ignored -- that half of the savings deposits of the Casse di Risparmio Postali be invested in Government bonds; as a result, Treasury borrowing from the Cassa on current account declined by 6,842 million lire. The total investment of funds of the Cassa with the Treasury (Government bonds, advances, and current accounts) rose during the year by 5,790 million lire -- from 29,335 to 35,225 million lire. Accumulation of funds through the postal savings offices continued during 1941 and 1942, and postal savings deposits probably amounted to 55-60 billion lire at the end of 1942.

9. Special Public Lending Institutions

The operations of the special lending institutions were directed toward the financing of industrial activities, public works, and supply organizations connected with the war; their civilian activities were generally curtailed or suspended.

The Istituto Mobiliare Italiano reported, as of March 30, 1942, bonds outstanding at 2,529 million and loans at 2,901 million lire, representing increases of 1,549 million(170 per cent) and 1,853 million (177 per cent) over 1939. The operations of the I.M.I. continued to be closely coordinated with those of its autonomous section, the Consorzio per Sovvenzioni su Valori Industriali; the combined amount of funds invested by the I.M.I and the Consorzio was reported, as of the same date, at more than 13,000 million lire, an increase of about 10,000 million lire over 1939. As the I.M.I's reported investments rose by 2,000 million lire, approximately 8,000 million lire were presumably accounted for by the Consorzio, which in turn obtained its funds through rediscount from the Bank of Italy. The inflationary character of these operations is obvious. The Ente Finanziamenti Industriali, which acts as intermediary between the Consorzio and war contractors, increased its authorized capital from 100 to 500 million lire in November 1941.

The report for 1941 of the Istituto per la Ricostruzione Industriale placed the number of industrial concerns under its control at 247; the I.R.I. share participation in banking, industrial, and other undertakings amounted to 7,798 million lire, representing about 50 per cent of the capital of all concerns in which an interest was held, the balance being held by private investors. The value of the I.R.I. participation rose to 8,224 million lire by the end of 1942. The aggregate assets of the economic complex controlled by the I.R.I. were valued, at the end of 1941, at 41,000 million lire, an increase of 9,000 million lire during the year. These assets included:

1. The working assets (plants, stocks and "claims") of industrial concerns controlled by the I.R.I., less their debts to suppliers and other "working liabilities". 1/ These net assets were estimated at a value of 15,400 million lire.

1/ It would appear that for the purposes of this calculation, "working liabilities" should exclude the 1,680 million lire credits to the I.R.I. companies from the banks of national interest but include the 2,200 million lire which they owed to other banks.

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2. The ordinary credits granted by banks of national interest to industrial and commercial firms outside of I.R.I. control. At the end of 1941 these credits were extended to about 70,000 firms and amounted to 12,100 million lire.

3. The available cash resources and Government securities belonging to I.R.I., the banks of national interest, and the industrial concerns under I.R.I. control. Holdings of Government securities (Government bonds and Treasury bills) by the banks of national interest were placed by the I.R.I report at 37 per cent of their total deposits, equal to 10,000 million lire and they held 2750 million of cash reserves. The remaining balance of 750 million lire presumably consisted of cash and securities held by the I.R.I. itself and its controlled industrial concerns.

It is evident that through its legal powers and its directive position in the banks of national interest, the I.R.I. could exercise a control over the Italian economy far beyond the fields placed under its immediate jurisdiction. The I.R.I., however, pursued rather liberal practices, confining its activities to determining financial policies and supervising their application, but avoiding any open interference with the management and internal organization of its controlled companies.

Among the affiliated financial companies of the I.R.I., at the end of 1941 the Societa Torinese Esercizi Telefonici called in for redemption, by March 15, 1942, the I.R.I.-Stet bonds issued in 1933. Only 22,210 bond certificates were still outstanding (for 11,105,000 lire, out of a total of 400 million lire originally issued), as most of the holders had previously exercised the option to exchange their bonds for shares. The bond certificates were redeemed by the I.R.I.-Stet, at 694 lire each (par value, 500 lire) or exchanged at par against I.R.I.-Stet shares.

No changes of any significance were reported by other special lending institutions. The Consorzio Nazionale per il Credito Agrario di Miglioramento reported, during 1942, the granting of further credits for current agricultural operations and land imporvement in a total amount of only 215 million lire. The outstanding mortgage loans of the various mortgage credit institutions declined slightly between 1939 and 1940 (from 5,970 million to 5,943 million lire). Bond issues for 100 million lire by the Istituto di Credito per le Imprese di Pubblica Utilita and for 50 million lire by the Consorzio di Credito per le Opere Pubbliche, were authorized by the Comitato dei Ministri (in charge of credit and savings) on October 30, 1941.

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10. Stock Exchanges 1/

Since September 1939, stocks on the Italian exchanges have risen spectacularly in price notwithstanding numerous recapitalizations and stock dividends which would tend to place a damper on quoted values. Nothwithstanding the net increase in prices, the rise has been punctuated from time to time by extremely sharp reactions, usually coincident with new repressive measures against stock speculation.

The repressive measures against speculation in Italy have had a very considerable effect upon exchange volumes. From daily volumes of about 100,000 shares in early 1940, trading at Milan dwindled to less than 10,000 shares per day in late 1942. While some of this decline may have been the result of reduced speculation, it is more likely that the principal cause of the decline was an exodus to the black markets.

Restrictions on dividends and issuance of shares. When Italy entered the war, her corporate enterprises were operating under a body of restrictions, sanctions, and taxes which for the most part had been imposed in October 1937 in connection with a 10 per cent levy on corporate capital. Certain of the wartime measures were merely modifications of the 1937 provisions.

Among the 1937 restrictions was a restriction on corporate dividends which limited such dividends to 8 per cent of a corporation's capital; however, corporations which had paid a higher rate of return in past years might, upon application, continue to pay a higher rate. A 10 per cent tax was levied on all corporate dividends in addition to which surtaxes were levied on dividends in excess of 8 per cent paid by companies which had been exempted from the 8 per cent limitation; the surtax rates ranged from 5 per cent to 60 per cent of the excess dividend. In December 1940, six months after Italy's entry into World War II, the Government prohibited the declaration of dividends in excess of 7 per cent of capital or in excess of the dividend of the past year or of the average dividend of the past three years, whichever was highest 2/. At the same time, the Government increased its basic tax on dividends from 10 to 20 per cent.

Concurrently with the new limitation upon dividends, a prohibitive 100 per cent tax was invoked against any shifts of funds from reserve accounts to capital accounts; this step was taken to prevent corporations from increasing their capital and thereby increasing the dividends allowed under the new restrictions. Three months later, however, the prohibitive tax on shifts in reserves was relaxed, in order to permit corporations to increase their capital without penalty if it had become depleted during the period from 1928 to 1939; this relaxation was said to be for the purpose

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1/ This section prepared in the Trading and Exchange Division of the Securities and Exchange Commission.

2/ A declared dividend which was based upon the standard of the preceding year had to be reduced one-eighth.

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replacing such companies in a better position to raise additional funds necessary for the war effort.

The steps taken to limit cash dividends were followed by companion measures designed to discourage distributions in the form of stock dividends, or in the form of rights to buy new shares below prevailing market prices. A law, effective June 1, 1942, provided that whenever a corporation issued stock dividends -- or "bonus shares" -- it must invest in Government bonds an amount equal to 50 per cent of the nominal value of the shares, and if a corporation sold shares below market price, it must invest in blocked Government bonds 50 per cent of the difference between market price and distribution price.

Incorporated in the same law was another provision of a somewhat different nature and intent: this provision required all corporations, whenever they raised new capital through the sale of shares, to invest 20 per cent of the proceeds in blocked Government bonds.

Restrictions on corporate profits. Another aspect of corporate finance which has been subjected to special wartime control is that relating to corporate profits; like some of the other measures mentioned above, this control was not primarily to curb speculation but had more general fiscal purposes. Immediately after its entry into the war, Italy imposed a new corporate excess profits tax. Excess profits, defined as the excess over the 1937-38 average income, were taxed on a progressive scale ranging from 10 to 60 per cent. Companies with small incomes were exempted from the new tax, and provision was also made to redefine normal income for corporations which had a yield on capital of less than 4 per cent.

The new excess profits tax was not so steep as to prevent the accumulation of corporate profits, however, and, with dividend distributions curtailed, profitable enterprises tended to build up large undistributed surpluses. In May, 1942, the Government undertook to put these idle funds to work by requiring 80 per cent of all excess profits after taxes to be invested in Treasury bonds, which were blocked for the duration. Several months later, the Italian Government moved more directly against excess profits by increasing materially the rate of taxation on such profits. The new scale of rates subjected excess profits to a tax of 20 to 60 per cent, depending upon the extent to which such profits exceeded a "normal" return.

Other anti-speculation measures. To curb the boom in stock market prices, the Government also began to move directly against the buyers and sellers themselves. In July 1941, it provided for a special capital gains tax on a graduated scale; two months later, the tax was simplified by instituting a flat rate of 20 per cent on the price increment. Later still, in December 1942, the scope of the tax was narrowed by being made to apply only to listed securities.

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At the outbreak of war, sellers of shares in Italy were subject to a transfer tax of 3 per cent of their nominal value. In September 1941, however, a new tax was introduced, with a view to deterring share purchases; this tax, which was levied on the buyer, amounted to 4 per cent of purchase price of his shares. Several months later, the buyer's tax was altered to 5 per cent of the difference between the purchase price and the nominal value of the shares purchased.

As Italy turned to the use of direct penalties on traders in order to combat price rises, the problem of controlling black markets in securities promptly developed. In Italy, as in other European countries, this problem was complicated by the fact that most speculation was done through the medium of bearer shares. Since such shares do not require registration in the owner's name, surreptitious transfers of ownership could easily be effected without detection. Accordingly, in September 1941, a law was promulgated requiring the conversion of bearer shares into registered certificates before June 1942. Transfers of bearer shares after that date were invalid, and the payment of dividends on bearer coupons thereafter was prohibited 1/.

In November 1942, as stock market prices continued to rise, the Government issued a new decree to curb trading which for a time appeared to have a very considerable effect. This decree compelled purchasers of equity securities to purchase an equal amount of special Treasury bonds; the bonds bore the comparatively low interest rate of 3 per cent, had a maturity of nine years and lacked provision for any earlier redemption, were registered and non-negotiable, and lacked collateral value. Although at first the requirement extended to purchases of all shares, it was modified two months later to cover only purchases in the official market; in private transactions securities could be bought without compulsory investment in Government bonds but, in lieu of such investment, the buyer and seller each were subjected to a special 2 per cent tax. In April 1943, the Government abandoned this requirement without explanation.

Unlike any other European country, Italy did not eliminate margin or term trading on its exchanges, except with respect to Treasury issues for which term trading was barred in October 1942. The only measure taken to restrict other trading on credit was imposed in June 1941 when the required margin on term transactions was increased by the Minister of Finance from 25 to 50 per cent; but in August, margin requirements were dropped back to 25 per cent, and a year later such requirements were entirely eliminated.

The Italian Government has resorted to a variety of other measures to curb speculation and rising prices. In April 1942, for example, the hours of trading were reduced on exchanges from 2 1/2 to 1 1/2. Another measure was the use of journalistic threats directed especially against "Jewish stock market manipulators", and in November 1942 such threats materialized in the form of a decree limiting purchases by Jews on the exchanges to 100,000 lire monthly. This prohibition was not extended to purchases of State securities which Jews were permitted to buy but forbidden to sell.

1/ A collateral purpose of this law was said to be the detection of disguised buying from German sources. A companion law was passed a month later subjecting dividends paid on registered securities to the dividend taxes, from which they had previously been exempt.

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11 - INSURANCE COMPANIES

Material in this section was largely supplied by the Enemy Branch of the Office of Economic Warfare.

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11. Insurance companies 1/

Italian insurance companies continued to enjoy rapid expansion in the volume of business during the war period, particularly in the life insurance branch. On the other hand, earnings of most insurance companies were unsatisfactory due to higher taxes, declining yields on investments suitable for insurance companies, and larger risks arising from the war which insurers were unable to offset by higher premiums.

Since 1940, the Istituto Nazionale delle Assicurazioni has played an increasingly important role in war financing. During the first two years of the war, the Istituto absorbed nine-year Treasury bonds to the extent of 1.2 billion lire and it supplied very substantial sums for land improvement and public works. Out of the net profit of 91 million lire for 1941, the State and insured persons each received 33.5 million lire. The premium income of the Assicurazioni Generali rose from 1,168 million lire in 1941 to 1,336 million in 1942; however the net profit decreased from 38.2 million lire to 35.5 million. Similar results were obtained by the Riunione Adriatica which showed a premium income in 1942 of 932.9 million lire against 767.5 million the year before, with the net profit slightly lower at 12.2 million.

Upon the outbreak of the war, marine insurance buyers had to be provided with a substitute for the now unavailable British insurance market. A temporary solution for this problem was found in the establishment on June 11, 1940 of an emergency pool, the Centro Temporaneo di Compensazione Riassicurativa, to which was transferred all shares formerly owned by, and all contracts concluded with, British and French companies. The Centro retroceded the risks thus accepted to German and Swiss reinsurers.

On October 31, 1940, the leading Italian insurance companies and credit institutions established the Compagnia di Riassicurazione di Roma for the purpose of strengthening the Italian reinsurance business and making it independent of foreign companies. The capital of this new and important company was 200 million lire, subscribed by the Assicurazioni Generali, the Riunione Adriatica, and other Italian groups. The president of the "Roma" was Boncompagni Ludovisi, Prince of Piombino; the vice-presidents were Senator G. Bevione, the president of the I.N.A. and Mr. Volpi of the Assicurazioni. Mr. Suvich, president of the Riunione Adriatica, and Ambassador Giannini were named members of the board of directors of the new company.

There is abundant evidence of collaboration between German and Italian companies in occupied Europe. Many British and other Allied companies are jointly administered by Italian and German

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interests. One-third of the British business in France was allocated to Italian companies by the German occupation authorities, which also facilitated the infiltration of Italian insurance companies into Holland, where they had done little business prior to the war.

In Austria and in the Balkans, an Assicurazioni subsidiary, the Erste Allgemeine Unfall und Schadens Versicherungs Ges., has been very active since 1939. In Yugoslavia, the Assicurazioni and Riunione expanded their interests by taking over the portfolios of certain local insurers. In Hungary, Italian companies benefited greatly from the annexation of large areas to the country, "aryanization", and confiscations. In France, the Assicurazioni and Riunione own considerable portfolios, and two companies, the "Concorde" and the "Providence" are Italian-owned. Numerous new licenses for Italian companies and their agents have been issued by the French insurance commissioners.