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LEAGUE OF NATIONS

Economic Intelligence Service

COMMERCIAL BANKS

1925-1933

GENEVA
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COMMERCIAL BANKS, 1925-1933

Corrigenda

Introduction, Appendix III, page 50.

Germany (all banks), November returns, item d

(Government securities),
1931 and 1932,

for 1.190 and 1.741,

read 119 and 174.

New Zealand, page 330, in column heading (3) of table,

for Excess of assets (+) or liabilities (-) in New Zealand,

read Excess of liabilities (+) or assets (-) in New Zealand.

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PREFACE

The present volume is a continuation of the *Memorandum on Commercial Banks*, 1913-1929, published in the autumn of 1931. Statistics relating to eleven countries which were not covered by the previous edition have been added, so that the volume now covers the commercial banking systems of some forty countries, including ten Latin-American countries, all the British Dominions and India, the United States of America and twenty-four European States.

The introductory notes to the eleven new chapters are, in principle, similar to those given for all countries in the previous edition ; they contain a brief description — in part historical — of the banking structure of the countries concerned. The introductory notes for the countries contained in the last edition have not been repeated and most of the chapters have been shortened. On the other hand, a more comprehensive account of recent banking developments is given in the introductory notes on certain countries, the events in which were of particular interest or had international repercussions of major importance.

The adaptation of the banking statistics to the standard forms used for the purpose of international comparison continues to present very real difficulties. In many cases the national statistics are of a summary character ; in almost all cases there is a lack of precision in defining the exact type of business to which the various items of the balance-sheets refer

The general introduction summarises the main tendencies to be discerned from an analysis of commercial banks' accounts in recent years and compares the experience of the various banking systems before and during the depression. While the analytical tables annexed to the introduction and also the summary tables given in the individual chapters cover the years 1925 and 1929-1932, a considerable amount of information relating to 1933 is given in the text.

A. LOVEDAY,

Director of the Financial Section and Economic Intelligence Service.

League of Nations,
Geneva, March 1934.

INTRODUCTION.

General Observations.

The first edition of this *Memorandum*[1] covered the period from 1913 to 1929 ; the early history of the commercial banking systems of some thirty countries and the development of those systems up to 1929 were outlined and an attempt was made to point out significant differences in the structure and functions of the commercial banking organisation in different parts of the world. The latter analysis was largely based upon an examination of the banking statistics of the various countries, which were adapted to a common balance-sheet form established for this purpose. Some of the difficulties encountered in making this adaptation (difficulties resulting from lack of uniformity and, frequently, lack of adequate specification in the basic statistics) were set out in the last edition[2] and it is not necessary to repeat them here. An attempt has been made to achieve a maximum of international comparability among the various groups and sub-groups of the standard balance sheet form used , but the limitations of the basic statistics render complete comparability impossible Reference should therefore be made in all cases to the notes given in the individual chapters setting out the detailed composition of the various items as given in the national statistics.

The present volume covers all the countries previously given and, in addition, eleven others. It aims primarily at analysing the developments which have taken place in commercial banking since 1929 -- *i.e.*, in the course of the world economic depression

The fall in world production and in prices has been accompanied by a sharp contraction in the volume of credit extended by commercial banks and in its effective use. Inevitably, controversy has arisen over the causal relationship involved in these parallel movements, one section of informed opinion maintaining that the contraction of credit has been responsible for the fall in prices and slump in production, and another section maintaining that prices and production have fallen as a result of exaggerations and misdirections of capital which occurred during an earlier period of credit expansion, and that the recent contraction of credit has been an effect and not a cause.

It is no part of the task of this memorandum to attempt to prove the general validity of either of those two propositions ; both are, in fact, incapable of conclusive demonstration by means of banking statistics alone.

Even if any conclusions could be based on banking statistics alone, it would still be difficult to measure the expansion of bank credit : from 1925 to 1929, for example, commercial banks' total deposits increased much more rapidly than current accounts, owing to a shift from the latter to time deposits , all these items increased at different rates from total loans, discounts and advances. Obviously, a judgment of the " adequacy " of the bank credit expansion will differ according to which of these elements is taken to represent bank credit. All that can be said with certainty is that between 1925 and 1929 the total volume of commercial bank credit outstanding increased very considerably and that this increase differed considerably from country to country. Total deposits in the commercial banks of the forty countries included in the present volume amounted to rather more than $70,000 million at the end of 1925 and between $82,500 million and $84,000 million at the end of 1929 The increase in this four-year period was therefore $12,500 - $14,000 million, or on an average of 4 - 4½ per cent per annum These figures must, of course, be treated with the greatest reserve In the first place, the data on which they are based do not cover all commercial banks in all countries Secondly, the conversion into dollars may not accurately reflect changes in the internal purchasing power of bank deposits in countries with fluctuating currencies Finally, estimates of the changes in the velocity of circulation of deposits are only available for a few countries and it is therefore impossible to determine to what extent the rate of effective increase may have differed from the above figure.

It may be mentioned that world production of foodstuffs and raw materials would appear to have increased during the same period at an average rate of 2 6 per cent per annum and both the quantum of world trade and the world's industrial activity at a rate between 4 and 5 per cent per annum. [3]

[1] *Commercial Banks*, 1913-1929, League of Nations, Geneva, 1931
[2] *Ibid*, pages 6 and 7
[3] *World Production and Prices*, League of Nations, Geneva, 1933

The movement of total commercial bank deposits differed widely from country to country, ranging from an increase of over 200 per cent in the case of Poland to declines in the case of the Scandinavian countries. The following table ranges the countries included in this volume by groups in the order of the expansion (or contraction) of their total commercial bank deposits *in terms of national currency* between the end of 1925 and the end of 1929.

Table I.

MOVEMENT OF COMMERCIAL BANK DEPOSITS, 1925-1929.

(In terms of national currency)

Increase of 100 per cent or more	Increase of 100-50 per cent	Increase of 50-25 per cent	Increase of 25-1 per cent	No increase or decline
Poland	Germany	Mexico	Yugoslavia	Sweden
Hungary	Belgium	Portugal	Czechoslovakia	India
Latvia	Roumania	Switzerland	Canada	Denmark
Estonia	Lithuania	Venezuela	Argentine	Bolivia
Colombia	Bulgaria	Finland	U.S.A.	Norway
	France	Austria	Japan	
	Brazil		Italy	
	Uruguay		New Zealand	
	Spain		England and Wales	
			Netherlands	
			Peru	
			Australia	
			South Africa	
			Chile	

The wide range of the various groups ensures against drawing conclusions on the basis of small differences which might be due to discrepancies in the original data, etc. The countries in which the expansion of commercial bank credit, as measured by total deposits, proceeded most rapidly between 1925 and 1929 were those whose currencies suffered the severest depreciation during the post-war inflation.[1] In the later stages of inflation, such saving as persisted took the form largely of direct hoarding of goods, and not the maintenance of bank balances whose value was steadily depreciating. After currency stabilisation, saving in the countries affected again took a monetary form, and bank deposits increased very rapidly.

Most of the countries in the second column of the above table are also States which experienced serious currency depreciation immediately after the war. In certain cases — France and Belgium, for example — the restoration of the gold standard took place at rates which, with regard to the level of prices at home and abroad, were relatively low. Prices therefore tended to rise to adjust themselves to the new level of the currency, and, as retail prices and costs lagged behind in this rise, the profitability of industry — particularly, of course, the export trades — was considerable and there was a rapid growth of bank deposits and bank credit.

Bank deposits in the majority of the countries included in the fourth group — from Yugoslavia down to New Zealand — increased by 10 to 20 per cent, while in the remaining cases the increase was less than 10 per cent. This group, like the third, includes States of such diverse economic structure and experience that it is impossible to make any generalisation. It may be pointed out, however, that several of the countries included in it returned to the gold standard at parities subsequently found to be relatively high. In the downward pressure on prices in these countries, retail prices and certain costs lagged behind; this reduced the profit margin, particularly in the export trades, and the situation was thus the obverse of that described

[1] The only exception is Colombia, where the large growth of deposits in these years represents a change in public habits.

for the countries which stabilised at relatively low levels.

Finally, in the three Scandinavian countries, India and Bolivia, there was either no increase or an absolute decline in the total volume of commercial bank credit outstanding (as measured by total deposits) between the end of 1925 and the end of 1929. During the war and early post-war years, there was a sharp expansion of commercial bank credit in these countries. In Norway and Denmark, the banks suffered heavy losses in the subsequent liquidation, and the period under review was one of banking consolidation after the exceptionally rapid deflation which was pursued in order to restore the exchange value of these currencies to the pre-war parity. In the case of Sweden, the stability of commercial bank deposits reflects a change in the investment habits of the public, which began to invest directly in securities to a greater extent than previously, when savings habitually took the form of bank deposits.

In the three Scandinavian countries, where a contraction of bank credit appears to have taken place between 1925 and 1929, as well as in certain of the countries where the credit expansion was negligible — such as the Netherlands, South Africa and Chile — the increase of production and of economic activity in general was in no way less but indeed greater than in the countries with a more or less pronounced credit expansion. This fact suggests that it is necessary to consider not simply the quantitative but also the qualitative changes in the credit structure. In the following paragraphs, an attempt is made to state in summary fashion some of the more important changes in the character of commercial banks' accounts which took place between 1925 and 1929.

Such a qualitative analysis must largely resolve itself into a study of changes in the relative importance of various items in the banks' balance-sheets. In the distribution of its assets, each bank must take into account a multitude of factors which may be summarised in the terms *safety*, *liquidity* and *profitability*. It is possible to attach fairly definite meaning to the first and last of these concepts. On the basis of experience, banks find it necessary to keep only a certain ratio between their cash resources and their liabilities to the public. In some countries, this ratio is a conventional one, while in others minimum requirements are specified in the banking legislation. The object of such legal minimum cash reserve requirements is, of course, not only to ensure the safety of depositors' funds, but also, in part, to facilitate the central bank in controlling the credit policy of the commercial banks.

In applying the criterion of safety to their assets, the commercial banks therefore rely upon the inflow of funds balancing the outflow over long periods and upon the expectation that withdrawals in any particular short period will not exceed a certain maximum which they habitually or legally maintain in the form of cash. Standards of safety are, of course, not fixed and static, but change in accordance with economic conditions and general business sentiment. Bankers, like the rest of the population, are affected by the prevailing spirit of optimism or pessimism.

The meaning and nature of bank liquidity has undergone serious changes since the concept was first developed Liquidity, like safety, has to do with the character of bank assets , in the case of liquidity, the emphasis is upon the relative facility with which various types of assets can be turned into cash without loss or otherwise disposed of to meet liabilities falling due. Legislation in certain countries has imposed certain standards of liquidity upon commercial banks by prohibiting or limiting some types of loans and encouraging others. This legislation has, in general, tended to encourage the use of short-term credit instruments, the prototype of which is the trade discount or commercial bill, on the assumption that such instruments are of a " self-liquidating character " and thus possess a degree of liquidity superior to other types of bank loans. Commercial bills are largely based upon goods in process of production, and the expectation is that, as the goods move to a further stage of production, they will, in the normal economic process, be sold and thus permit the repayment of the bank loan

It is significant that the belief in the superior liquidity of the commercial bill to direct investments has come down from the time when direct investments were definitely immobilised — that is, before the establishment of organised stock exchanges. In modern conditions, securities, representing fixed capital, possess in normal times the quality of marketability to the extent to which current savings are normally absorbed by security investment. The trade bill is generally eligible for rediscount at the central bank, but the purchasing power advanced against it becomes part of the permanent working capital of the country, and a sudden attempt to force repayment of the whole, or even a large part, of such credit outstanding (except, of course, the small fraction used only for seasonal requirements) would precipitate a crisis as inevitably as the attempt to liquidate large volumes of securities.

Trend in Banking 1925-19

From these observations of a general character, it is now necessary to turn to a detailed examination of the changes which took place in the character of commercial banks' accounts between 1925 and 1929. It is not possible in the space available to examine separately the evolution in each country covered by the present volume : special reference will therefore be made to the case of the United States of America and certain States of Central Europe.

Increased Importance of Security Loans in U.S.A.

The outstanding feature in the development of American commercial banking during this period was the declining importance of the commercial bill and the increased importance of the security loans, real-estate loans, and direct investments in public and private securities. Between the middle of 1922 and the middle of 1929, the total volume of credit extended by American commercial banks increased by $15,000 million. Of this increase, no less than $5,000 million are accounted for by security loans, $4,000 million by direct investments and $2,500 million by loans on real estate. Ordinary commercial loans — *i e*, discounts of commercial paper and loans on collateral other than securities or real estate — increased by only $3,500 million, or 20 per cent, in this seven-year period. Commercial loans constituted about 35 per cent of the total earning assets of all commercial banks in the United States of America in 1929 as compared with over 50 per cent in 1922. Loans on securities rose from 18 per cent of total loans and investments of national banks in 1922 to over 25 per cent in 1929 ; for State banks the proportion rose from 13 to 23 per cent. In the case of the national banks, real-estate loans increased from 4.3 to 6.5 per cent of total credit portfolio, and investments in securities other than Government obligations from 14 to 18 per cent.

It is not necessary to consider here in detail the economic and institutional factors lying behind this change in the character of commercial banks' assets. In part they relate to the progressive concentration of industry, which tended to eliminate small firms, the chief users of commercial bills. Large corporations have direct access to capital markets, and during this period many of them aimed at financial independence. A large proportion of their net profits was re-invested and their other capital requirements were largely covered by the direct issue of securities — at first bonds, and later stocks — to the public.

The rapid growth of security loans and direct investments by American commercial banks gave rise to certain undesirable consequences the full significance of which has only become clear in recent years. In making loans on the basis of securities — *i.e.*, providing the public with the resources necessary for their purchase — the commercial banks anticipated the real savings required if the capital thus invested were to be maintained. The expansion of this form of bank credit facilitated speculation in securities much more than would appear from the absolute amounts involved, as the velocity of circulation of the bank deposits resulting from security loans, particularly those to brokers, is exceptionally great ; and with the upward movement of stock prices and the rapid turnover of stocks, it was possible to finance the last year of the security boom entirely through a more rapid turnover of bank deposits and without any increase in their absolute amount. The rapid rise in security prices involved a reduction in the yield on capital — the speculation being largely based on the hope of appreciation in the capital value of the stock rather than on a consideration of the prospective return. This naturally contributed to the boom in investment industries using a high proportion of capital. Many investments made under the stimulus of very low capital rates subsequently proved unprofitable.

From the purely banking point of view, the growth of security loans largely represented the offsetting of a short-term liability with a long-term asset. Even though the individual loans may have been made for only short periods, the ultimate use of the funds provided through these loans was for long-term purposes : to provide fixed capital for industry. In providing this fixed capital, the commercial banking system created against itself a body of claims in the form of deposits, which might be withdrawn at sight or short notice. The assets held against these claims could only be liquidated in an economic sense by the sale of the securities held as collateral by the banks to depositors—*i.e.*, by the investing public "digesting" the securities it had already bought. This is necessarily a slow process, and an attempt to speed it up by throwing securities on the market must lead to losses. The American banks did, in fact, attempt to liquidate large volumes of securities

in the latter part of 1931 and the first part of 1932. The result was that security quotations, particularly of bonds, which had been well maintained until then, fell very sharply and the capital market was demoralised.

Growth of Bank Deposits as a Form of Investment in Central Europe

It has already been shown in Table I above that the growth of commercial bank deposits between the end of 1925 and the end of 1929 was particularly rapid in countries whose currency systems were very severely disorganised during the post-war inflation — Poland, Hungary, Latvia, Estonia and Germany, for example. By the end of 1925, the currencies of these countries had been stabilised in law or in fact. Two features of the subsequent development in these countries are particularly worthy of attention from the present point of view — namely, the growing use of bank deposits as a form of investment and the increasing reliance on foreign loans

The inflation in the class of countries referred to largely wiped out the capitalist *rentier* class. Fiscal and social policy were influenced by the desire to secure a more equal distribution of wealth, and capital resources which had formerly been largely concentrated in relatively few hands became more evenly divided The owner of small capital resources is naturally less willing to take the risks involved in direct investments through the purchase of equities than the owner of large resources , his knowledge of the relative attractiveness of different types of investment is less and his power to spread risks through diversification of assets is slight. In many countries, during the period under review, the investment of the small capitalist therefore took the form of a bank deposit ; the necessity for choosing a particular bond was avoided, a fixed income and apparent security obtained The task of putting the capital to productive use was left to the banks.

In view of the shortage of capital in the countries concerned, it was, perhaps, not unnatural that the banks should have used the funds deposited with them to make loans to industry for long-term purposes In so far as this was done, the real owners of the fixed capital of industry were, of course, bank depositors. But the legal position was quite different : instead of this ownership taking the form of the holding of equities which did not constitute a fixed charge on industry, it took the form of a double set of debtor-creditor relationships — industry owed fixed sums to the banks from which they borrowed, and the banks owed fixed sums to their depositors. The inflexibility of industrial costs was aggravated and the inability of industry to adjust itself to falling prices increased ; and, as in the case of the United States of America, the economic area subject to sudden liquidation pressure — through the withdrawal of deposits — was widened. The importance of both these factors became obvious in the subsequent period, when mass withdrawals found the banks unable to liquidate their loans to industry , and industry, on the other hand, was partly prevented from operating profitably by the necessity for meeting fixed interest payments on its bank advances.

Increasing Use of Foreign Short-Term Funds.

The expansion of commercial bank credit in many European countries after the collapse and subsequent rehabilitation of currencies was partly financed through foreign borrowing, largely on short-term account.

The war and inflation periods left many countries poor in capital resources. Industrial reconstruction, the modernisation of capital equipment and large State expenditure all resulted in a heavy demand for capital , its internal accumulation, on the other hand, was checked, in some degree, by social policy and was not sufficient to meet the internal demand Interest rates rose in consequence, and the high differential between the return on capital available in these countries and that available in the creditor countries where capital was more abundant naturally led to a flow of capital from the latter to the former. But foreign capitalists, though desirous of taking advantage of this differential, were in many cases unwilling to invest their capital at long-term ; the necessary confidence — political as well as economic — in the security of a long-term investment was frequently lacking. Consequently, credits were granted on short-term account ; the creditors hoped that in this way they would be able, if circumstances dictated, to withdraw their credits at very short notice These credits took several different forms : they were sometimes made directly to industry through branches of foreign banks situated in the borrowing country ; they sometimes took the form of acceptance credits secured by warehouse receipts, shipping documents and other titles to goods ; they were sometimes simply cash advances from the lending bank or deposits made by it in the borrowing bank.

Sufficient data are not available to enable a measurement to be made of the amount of short-term capital lent abroad in this way during the reconstruction period. Between the end of 1926 and the end of 1929, the estimated total foreign short-term indebtedness of Germany increased from 4.1 to 11.7 milliard RM., or by 7.6 milliard RM. (almost $2 000 million). The German banks accounted for 5.2 milliard RM. of this increase (the rest being due to direct borrowings by industry and by municipalities) and their total foreign short-term liabilities at the end of 1929 amounted to 8.6 milliard RM. They held at that date foreign short-term assets of 3.7 milliard RM. (excluding Reichsbank *devisen)*, so that their net foreign short-term indebtedness amounted to about 5 milliard RM The net foreign short-term indebtedness of German banks, indeed, amounted to about a third of the total credit portfolio (discounts, loans, investments and participations) of all German commercial banks at the end of 1929 In other words, at the end of 1929, one-third of the German banks' outstanding loans to customers had been made with funds borrowed abroad which might be recalled at any moment.

In the post-war period, the Viennese banks carried on their pre-war tradition of foreign business and influence ; in a large measure they have acted as intermediaries in the flow of capital from Western Europe and America to Eastern and South-Eastern Europe The importance of the foreign accounts of the Viennese banks may be judged from the following figures at the beginning of 1931, the foreign short-term liabilities of the Creditanstalt alone exceeded 450 million schillings, and that of the other Viennese banks amounted to about 300 millions. This total of almost 750 million schillings ($110 million) represented more than a quarter of the aggregate earning assets of all the Viennese banks. Towards the end of 1931, the medium- and short-term foreign borrowings of the Hungarian commercial banks were estimated at about 825 million pengö (over $140 million), while their short-term foreign assets amounted to 120 million pengö. The total earning assets of the commercial banks, within Hungary, exceeded 3,500 million pengö.

In the two years 1928 and 1929, the foreign short-term borrowings of Polish credit institutions increased from 399 to 673 million zloty ($75 million). Unfortunately, detailed statistics are not available regarding the short-term foreign borrowing of commercial banks in South-American countries. Such data as are available suggest that they, too, made increasing use of foreign short-term funds in the period preceding the depression. In Colombia, for example, the amount due by commercial banks to foreign correspondents rose from less than 1 million pesos at the middle of 1925 to over 14 millions at the middle of 1930 ; in the same period, amounts due to them by foreign banks increased by less than 4 million pesos.

A large part of the foreign short-term credits of the period under review were nominally granted for the purpose of financing the foreign trade of the credit-taking country This was the case, for example, of the so-called acceptance credits which were largely granted on the basis of shipping or warehouse documents. Though these credits were generally of three months' duration, it was not infrequently agreed at the time the credit was given that they would be renewed three or four times, or even more often, against a 5 or 10 per cent repayment at each maturity. Not only the trade, but also the industry, of the European countries referred to was partly financed through foreign short-term credits , the credits granted, though sometimes short-term in name, were in fact frequently renewed and became part of the permanent working capital and even part of the fixed capital of the country.

Reduced Relative Importance of Banks' Own Funds.

Alongside this double tendency just analysed — the use of deposits as an investment and the use of foreign short-term funds for long-term purposes — there developed a third tendency in the period under review, which aggravated the dangers of the other two This last was a tendency for the commercial banks to allow an increase in their liabilities to the public, in the form of deposits, to take place without at the same time increasing their own capital resources in proportion. Detailed statistics on this point will be found in Table IV of the last edition of this memorandum. The following figures, showing the changes in the percentage ratios of their own resources to public liabilities, are given by way of sample illustration :

	1913	1925	1929
Argentine Republic. . . .	39.0	15.3	13.3[1]
Australia and New Zealand	22.2	18.6	20.2
Austria	33.3	17.4	15.1
Belgium.	24.3	16.8	25.6
Brazil.	36.0	22.5	20.8

[1] 1928.

	1913	1925	1929
Chile	62.3	38.1[1]	42.6
England and Wales	10.1	7.5	7.4
Estonia	—	20.9	10.5
France	24.7	8.0	9.5
Germany	30.3	14.0	7.5
Hungary	—	31.5	16.8
Netherlands	52.8	30.8	28.0
Poland	—	22.4	14.2
United States of America	19.8	12.7	15.6

In 1925, the ratio of commercial banks' own funds to public liabilities was universally lower than before the war. Losses of capital were incurred during the post-war depressions and inflations, and, though fresh banking capital was raised in some countries in 1923-1925, it was in no case raised in sufficient amount to bring the ratio of own to outside funds up to the pre-war figure This tendency towards a decline in the relative importance of equity in banking persisted between 1925 and 1929 in most Latin-American countries included in the present volume ; indeed, it was only in Chile and Peru that the ratio in question increased between 1925 and 1929. The ratio also increased in Canada, the United States of America, South Africa, Australia and New Zealand, but in no case was the 1913 level again attained. In Europe, there was a particularly sharp decline in the ratio of own funds to outside liabilities between 1925 and 1929 in Estonia, Germany, Hungary, Latvia and Poland. A reference to Table I will show that deposits increased more in these countries than elsewhere , the commercial banks did not raise new capital in proportion to this rapid increase in their liabilities. The capital ratio also fell in Austria, the Netherlands, Czechoslovakia and certain other European countries between 1925 and 1929, but it rose in Belgium, Denmark, Finland, France, Italy, Portugal, Roumania, Sweden and Yugoslavia, and was stable in the United Kingdom

Commercial Bank Credit during the Depression.

Between the end of 1929 and the end of 1933, the total volume of commercial bank credit outstanding contracted very sharply in most countries A first approximation to the amount of this contraction may be made from an examination of the commercial bank returns of the forty countries included in the present volume. Total deposits in these banks were reduced from $82,500 - $84,000 million at the end of 1929 to less than $60,000 million at the end of 1932, or by about 30 per cent The qualifications with which these figures must be treated have already been mentioned above In particular, it should be observed that the inequality in price movements in different parts of the world greatly limits the significance of any comparison of the purchasing power represented by aggregate world commercial bank deposits in 1929 and 1932. Moreover, the velocity of circulation of bank deposits fell very sharply between these years, so that the decline in the effective use of bank credit outstanding was much greater than the decline in its absolute amount.

The character and extent of the credit contraction of the past few years have varied considerably from country to country. It is possible to discern several distinct periods in the contraction, which will be analysed in some detail below. A rough comparison of the extent to which the commercial banking systems of various countries reduced the total volume of credit outstanding between 1929 and 1932 is afforded by Table II below, which shows the range of percentage decline, in national currency, of aggregate commercial bank deposits in the countries included in the present volume. This table is based on the detailed figures given in Appendix I at the end of this Introduction, to which reference should be made

It is not necessary to repeat here the qualifications which have already been made regarding the comparability of the figures for different countries. The data on which the table is based are wider in some cases than in others , and in some countries the currency unit in which deposits are measured has remained a fixed value in terms of gold while in others it has depreciated ' In spite of this incomplete comparability, at least one striking conclusion emerges unmistakably from Table II It is that the contraction of commercial bank credit — as measured by total deposits -- has been particularly drastic in certain of the European debtor States which borrowed most heavily abroad in the period preceding the depression, and in which bank deposits were most extensively used as a form of investment. The commercial banks of the countries included in the first column were, without exception, subject to heavy runs on the part of domestic and foreign creditors. It would be wrong, however, to conclude that the liquidation of credit *in general* was greater in these countries

[1] 1926.

Table II.

PERCENTAGE DECLINE IN TOTAL COMMERCIAL BANK DEPOSITS IN VARIOUS COUNTRIES, 1929-1932.

(In terms of national currency.)

Decline of 60-40 per cent	Decline of 30-20 per cent	Decline of 20-10 per cent	Decline of 10-0 per cent	Increase
Latvia	Venezuela	Estonia	Argentine Republic	Lithuania
Poland	U.S.A.	Netherlands	South Africa	Sweden
Austria	Mexico	Chile	New Zealand	Switzerland
Bulgaria	Colombia	Canada	Italy	England and Wales
Germany	Portugal (1931)	Norway	Czechoslovakia (1931)	Brazil
Roumania (1931)	Belgium	Ecuador	Australia	Bolivia
		Yugoslavia (1931)	Denmark	Peru
			Uruguay	
			Hungary	
			Finland	
			India (1931)	
			Japan	
			France	

than elsewhere. The above table relates to total deposits ; and while the order of the various countries included would not be radically changed if figures for total discounts, loans and investments had been used (see Appendix III), nevertheless it must be borne in mind that commercial banks, which are alone covered by this volume, are not the only purveyors of credit. To cite but two illustrations : in Poland, long-term credit is chiefly extended by the National Economic Bank and the State Land Bank, whose loans outstanding were considerably higher at the end of 1932 than at the end of 1929 ; and in the United States of America, the Reconstruction Finance Corporation granted loans amounting to almost $2,000 million in the course of 1932

The last column of Table II shows that, in seven countries, total commercial bank deposits were higher at the end of 1932 than at the end of 1929. Three of these are European creditor States in which confidence in the commercial banking systems was well maintained throughout the depression, and three are South-American States whose currencies were heavily depreciated or devaluated in the course of the period covered. The remaining country, Lithuania, borrowed very little abroad before 1929. This country was not seriously affected by the economic depression until 1931 ; in the course of 1930, there was a very sharp increase in deposits, and, though extensive withdrawals took place in 1931, total deposits had not been reduced below the 1929 level at the end of 1932.

The most important changes which took place over this period (1929-1932) in the various types of credit extended by commercial banks may be studied in detail in Appendix III , the effect of these changes on the relative share of their credit portfolio constituted by different assets is shown in Appendix IV. The most uniform and striking change is an increase in the relative importance of investments in total credit outstanding. The following table shows for certain selected countries the percentage distribution of total discounts, loans and investments among each of these items at the end of 1929 and 1932.

With the single exception of Japan, investments constituted a higher proportion of the total credit extended by the commercial banks of every country included in Table III at the end of 1932 than at the end of 1929. An examination of Appendix IV will show that the countries included in Table III are, on the whole, typical of most countries covered by this memorandum. Apart from Japan, investments fell in relative importance between 1929 and 1932 only in Italy, Lithuania and Mexico. Moreover, in most countries, not only the proportion, but also the absolute amount, of securities held by the commercial banks increased in this three-year period. The credit contraction

Table III.

PERCENTAGE DISTRIBUTION OF TOTAL COMMERCIAL BANK CREDIT OUTSTANDING IN CERTAIN COUNTRIES, 1929 AND 1932.

	Discounts		Loans and Advances		Investments	
	1929	1932	1929	1932	1929	1932
Austria	12.4	6 2	77.0	81.8	10.6	12 0
Belgium	19.2	21.5	63.8	50.4	17.0	28.1
Finland	34.1	21.5	63.2	73.7	2.7	4.8
Germany	23.3	21.3	70 9	65.8	5.8	12.9
Latvia	39.0	29 3	58 6	62 5	2.4	8.2
Switzerland	11.9	7.3	80 9	83 7	7.2	6.0
England and Wales	14.6	22 8	66 8	46.7	18.5	30.5
U.S.A.	33.0	29.3	39 4	31.6	27 6	39.1
Argentine	42 9	41 5	51 8	51 5	5 3	7.0
Chile	28.4	9 9	64 2	80.6	7.4	9 5
Japan	10.2	9 7	53 0	54 3	36.8	36.0
New Zealand	2 0	1 0	87 6	75.0	10.4	24 0

was therefore largely confined to discounts and advances.

Of the countries included in Table III, it was only in Belgium and England and Wales that the importance of discounts increased between 1929 and 1932, this was entirely due to increased holdings of Treasury bills, a particularly liquid asset for the commercial banks of those countries. Commercial discounts fell sharply here, as in other parts of the world Of the countries not included in Table III, the relative importance of discounts also increased in those where the commercial banks have taken up increased quantities of Treasury bills — *i.e.*, France, Italy, the Netherlands and Sweden The relative importance of discounts also rose in Hungary - perhaps for the same reason — and in Ecuador and Venezuela.

Banking Developments in 1930 : *The Freezing of Credit.*

It is now necessary to examine in detail the development of commercial bank credit in the various periods to which reference has been made. It is convenient to begin with the year 1930, a period, in most countries, of postponed liquidation and the freezing of credit. Of the twenty-four European States included in the present volume, total commercial bank deposits were lower at the end of 1930 than at the end of 1929 in only three — Germany, Bulgaria and Portugal. On the other hand, outside Europe a contraction of deposits was general : an examination of Appendix I will show that, in the course of 1930, total commercial bank deposits fell in all the British dominions (except South Africa), in Japan, and in six of the ten Latin-American States included. The decline was most marked in the South-American countries. Among the countries in which deposits rose, the increase was most striking in the case of Lithuania, where it exceeded 25 per cent.

The accumulation of deposits in commercial banks is a common feature of the initial stages of most periods of economic depression. The fall in prices and reduced profitability of business enterprise make business-men less inclined to incur the risk of investment and more inclined to keep their capital resources in the form of cash balances. These cash balances are normally held as bank deposits The extent to which "savings" will accumulate in this form in any particular country depends on a variety of factors which cannot be analysed in detail here. The predominance of raw - material - producing States amongst the countries where commercial bank deposits fell in 1930 is significant; it reflects the very drastic fall in the price of goods on which the economies of these countries are most largely dependent, and the deterioration in their terms of trade.

Cash balances held by business-men and others in time of depression are, from the point of view of those having title to the sums involved, a form of investment ; as the return on balances held in the form of time or deposit acounts was greater than that available on current accounts, it is natural that the former should have risen more than the latter. A detailed examination of Appendix II will show that, in the course of 1930, the ratio of

time deposits to current accounts rose in twenty-three of the thirty-three countries for which detailed specification of deposits according to maturity is available. In eleven of these countries — Czechoslovakia, England and Wales, Estonia, Italy, Latvia, Mexico, Peru, Poland, Sweden, the United States of America and Uruguay — both current accounts and time deposits increased, but the latter more than the former. In seven, South Africa, Australia, Brazil, Ecuador, Greece, New Zealand and Switzerland — time deposits rose while current accounts fell, and in five — Canada, Chile, Colombia, Japan and Portugal — both sight and deposit accounts fell, but sight accounts more than time deposits.[1] In Bolivia, both types of deposit fell, but current accounts less than time deposits. In only one country — namely, in Germany — did current accounts rise in 1930 in the face of a decline in time deposits; but the sight-deposit figures shown in Appendices I and II for that country include balances due to German credit institutions; it may well be that, if detailed information regarding the time distribution of individual deposits in German banks were available, they would show a movement similar to that observed in most other countries.

Not only did the amount of time deposits in the commercial banks of twenty-six of the thirty-three countries for which detailed figures are available increase in the course of 1930, there was also an almost universal increase in deposits in savings banks. Table IV shows the amounts outstanding to the credit of depositors in the savings banks of twenty-nine countries at the end of each year since 1929.

The only countries included in Table IV where deposits in savings banks did not increase in the course of 1930 are Australia, Canada, Chile and New Zealand; it will be recalled that deposits in commercial banks also fell in these countries. On the other hand, the rise in deposits in the savings banks of Germany in 1930 was greater than the simultaneous decline in deposits in commercial banks. The general rise in deposits in savings banks is due to factors of the same kind as those mentioned above in connection with the increase in time deposits in commercial banks. Deposits in savings banks largely represent the accumulations of the lower-income groups; and, as the incomes of these groups were relatively well maintained in the first stages of the depression, it is not surprising that savings-bank deposits should have shown a rising tendency. Certain factors of a special nature also help to explain the increase in 1930, but more particularly in later years - namely, loss of confidence in the commercial banks and the desire on the part of depositors to enjoy the State guarantee frequently given to deposits in savings banks.

It has been stated above that the decline in commercial bank deposits during 1930 was most marked in the Latin-American countries. The decline ranged from 3 per cent in Brazil and Ecuador to over 50 per cent in Venezuela, in the Argentine, Mexico and Uruguay, deposits rose. In Peru, a new currency unit (the sol) was adopted in 1930, this unit had a par value of one-tenth of the old Peruvian pound. As total commercial bank deposits were only seven times higher in soles at the end of 1930 than in pounds at the end of 1929, it is clear that the gold value of bank deposits fell in 1930.

With the exception of Brazil and Ecuador, the commercial banks of all South-American countries which suffered a decline in deposits in 1930 reduced their total credit portfolio less than the fall in deposits. In Venezuela, for example, deposits fell by 52 per cent and total discounts, loans and investments by only 4 per cent, in Chile, deposits fell by 12 per cent and the credit portfolio by only 5 per cent. Moreover, in the Argentine and Uruguay, credit extended by the commercial banks increased more than deposits with them. In most cases, this is explained by a diminution in the cash item and a reduction in balances held with banks abroad, or by an increase in the note circulation or foreign borrowing of the commercial banks. In Mexico, however, aggregate credit extended remained stable in the face of an increase in deposits,

In Canada, total commercial bank credit outstanding fell by 10 per cent in the course of 1930, as compared with an 8 per cent decline in deposits; in the United States of America, the credit portfolio rose slightly while deposits remained substantially unchanged. In Japan, total deposits fell slightly in 1930, while credits were maintained closer to their 1929 level; this is also true of

[1] In eight of the ten countries in which the ratio changed in favour of current accounts — the Argentine, Austria, Denmark, Finland, France, the Netherlands, Norway and Spain — both current and time deposits rose in 1930, but current accounts more than time deposits; in all the above-mentioned countries, except Denmark and the Netherlands, however, the shift to current accounts was so slight that the latter did not constitute more than one-half of one per cent more of total deposits at the end of 1930 than at the end of 1929: these countries can therefore hardly be considered significant exceptions to the general rule.

Table IV.

DEPOSITS IN SAVINGS BANKS OF CERTAIN COUNTRIES, END OF 1929-1933.

(In millions of national currency units)

Country	Type of Savings Banks	Currency	1929	1930	1931	1932	1933
Austria	Post Office Savings Bank	schilling	85	102	102	122	123
	Other Savings Banks	»	778	910	805	882	878
Belgium	Caisse générale d'épargne	franc	5,438	7 653	9 115	9 813	9,680
	Boerenbond	»	1,275	1,481	1,706	1,637	...
Bulgaria	Post cheque accounts	»	*2,087	*2,225	*2,335	*2,465	. .
	Post Office Savings Bank	lev	684	897	1,199	1,346	1,461
Czechoslovakia	Savings Banks	koruna	16,586	18,066	19,800	21,415 [2]	20,398 [1 2]
	Co-operative Credit Association and Agricultural District Banks	»	20,151	22,054	23,098		.
Denmark	Savings Banks	krone	2,120	2,202	2,192	2,145	*2,133
Estonia	State Savings Bank	£ kroon	3 4	3 9	4 7	5 5	6 1
Finland	Post Office and ordinary	markka	4,036	4 306	4 377	4.413	*4,617
	Co-operative Banks	»	823	870	852	834	866
France	Caisse nationale d épargne	franc	11,658	16,233	*20,200	*22,907	*24,133
	Caisses privees	»	20,314	*23,556	*30,282	*34,217	*34,133
Germany	Savings Banks	Reichsmark	9 314	10,752	10,123	*9,917	*10,808
	Genossenschaftsverbände	»	3,024	3,249	2 868	. .	. .
Greece	Post Office Savings Bank	drachma	386	673	1,084	1,194	1,610 [1]
	National Bank of Greece	»	1,329	1,712	2,017	2,087	2 534 [1]
Hungary	Post Office Savings Bank	pengo	55	73	54	61	75
	Other Savings Banks	»	50	55	45		. .
Ireland	Post Office ordinary Savings Banks (Trustee)	£	4 3	4 6	5 0	5 5	.
	Savings Certificates	»	5 1	6 6	8 1	8.8	.
Italy	Post Office Savings Bank	lire	11 644	12,905	14 547	16,888	*18,544
	Other Savings Banks.	»	13,893	14,585	15 208	15,744	*16,413
Latvia	Post Office Savings Bank	lat	3 6	7 3	7 6	12 6	20.5
	Other Savings Banks	»	7 7	8 9	7 8	.	.
Lithuania	Post Office Savings Bank	litas	2 1	5 9	13.1	10 5	*21 3
	Other Savings Banks	»	43 3	59 4	63 4	*67.5	.
Netherlands	Post Office Savings Bank	gulden	351	375	439	511	*516
	Other Savings Banks	»	381	430	449	446	*460
Norway	Savings Banks	krone	2,201	2,164	2,091	2,073	*1,675
Poland	Post Office Savings Banks	zloty	173	254	332	445	507
	Other Savings Banks	»	402	535	559	582	566
Roumania	Co-operative Credit Association	»	338	392	347	307	.
	National Savings Bank	leu	198	255	624	809	1,561
Sweden	Other Savings Banks	»	1,532	1 738	1 578	.	...
	Post Office Savings Bank	krona	284	338	382	451	440
Switzerland	Other Savings Banks.	»	2,884	2,961	3,051		..
	Cantonal Banks	franc	1,817	2,019	2,380	2,628	2,618
United Kingdom	P O and other Savings Banks (Trustee)	£	410	423	432	465	497
	National Savings Certificates [3]	»	483	500	481		
Yugoslavia	Post Office Savings Bank	dinar	107	210	334	443	564
	State Mortgage Bank	»	455	529	616	725	
	Other Savings Banks (Municipal)	»	1,025	1,182	1,260	.	
Canada	Post Office Savings Bank	$	26	24	23	23	23
	Private Savings Banks	»	67	68	69	67	...
U.S.A.	New York State Savings Bank	»	4.392	4.792	5,255	5 314	5 067
	Postal Savings system	»	164	245	605	901	1,209
Argentine	Post Office Savings Bank	peso	97	100	97	94	95
	Other Savings Banks	»	59	58	56	.	..
Chile	Savings Banks	»	237	229	194	199	278
New Zealand	P.O and Trustee Savings Banks	£	58 7	57 4	52 4	52 5	
Australia	Saving Banks and National Savings Certificates	»	220 0	196 8	194 5	197 1	204 9 [1]
Japan	Post Office Savings Banks	yen	2,058	2 349	2,616	2,694	2,808 [1]
	Other Savings Banks [4]	»	1,421	1,539	1,636	1,687	1,821 [1]

* **Provisional figures.**
[1] **November.**
[2] **Including current accounts.**
[3] March following year.
[4] Including small amount of current accounts

New Zealand, while in Australia credits fell slightly more than deposits.

In the majority of non-European States, then, the aggregate discounts, loans and investments of commercial banks were better maintained in 1930 than their deposits. In general, this was the case whether deposits rose or fell, as already observed, declines in deposits were more frequent in these countries than increases. In most European countries, on the other hand, deposits rose in the course of 1930; but frequently loans, etc., rose less than deposits. At the same time, certain other types of liability, and in particular rediscounts and other borrowings, were generally reduced.

An examination of Appendix III will show that, in the great majority of European countries, the total credit portfolio was higher at the end of 1930 than at the end of 1929, in Lithuania, where, as already observed, the depression came relatively late, as much as 23 per cent higher. In only seven of the twenty-four European States included did the total volume of commercial bank credit outstanding contract in the course of 1930, and in four of these (Latvia, Bulgaria, the Netherlands and Roumania) the contraction was about 5 per cent or less.

In the majority of countries which experienced an expansion in the volume of commercial bank credit outstanding in 1930, the expansion was due to an increase in loans and advances and in security holdings which more than compensated a reduction in commercial discounts. Exceptions to this rule are fewer than would appear from a study of Appendix III, as banks' holdings of Treasury bills (which are seldom shown separately) are included with commercial bills under "discounts", and an examination of the detailed notes given in the individual chapters will reveal that, where total discounts increased in 1930, it was generally due to Treasury bills. Of the seven European countries where total credit outstanding fell in 1930, loans and advances in three — Germany, Finland and Roumania — either increased or remained virtually stationary; security holdings in Latvia, the Netherlands, Finland and Roumania increased, and only in Bulgaria and Portugal did all classes of credit contract.

The loans and advances of the joint-stock banks of England and Wales fell substantially during 1930, as already observed, their deposits were well maintained, and the fall in advances was more than compensated by an increase in the banks' holdings of Treasury bills and long-dated Government securities. Outside Europe, reductions in total credit outstanding — like reductions in total deposits — were more common. Of the ten non-European countries, however, where the commercial banks' total credit portfolio fell in 1930, holdings of investments — and in particular of Government securities — increased in all except Japan and New Zealand. Moreover, as in the case of Europe, advances were, on the whole, better maintained than commercial discounts; in the United States of America, the Argentine, Brazil, Chile, Peru, Uruguay and Japan, they were increased between 1929 and 1930.

The fact that loans and advances of commercial banks were so well sustained in most countries in 1930 appears somewhat surprising, in view of the sharp downward trend of economic activity in that year. In certain countries — for example, France, Lithuania and the Scandinavian countries — the downward turn of the business cycle did not come until considerably later than in others. Elsewhere, however, the maintenance of loans and advances level generally represents the freezing of credit rather than an expansion of business activity Industrial borrowers, faced by a rapid fall in prices to which they could not quickly enough adjust their costs, and by a rapid decline in their volume of operations, were frequently unable to meet their bank loans as they fell due. In many countries, the commercial banks were heavily involved in industry through direct participations or current account loans which had been used to provide fixed capital, and to have forced the repayment of such advances might have caused the forced liquidation of the borrowing concern and heavy losses to the banks themselves. To sustain these firms in the difficult period and protect loans already granted, the commercial banks had frequently to grant fresh credits, especially when their relationship with industry was of an intimate character In the course of 1930, for example, the big Berlin banks increased their current account advances to customers other than banks by over 100 million RM.; an analysis of the cover behind these advances shows that advances covered by securities not quoted on the stock exchange increased by over 200 million RM. The correspondent accounts of the three or four principal Italian banks, which include the bulk of their advances to the industrial and commercial concerns with which they maintain close relations, increased by 750 million lire during 1930. The Viennese banks increased their total loans and advances by 330 million schillings in the course of that year, this increase being chiefly due to the Creditanstalt, which felt itself obliged to come to the assistance of certain firms with which it was closely associated. In Hungary, the commercial

banks' loans and advances on current account were 100 million pengö higher at the end of 1930 than at the end of 1929 ; their discounts also increased by more than 250 million pengö. This latter increase is largely due to agricultural bills and represents the financing of unsaleable stocks of wheat and other farm products.

The freezing of credit — the decline in the effectiveness with which the existing volume of bank credit is used — is reflected in a reduction of the velocity of turnover of bank deposits. A refined measure of this velocity is available for only a few countries In the United States of America (outside New York City) the velocity index, corrected for seasonal fluctuations, fell by almost 30 per cent between October 1929 — the month of the sharp break on the New York Stock Exchange — and the end of 1930. In Canada, the percentage of bank debits to deposits declined by about the same amount in that period A comparison of figures relating to bank clearings with those relating to bank deposits in other countries suggests that there were few countries where the rate of turnover of bank deposits did not decline in 1930

Although the reduction in the velocity of circulation of bank deposits, like the cancellation of bank deposits through the repayment of loans, has a depressing influence on prices, it differs essentially from the latter in this respect . the repayment of a bank loan represents economic liquidation ; it reduces the capitalisation of industry and is a measure of adjustment to the lower level of values and business activity The freezing of credit, on the other hand, and reduction in the " efficiency " of credit outstanding, reflects a failure either to produce or to liquidate . it maintains the capital charges of industry at a level which no longer corresponds to its earning capacity and hinders cost adjustments. Moreover, it endangers the solvency and stability of the banks by maintaining on their books a volume of obligations against which they do not hold assets of corresponding realisable value.

Banking Developments in 1931 *The Financial Crisis.*

The development of commercial banking in most countries entered a new phase in 1931 , this phase was dominated by the mass movements of international short-term capital from one financial centre to another. The motivating factor in the sudden capital movements of this period was the desire on the part of creditors to ensure the safety of their capital. Fear of currency depreciation, bank failures and future impediments to withdrawal all combined to bring about a mass attempt to recall credits previously granted. The distrust in the currencies of the countries affected was aggravated by the loss of gold and foreign exchange reserves suffered under the first impact of the capital withdrawals , in many countries, a flight of domestic capital took place at the same time as the withdrawal of foreign credits. These runs naturally precipitated the evils which had been feared. As one country prevented further export of capital — either through agreement with creditors or through official control of foreign exchange transactions, etc. — or was forced to allow its currency to depreciate, attention was directed to other countries ; the rapid shifting of capital from one centre after another resulted, by the end of 1931, in the disorganisation of the monetary system of the greater part of the world

In most countries losing capital, the funds previously borrowed abroad had been advanced for long-term purposes and could not be speedily realised. During the financial crisis, the commercial banks of these countries had recourse to central banks to secure funds to pay depositors. The preceding section has shown that substantial portions of their assets tended to become frozen in the first year of depression , ultimately, these assets were taken over in many countries by the State or by special liquidation institutes. Many of the countries receiving capital were not immune from runs on banks ; these were generally caused by a distrust of the banking system, rather than by a distrust of the currency. Here, too, extensive central bank assistance was given to the commercial banks and, where this proved insufficient, Governmental agencies took over illiquid assets.

Once the panic conditions of the financial crisis had subsided, the commercial banks of certain countries — in particular, the creditor countries — enjoyed an increase in the volume of their non-borrowed cash reserves. This generally resulted from the inflow of capital from abroad and — where runs on banks had taken place — from a return flow of domestic deposits ; in the case of the United States of America and the United Kingdom, it was due in part to the expansion of central bank credit through purchases of Government securities. But, in default of profitable investment opportunities, the banks of these countries were unwilling or unable to extend commercial credit on the basis of this increase in their cash resources. They aimed at keeping their resources in as liquid a form as possible ; to this

end, they continued to contract their industrial loans and discounts and increased their holdings of Government securities. In many countries, moreover, the commercial banks kept much larger reserves of cash than required by convention or by law.

In analysing the connection between the financial crisis of 1931-32 and commercial bank credit, it is therefore necessary to distinguish between the period of crisis itself and the secondary effects of the crisis The present section is devoted to an examination of the reaction of the commercial banking systems of various countries to the financial crisis proper, while the following section is concerned with setting out some of the repercussions, in the field of commercial banking, of the general lack of confidence generated during the crisis.

It is convenient to date the beginning of the financial crisis with the collapse of the Austrian Creditanstalt in May 1931. In the latter half of 1930, credit withdrawals of some importance had taken place from Germany, but they did not assume the character of a run and were, moreover more than compensated by an increase in long-term loans to that country The publication of the 1930 balance-sheet of the Creditanstalt in May 1931 revealed heavy losses and led immediately to large withdrawals by domestic and foreign creditors The Government attempted to stop the withdrawal of deposits and flight of capital by guaranteeing the bank's foreign liabilities in return for a two years' standstill agreement on the part of foreign creditors. Domestic withdrawals also continued throughout 1931 in spite of the Government guarantee of deposits, and the Creditanstalt was forced to rediscount heavily with the National Bank. Withdrawals also took place from other Austrian banks. It is unofficially estimated that, between May 1931 and the beginning of 1932, the total amount of short-term capital exported from Austria amounted to 700-900 million schillings, of which half is believed to represent foreign withdrawals and half Austrian capital seeking refuge abroad.

The Creditanstalt crisis immediately directed attention to other countries which had been granted large short-term credits by foreign banks. From the beginning of April to the middle of July 1931, when the German crisis came to a head, twenty-eight important German banks (accounting for about 85 per cent of the total short-term foreign indebtedness of all German banks) repaid foreign creditors to the extent of 1,250 million RM. or 22 per cent of their gross short-term indebtedness. Estimates made (by the Wiggin Committee) in the summer of 1931 indicate that, in the first seven and a-half months of that year, the short-term foreign debts of all German banks were reduced by over 2,000 million RM. After adding to this sum the short-term foreign capital withdrawn from German industries and municipalities and the sale by foreigners of German long-term investments and purchase by Germans of foreign investments, the total amount of capital withdrawn from Germany in this period has been estimated by the Wiggin Committee at 3,500 million RM. (almost $850 million) Of this amount, 2,000 million RM. was met from the assets of the Reichsbank, 1,000 million RM. from the sale abroad of the foreign assets of German private banks, and the remainder by the sale of other German assets abroad

As in the case of Austria, the withdrawals by foreign creditors were accompanied by domestic runs on the German banks The Darmstädter und Nationalbank was particularly exposed, as it had made relatively greater use of foreign short-term credits than the other banks, its relations with industry were particularly close, and it operated with a very small proportion of own funds to outside liabilities. This bank was seriously affected by the failure of the North-German Wool Combing Company and, in the six weeks ending July 13th, 1931, it lost 30 per cent of its deposits. On the date mentioned it closed its doors, and on the following day a three-day banking holiday was declared for all German banks. When the banks re-opened, it was with serious limitations on withdrawals ; and, pending negotiations for a standstill agreement, the Reichsbank was given a monopoly of transactions in foreign exchange with the object of preventing a continuance of the capital flight.

The failure of the Danat Bank and the restrictions imposed on the withdrawal of foreign capital from Germany had very serious repercussions abroad. The Danat difficulties started a run on its Austrian affiliate, the Merkurbank. This bank was forced to suspend payments in July 1931, but it resumed business in the following month.

The British short-term financial position was known to be vulnerable. A substantial amount of foreign short-term funds, estimated by the Macmillan Committee at over £400 million at the end of March 1931, were held in London in the form of deposits with the Bank of England, the joint-stock banks and acceptance houses, sterling bills held through these institutions and advances to the discount market ; while acceptances on foreign account held by the acceptance houses and

the joint-stock banks were estimated for the same date at about £150 million. Great Britain, though a large creditor on long-term account, was therefore heavily indebted on short-term. The British creditors withdrew capital from Germany and Austria at a considerably slower rate than most other creditors and, as a result of the crises in those countries, a large part of outstanding sterling credits became frozen. The knowledge that this was the case, combined with doubts on the part of foreigners concerning the budgetary position in England, precipitated a run on that country, which resulted in heavy gold losses in the summer of 1931 and the final abandonment of the gold standard (after the loss of £30 million in gold reserves *plus* £45 million in foreign credits raised with the Federal Reserve Bank of New York and the Banque de France) on September 20th, 1931 As the run on England largely took the form of the sale of foreign owned Treasury bills and the withdrawal of credits previously granted to the discount market, its full effect is not to be seen in the banking statistics In the three months ending September 1931, however, total deposits in the ten London clearing banks fell by £70 million

Until the summer of 1931, the contraction of credit in Italy had not been great In the last seven months of 1931, however, the principal banks' correspondent creditor accounts — which include sums advanced by foreign banks in respect of which the Italian institutions acted as intermediaries between the former and the Italian borrower — were reduced by 1,100 million lire and their deposit accounts by 200 millions. The banks sold investments to the extent of 325 million lire and — largely through the assistance of semi-public organisations — mobilised industrial holdings and participations amounting to 1,500 millions.

Of the Central-European countries, Hungary was, perhaps, most seriously affected by the calling-in of foreign credits. The total volume of foreign short-term credit outstanding in this country before the financial crisis is not known ; but, in the autumn of 1931, after the heavy withdrawals of the summer months, the remaining foreign acceptance credits and short-term loans subsequently covered by standstill agreements still amounted to almost 500 million pengo, while the commercial banks' medium- and long-term debts abroad were roughly 160 and 420 millions respectively. In the summer of 1931, the Hungarian banks were in a highly illiquid position , after the Creditanstalt disclosures, there was a large-scale withdrawal of deposits and foreign credits and selling of pengö. The closing of the German banks in July precipitated the crisis: the Hungarian Government declared a three-day banking holiday, strictly limited withdrawals of deposits and instituted a system of exchange control by the National Bank. It subsequently issued a decree by virtue of which bank deposits and certain other pengó debts were declared payable in " gold-pengo " of a defined metallic content. (Details are given in the chapter on Hungary)

The Roumanian banks, too, had to meet heavy withdrawals of foreign credits and domestic deposits in the latter half of 1931. In the course of that year, total deposits were reduced by 23 milliard lei, or 43 per cent The banks effected these repayments by contracting their loans and advances by 14 milliards, reducing their cash reserves and rediscounting with the National Bank. No official exchange control was introduced until May 1932.

Brief reference may be made to the effect of the financial crisis on certain other European countries. The Polish banks made extensive use of foreign short-term credits, but the commercial banks of that country concentrated on short-term loans and were able to repay 260 million zloty ($30 million) in the latter half of 1931 and domestic withdrawals of an even greater amount without recourse to the Central Bank for fresh rediscount credits. In Latvia, where the banks were closely connected with German credit institutions, the Central Bank was unwilling to grant the private banks additional rediscount credits, and it was necessary to limit weekly withdrawals at first to 5 and, later, to 2½ per cent of total deposits. These restrictions were lifted by the end of the year, but, in the course of 1931, total deposits of the big Latvian banks were reduced by 56 per cent and total borrowings, which include foreign credits, by 41 per cent The banks reduced outstanding loans and advances by nearly 50 per cent. The Estonian banks were very seriously affected by the depreciation of sterling In the last two months of 1931, almost half their outstanding foreign credits were called in and it was necessary to impose a temporary moratorium on withdrawals from certain important banks subject to runs. Exchange control was instituted in November 1931 and the crown maintained at its normal gold parity until June 1933, when it was allowed to depreciate to the level of the Swedish currency Lithuania was less affected than the other Baltic States. Certain commercial banks, however, and in particular those known to be closely connected with German institutions, suffered serious runs.

In the course of 1931, aggregate deposits of the banks of " Great Lithuania " fell by 43 per cent, but most of the sums withdrawn were re-deposited in the Post Office Savings Bank, and the Central Bank afforded the commercial banks wide rediscount facilities.

Some further brief reference may be made to the standstill agreements already mentioned Full details of these agreements will be found in the individual chapters on the countries to which they relate The most complete agreement is that relating to Hungary. Under a series of conventions with the British, American and Swiss creditors, outstanding acceptance and current account credits were prolonged. At first it was agreed that interest and commission should continue to be transferred, but at the end of 1931 a partial, and later an almost complete, transfer moratorium was instituted. Since March 1933, agreed repayments of 5 per cent of the principal and further voluntary repayments, subject to the approval of the National Bank, have been made in pengo.

An agreement between the Austrian Government and the foreign creditors of the Creditanstalt was initialled in January 1933, under which the foreign creditors and the State become joint owners of that Bank. The Bank's foreign assets were taken over by a special liquidating company, part of whose share capital was handed to the foreign creditors along with 5 % bonds to an amount of 212 million schillings on which, however, service is not to be transferred until April 1935. With regard to the foreign credits of the other Austrian banks, a first agreement was reached in August 1931 providing for some capital repayment ; the amounts subject to standstill agreement were reduced from $33.7 million in that month to $16 million in January 1932, when the agreement expired. A new agreement, subsequently prolonged until January, 1934, provided for a cessation of capital repayments.

The first of the German standstill agreements ran for a period of six months from September 1st, 1931. Under its terms, foreign banks agreed to prolong all outstanding acceptance credits and cash advances to, and time deposits with, German banks and industry. Any encashments received from clients on whose account the German banks had taken acceptance credits were to be remitted to the foreign creditor in foreign currency or, if that were found impracticable, deposited in marks at the Reichsbank for the account of the foreign creditor. Reichsmark balances of foreign banks with German banks were to be gradually released for transfer within Germany. The second standstill agreement covered the period up to February 1933. The chief addition to the first agreement was the provision of machinery whereby unsecured cash advances might be converted into " blocked " investments in Germany ; creditors might demand annual repayment of 50 per cent of their unsecured cash advances to banks and 30 per cent of their unsecured cash advances to industry for this purpose. During this year, the Swiss creditors made substantial use of this arrangement, which came to be known as the " Swiss clause ". Its scope was extended under the 1933 agreement. The conversion privilege was extended to other classes of debts ; acceptance credits to banks might be converted at the rate of 30 per cent per annum. Foreign creditors might not, however, demand repayment in Reichsmarks of more than an annual aggregate of 20 per cent of their total claims on all banks and 15 per cent of their total claims on non-bankers. Investments were permitted in all types of long-term German Reichsmark securities and, in addition, short-term advances and deposits with a minimum duration of one month might be made. In June 1933, an arrangement was reached with the foreign creditors under which all capital repayments under the 1933 agreement were postponed until the end of February 1934.

A new agreement, extending to the end of February 1935, maintains the 1933 arrangement in its essentials. No further capital repayments are required , interest and commission charges are maintained at the rates ruling from July 1933

According to official statistics and estimates recently published, the short-term foreign debts of Germany subject to standstill agreements were reduced from 6.3 milliard RM. in July 1931 to 2.6 milliards at the end of February 1934. This reduction was accomplished in part by the surplus of exports, in part by the reduction of the Reichsbank's reserves of gold and foreign currencies, in part by conversion into registered marks under Article 10 (the " Swiss clause ") of the 1932 and 1933 agreements, and in part by currency depreciation abroad. It is estimated that standstill credits were reduced by 1,250 million RM. between February 1933 and February 1934. Of this amount, 500 million RM. are said to be due to conversion into registered marks (of which one-quarter was used for long-term investments in Germany and the remainder disposed of for " additional exports " or other purposes at a loss ranging from 30 to 15 per cent) and 475 million RM. are said to be due to the depreciation of foreign currencies.

The experience of the United Kingdom during

the financial crisis has already been considered. Reference may now be made to the development in certain other creditor countries — the United States of America, France and Switzerland. During the first fifteen months of the depression, the credit contraction in the United States had been of a relatively moderate nature. Between October 1929 and June 1931, total deposits in all American banks declined by $3,800 million, or less than 7 per cent. Among the banks' assets, there was a substantial decline in commercial loans and in security loans, but this was partly offset by a heavy increase in investments, which extended to both Government and private bonds. Through these purchases of investments, the banks gave effective support to the capital market, particularly the market for high-grade bonds, and the price of capital, as measured by the yield on such securities, was, on the whole, lower at the middle of 1931 than it had been in the last stages of the boom period.

Before proceeding to analyse the effects of the financial crisis on the American banking system, it is convenient to summarise briefly the foreign short-term credit position of that country. Reference has been made above to the importance of American short-term loans in financing the industrial development of German and Central European countries after the post-war currency stabilisations. These loans took the form chiefly of acceptance credits, a form of financing which was developed in the United States of America only during the war. Its development was facilitated by the stability of the dollar and the fact that this paper was eligible for rediscount at the Federal Reserve banks. Until 1927, practically all outstanding bankers' acceptances were drawn in connection with American foreign trade, but after that year the acceptance credit was largely used as a method of financing trade between foreign countries, in some cases it was even based on stocks of goods abroad. The relative importance of the various purposes for which the total volume of dollar acceptances outstanding at recent dates had been drawn will be seen in the following statement.

Table V.

DOLLAR BANKERS' ACCEPTANCES OUTSTANDING, BY CLASSES.

	Based on imports or exports of U S goods stored in U S and goods shipped between domestic points	Based on goods stored in foreign countries or shipped between foreign points	Total, including acceptances drawn to provide dollar exchange	Total dollar bankers' acceptances held by foreigners
	(1)	(2)	(3)	(4)
	$ (000,000's)			
31/XII/25	738	17	774	.
31/XII/27	1,013	40	1,081	406
31/XII/29	1,215	441	1,932	865
31/XII/30	943	561	1,556	702
30/VI/31	805	494	1,368	.
31/XII/31	647	296	974	298
30/VI/32	476	271	747	.
31/XII/32	473	228	710	113
31/XII/33	578	182	764	.

Sources Columns 1-3, Annual Reports of Federal Reserve Board, and *Federal Reserve Bulletin*
Column 4 U S Department of Commerce — "The Balance of International Payments in the United States"

At the end of 1930, acceptance credits granted to foreign countries amounted to $560 million, or more than a third of the total volume of outstanding dollar bankers' acceptances. The geographical distribution of these acceptance credits is not known. According to a document submitted by the Reichsbank to the Wiggin Committee on the credit situation in Germany, however, German acceptance liabilities to the United States of America amounted to 1,250 million RM., or nearly

$300 million at the middle of July 1931 ; it would therefore appear that well over half of these dollar acceptance credits were granted to Germany.

The American banks did not extend cash credits to nearly the same extent as acceptance credits For the end of 1930, the official balance of payments statistics show $200 million outstandingas advances to foreigners , according to the source quoted in the last paragraph, American cash advances to German banks and industry amounted to about $60 million, or a third of the total. Deposits abroad are likewise of relatively less importance ($300 million at the end of 1930) and appear chiefly to be maintained for the current needs of international trade.

Until the end of 1931, a large proportion of outstanding dollar acceptances was held by foreigners. The amount so held rose very sharply after 1926, partly in consequence of the application of the gold-exchange standard by a number of central banks At the end of 1929, dollar acceptances held abroad reached their highest level at $865 million and amounted to half the total volume of outstanding dollar acceptances. By the end of 1930, this amount had been reduced to $700 million, of which $440 million were held by the Federal Reserve banks for foreign correspondents (these bills constituting a contingent liability of the Reserve banks) and the remainder by private banks

The bulk of American short-term liabilities abroad consisted of deposits in American banks, which amounted to $1,640 million at the end of 1930 Of this amount, less than $6 million was held with Reserve banks and the remainder with commercial banks More than three-quarters of these deposits were held with a few New York City banks , they were accumulated to a considerable extent during the post-war inflationary periods and represented, in the first instance, largely refugee capital seeking safety in the United States of America Later, when the American banks granted foreign credits in large amounts, they sometimes required the foreign credit-taker to keep on deposit with them a fixed proportion of the credit granted After the European currency stabilisations, the greater part of the dollar balances of foreign individuals was sold to the central banks or treasuries of their countries, and in this way the large volume of foreigners' deposits in American banks became concentrated to an appreciable extent in relatively few hands.

As early as June 1931, there was some evidence of the impending financial disturbances in the United States of America; in particular, foreigners reduced their holdings of dollar acceptances and transferred their deposits with commercial banks to Reserve banks. These movements continued throughout the summer of 1931, but it was not until after the British abandonment of the gold standard that they grew serious. By that time, exchange control had been instituted in a great many countries and standstill agreements entered into with others , a very large proportion of the realisable short-term balances of the world were concentrated in the United States of America and, owing in part to the numerous bank failures in that country, foreign creditors withdrew large amounts of capital for conversion into other currencies The short-term assets of foreigners consisted, as shown above, chiefly of deposits in American banks and of dollar acceptances. Both were radically reduced, the former by $620 million in the course of 1931 and the latter by $435 million. The New York City banks were chiefly affected by the withdrawal of deposits; in the last two months of 1931, their net demand and time deposits fell by $1,000 million There was a temporary respite in the first few months of 1932, but in May and June of that year there occurred a recrudescence of deposit-withdrawals and acceptance selling by the foreign short-term creditors of the United States of America In all, it is officially estimated [1] that, in the course of 1931 and 1932, the short-term foreign debt of that country was reduced by $1,800 million. The repayment of these sums was accomplished in part by the reduction of American short-term assets abroad, which fell by $750 million The bulk of this reduction was due to the calling-in of acceptance credits granted to foreigners , cash credits abroad and deposits in foreign banks were also reduced

Foreign withdrawals were accompanied by domestic runs on banks. Bank failures, which had already occurred with alarming frequency, became even more numerous and important. The worst month during this period was October 1931, in which 522 banks with deposits amounting to $470 million were forced to suspend payments. In the twelve months ending June 1932, 2,429 banks with deposits aggregating $1,750 million failed in the United States. The general loss of confidence in the banking system resulted in currency hoarding on a tremendous scale The total volume of money in circulation was $875 million higher at the middle of 1932 than at the middle of 1931 and, in view of the sharp drop in business activity and consequently in currency requirements, it may be

[1] U S Department of Commerce - - "The Balance of International Payments of the United States in 1932 "

estimated that total hoarding during this period amounted to at least $1,300 million.

The drain on the cash reserves of the commercial banking system involved in these factors was partly compensated by an expansion in Federal Reserve credit (through rediscounts and, in the spring of 1932, extensive open-market operations), but the contraction of bank credit during this year was of extraordinary magnitude In June 1932, aggregate deposits of all banks in the United States of America were $10,000 million (20 per cent) lower than in June 1931 , in this one year, the total volume of bank credit outstanding fell as much as it had risen in the entire period 1925-1929. On the basis of detailed data available for banks members of the Federal Reserve system, it appears that more than two-thirds of this contraction took the form of calling in security loans and open-market loans (loans to brokers, etc) and the sale of private securities The effect of this type of credit restriction was to put a very heavy strain on security markets, which were already suffering from foreign selling The price of bonds, which, as already observed, had been well maintained until June 1931, fell rapidly Domestic bonds as a whole (Dow-Jones index) were almost 50 per cent lower in June 1932 than in June 1931, and second grade railway bonds were 66 per cent lower In June 1932, domestic industrial bonds were quoted on an 11% yield basis, high-grade railway bonds (the best-maintained of all classes of private security) on a 6% basis, and second-grade rails on a 19% basis The financial crisis in the United States of America thus caused a complete demoralisation of the capital market

The United Kingdom and the United States of America, though large creditors on long-term account, were, at the time of the financial crisis, net debtors on short-term account France, on the other hand, was a large creditor on short-term This creditor position was built up during the period of currency depreciation after the war In the period of *de facto* stabilisation, the Banque de France acquired large balances abroad — in the form chiefly of sterling and dollar bills — and with the legal stabilisation of the franc these were maintained as supplementary cash reserves. In the years 1924-1926, when the currency was depreciating, the French commercial banks kept the greater part of their capital and reserve funds in the form of balances abroad , in 1927-1929, they also kept abroad large parts of their liquid resources, to take advantage of the higher interest rates there prevailing.

In the course of 1930, there was some tendency for the foreign balances of private capitalists in France to be sold to the Banque de France and the commercial banks. Repatriation of capital took place on a very large scale in 1931. Part of the sums called in had been loaned directly to Germany and other borrowing countries; thus, in two months preceding the German bank holiday, for example, French banks withdrew short-term loans amounting to 72 million RM. ($17 million) from Germany, and in the course of 1931 they withdrew credits amounting to 38 million zloty (over $4 million) from Poland. But by far the largest credits had been extended to England and the United States of America, and repatriation took the form of the sale of sterling and dollar bills and withdrawal of bank deposits for conversion into francs At the same time, there was considerable rapatriation of foreign investments by private capitalists The amounts involved are not known ; in the course of 1931, the correspondent debtors' account of the four principal deposit banks fell by 5 milliard francs, and this would appear to be chiefly due to the calling-in of foreign loans. It is estimated [1] that, in all, the repatriation of French foreign short-term investments in 1931 (including those of industrialists and private individuals as well as banks) amounted to 10 milliard francs ($400 million). In addition, foreigners transferred funds to France in large amounts, seeking safety there , refugee capital coming into France in 1931 is estimated[1] at 5 milliard francs ($200 million).

The chief effect of this inward movement of capital into France (apart from increasing the gold reserves of the Banque de France, which rose by 27 2 milliard francs between the end of 1929 and the end of 1931) was greatly to increase the cash reserves of the deposit banks. The cash in hand and balances with the Banque de France of the four large deposit banks increased by 8.6 milliard francs in the course of 1931, and constituted one-third of their total deposits at the end of that year. It is not possible to say how much of this increase in cash took the form of direct holdings of gold by the banks, but the amount is probably not inconsiderable .[2] Throughout this year, the banks

[1] *Revue d'Économie politique*, May-June 1932

[2] In 1931, the net imports of gold into France exceeded the increase in the gold stocks of the Banque de France by 3 6 milliard francs and in 1932 by a further 6 5 milliards. Part of these discrepancies may be due to the earmarking of gold for foreign account at the Banque de France and to the reduction in gold held under earmark for the Banque de France abroad ; part is undoubtedly due to gold hoarding.

contracted all their credit items, in spite of a substantial increase in their current account deposits.

Like France, Switzerland repatriated capital in large amounts in the course of 1931. From Germany alone, over 200 million RM. ($50 million) were withdrawn between the beginning of April and the middle of July 1931. The amounts withdrawn from other countries are not known, nor is the amount of foreign capital seeking refuge in Switzerland. [1] In the accounts of the commercial banks, this inward movement of capital in 1931 is reflected in a fairly steady movement of deposits (increased foreign deposits almost compensating the reduction caused by domestic hoarding and credit contraction) and in a very sharp rise in the banks' cash holdings. For the Swiss banks as a whole, the latter increased by more than 800 million francs (or almost 200 per cent) in the course of 1931. It is not possible to say what part of this increase in cash took the form of gold holdings, but the amounts are known to be substantial. [2]

In spite of this influx of capital, the latter part of 1931 was also a period of financial crisis in Switzerland Confidence in the private banks was affected by the failure of the Banque de Genève in the summer of 1931, and currency hoarding took place on a considerable scale. The total volume of notes in circulation was 700 million francs higher at the end of 1931 than at the beginning of June, and the time deposits of the big banks were reduced by 800 million francs in the course of that year There was a very marked shift in deposits from these institutions to the cantonal and savings banks, which enjoy a public guarantee. The big banks contracted all forms of credit during this year.

It is not necessary to trace in detail the incidence of the financial crisis of 1931 on the commercial banking systems of other countries. This is done in the individual chapters An examination of Appendix I will show that, of the forty countries covered by this memorandum, total commercial bank deposits were higher at the end of 1931 than at the end of 1930 in only three — Australia, Brazil and Venezuela In all these countries, a marked depreciation of the currency occurred in the course of 1931 ; for Australia and Brazil, the depreciation (in gold value) amounted to about 40 per cent, and for Venezuela to over 15 per cent. In the case of all the other sixteen countries which suffered currency depreciation in 1931, however, total deposits in terms of national currency fell in the course of the year. Among these countries, the fall in deposits was particularly sharp (40 per cent) in Mexico. The commercial banks of this country faced heavy runs in the summer of 1931. In three European countries there was a contraction of 30 per cent or over — namely, in Latvia (57 per cent), Roumania (46 per cent) and Germany (30 per cent).

The tendency for the relative importance of time deposits to be increased was by no means as universal in 1931 as it had been in the previous year. In France, Germany, Italy, Switzerland and several other States, time accounts fell considerably more than current accounts in 1931. This movement, where it occurred, is evidently symptomatic of a distrust in the banks and the desire on the part of depositors to keep their balances in the most liquid form possible. Distrust in the commercial banks and the desire to enjoy a State guarantee are reflected in Table IV above, which shows a sharp rise in savings bank deposits, particularly postal-savings accounts, in many countries in 1931.

Banking Developments in 1931-32 , Secondary Repercussions of the Financial Crisis.

The pressure for repayment of deposits and foreign credits during the financial crisis forced the banks, so far as they were able, to call in outstanding credits. Where these were frozen, they were frequently taken over by the State or some form of amortisation corporation and so disappeared from the banks' accounts In 1932, the banks of many countries were still forced to reduce their loans and advances owing to the withdrawal of deposits and foreign credits Frequently, the banks' most solvent customers suffered, as they were best able to repay the advances they had taken. The pressure for repayment put a great strain on markets of every description , not only did gold prices of commodities continue to fall, but the sale of securities by those holding them with bank credit (and — in the United States of America, at any rate — by the banks themselves) pressed down their price and forced up the yield of long-term capital Every further step in forced liquidation reduced the value of the commercial banks' assets and made

[1] The Statistical Balance of the Swiss National Bank states that the increase in the deposits of the banks during 1930, amounting to 1 milliard francs, was largely due to foreign capital seeking refuge in Switzerland, and that this movement continued in 1931 See *Das Schweizerische Bankwesen im Jahre* 1931, page 14

[2] See chapter on Switzerland

them less able and less willing to extend credit ; on the other hand, it accentuated the disequilibria in the price structure and reduced profit margins and therefore the creditworthiness of prospective borrowers.

Even in countries where there was no pressure for repayment of deposits in 1931 and 1932, the commercial banks frequently continued to contract their industrial and commercial advances. Their main preoccupation was to hold their assets in the most liquid form possible ; to this end they increased their cash ratios and held higher proportions of their assets in the form of Government securities and Treasury bills.

The following table shows the ratio of cash and items of a cash nature to total deposits in certain representative countries at the end of 1930, 1931 and 1932. Appendix V gives similar figures for all countries covered by this volume.

Table VII.

PERCENTAGE RATIO OF CASH AND SIMILAR ITEMS TO TOTAL DEPOSITS IN CERTAIN COUNTRIES, END OF 1930, 1931 AND 1932.

	1930	1931	1932
Argentine Republic	15.0	16.6	21 4
Belgium	11.5	13.7	20 5
Brazil	23.6	23.4	28 6
Canada	16 7	15 0	15 3
Chile	15 8	22 8	31 8
Denmark	5 7	5 3	9 1*
England and Wales	12 5	12 2	11 5
France	18.8	29.8	25 9
Germany	2 7	3 4	3 4
Hungary	9.3	9.7	9 6
Italy[1]	8.4	8.5	9 0
Japan	9 3	8 6	8 7
Lithuania	7 8	7 6	6 9
Netherlands	7.2	9 7	19.0
New Zealand[2]	13.6	12.4	7 5
Sweden	3 7	3 8	5 1
Switzerland	3 1	8 9	8 9
U.S.A.[3]	16.4	15 0	14.5

The increase in the relative importance of cash and similar items during 1931 was particularly marked in France and Switzerland. As already observed, large amounts of capital flowed into both these countries, the commercial banks maintained most of the increased resources thus accruing to them in the form of cash. The increase in the cash reserves of the French deposit banks has already been referred to ; those of the Swiss commercial banks increased from 450 million Swiss francs to nearly 1,300 millions. The cash reserves of the Dutch and Belgian banks and the ratio of their cash to deposits also increased appreciably in 1931. In no other European country was there an increase in the absolute amount of cash held by the banks. The slight increase in cash ratios shown in Table VII for Germany, Hungary and Italy is due to a very sharp fall in deposits ; and in the first two countries, as well as in Sweden, a much larger part of the cash held by the commercial banks in 1931 had been secured by borrowing at the central bank than in the previous year.

An examination of Appendix V will show that increases in the cash ratio were more general in Latin America during 1931 than elsewhere, indeed, the only Latin-American countries which showed an appreciable decline in this ratio were Mexico, where the banks had to meet heavy runs in 1931, and Venezuela, where the ratio of cash, etc., to deposits *plus* note circulation showed only a slight decline. In Canada, the United States of America, South Africa, Australia, New Zealand and Japan, the relative importance of the cash item fell in 1931, in British India there was a slight increase.

In the course of 1932, deposits increased in all Latin-American countries except Peru and Uruguay, and in these countries the decline was negligible, there was a universal increase in the volume of cash reserves held by banks, which raised the ratio of cash to deposits in all these countries except Bolivia.

In certain countries of Northern Europe, the increase in cash ratios during 1932 was very marked. Thus, in the Netherlands, the ratio of cash and similar items to total deposits rose from 9.7 per cent at the end of 1931 to 19 per cent at the end of 1932. Capital continued to flow to Holland during this year. The gold holdings of the Nederlandsche Bank, which had already increased by 460 million gulden in 1931 (of which 160 millions were due to the conversion of the foreign assets reserves of the Central Bank) rose by a further 150 million gulden. In all the Scandinavian States there was an increase in the relative importance of cash, which was most striking in the cash of the Danish banks. The Belgian banks raised the ratio

[1] Principal banks.
[2] End of June following year.
[3] Member banks.

of their cash, etc., to total deposits from 13.7 per cent at the end of 1931 to 20.5 per cent at the end of 1932. Bulgaria and Italy are the only other European countries where the cash ratio increased in 1932, and here the increase was inconsiderable. Switzerland maintained the high figure reached in 1931 , there was some decline in France , ratios declined in the Baltic States and were fairly stable in most other countries. In New Zealand and Australia, there was a marked decline ; the commercial banks held a much higher proportion of their assets in the form of Treasury bills than previously and allowed their cash holdings to diminish.

In spite of the fact that the ratio of cash and other items of a cash nature to total deposits was lower for member banks in the United States of America at the end of 1932 than in previous years, those banks held legal reserves in excess of requirements amounting to $525 million, and, in addition, $425 million of cash in vault, which are not counted as legal reserves In that country, the commercial banks' search for liquidity is even more reflected in the distribution of their earning assets than in the accumulation of excess cash reserves. This is also true of the British joint-stock banks (whose cash reserve ratio showed but little fluctuation in 1931 and 1932) and of the commercial banks of many other countries. Table VIII below shows the percentage changes in the principal items of the credit portfolio of the commercial banks of certain representative countries in 1931 and 1932.

Table VIII.

PERCENTAGE CHANGES IN DISCOUNTS, LOANS AND INVESTMENTS AND TOTAL CREDIT PORTFOLIO OF COMMERCIAL BANKS OF CERTAIN COUNTRIES, 1931 AND 1932

	Discounts		Loans and advances		Investments				Total credit portfolio	
					Government securities [5]		Other [5]			
	1931	1932	1931	1932	1931	1932	1931	1932	1931	1932
Argentine	+ 1	—19	- 9	- - 4	+ 11	-+ 1			- - 4	—10
Belgium	— 3	—18	— 25	- 20	+ 1	- 2			—15	15
Brazil	- 3	+24	2	+ 5	+ 13	-+ 3			- - 2	+ 12
Canada	[4]	[4]	—10	—13	+ 18	+ 15	4	18	7	- 5
Chile	—57	—20	—10	+ 2	+ 129	- 21	23	+ 14	21	- - 1
Denmark	+ 0	—18	- 2	—10	— 22	+ 13	— 1	- 2	- 4	— 9
England and Wales	- 26	+ 66	— 3	14	+ 0	+ 67	+ 0	+ 15	12	+ 14
France	15	+ 21	19	- 25	+ 9	8			16	+ 3
Germany	27	+ 6	— 22	16	+ 734	+ 46	+ 25	-13	18	10
Hungary	— 6	—10	- 13	— 15	- 2	+122	·		9	— 8
Italy [1]	+ 14	- 7	- 27	— 2	- 36	+ 9			— 9	— 4
Japan	— 8	+ 7	+ 0	1	- 3	+ 4			2	+ 1
Lithuania	25	- 22	— 1	- 15	+ 0	3			- 8	- 15
Netherlands	-10	- 2	— 9	-22	+ 8	12			—10	—16
New Zealand [2]	22	14	- 5	- 8	+ 98	+ 58	+ 0	+ 0	+ 3	+ 2
Sweden	- 7	+ 16	+ 0	—11	- 11	+ 4			- 3	- 4
Switzerland	32	16	— 1	+ 0	+ 4	+ 0			5	2
U.S.A [3]	[4]	[4]	—19	- 21	+ 29	+ 23	—12	— 4	-12	— 10

[1] Principal banks
[2] Figures for 1931 relate to June 1931-June 1932 , those for 1932 relate to June 1932-June 1933
[3] Member banks
[4] Included in loans and advances
[5] Where no figures are shown for "other" investments, they are included in "Government securities"

The total credit portfolio of the commercial banks, as measured by aggregate discounts, loans and investments, fell in 1931 in all countries covered by this volume (as an examination of Appendix III will show), except New Zealand, Australia, South Africa, Uruguay and Venezuela. Declines were less general in 1932 ; among the South-American countries, they occurred only in the Argentine, Colombia and, to a very slight extent, in Chile ; aggregate commercial bank

credit, as here defined, increased slightly in South Africa, Australia, New Zealand and Japan. Elsewhere the decline in the banks' aggregate earning assets was generally less striking than in the previous year (Belgium, Denmark and Lithuania, as well as the Argentine, are significant exceptions), and an appreciable increase occurred in the United Kingdom and France

This rise in the total credit portfolio of the French and British banks in 1932 was by no means due to an expansion in commercial credit On the contrary, Table VIII shows that the advances by the British joint-stock banks fell much more sharply in 1932 than in the previous year. The rapid growth of deposits which took place during 1932 went parallel with purchases of Treasury bills and long-dated Government securities ; the former are included in Table VIII under discounts, which rose by 66 per cent in 1932, and the increase in the banks' holdings of Government securities was of the same magnitude. Even though, therefore, the cash ratio of the British banks remained substantially unchanged in 1932, they greatly increased their liquidity by calling in commercial credits and buying State obligations The same is largely true of the French banks. They allowed some decline in their cash reserves to take place in 1932, but they contracted their advances even more sharply than before and greatly increased their holdings of Bons de la Defense nationale (included under discounts in Table VIII).

It has been shown above that the commercial banks of many countries of Northern Europe increased their cash ratios considerably in 1932 , then attempt to achieve liquidity is also reflected in the sharp declines which took place in their credits to industry along with the maintenance or increase in their holdings of Government securities, etc Thus, in Belgium, commercial discounts fell by 16 per cent in 1932 and advances even more, while security holdings were fairly stable. In the Netherlands, loans to industry were reduced by 22 per cent in 1932, as compared with 9 per cent in 1931, while discounts, which include Treasury bills, fell by only 2 per cent In Sweden, advances, after remaining stable in 1931, fell by more than 10 per cent in 1932 The commercial banks' bill portfolio rose by 16 per cent, representing chiefly purchases of Treasury bills, and security holdings were also increased. The Danish banks reduced their commercial discounts by 18 per cent and their loans and advances by 10 per cent , at the same time, they bought Government bonds.

The same phenomenon occurred in many countries outside Europe. The American banks enjoyed a large increase in their cash resources in 1932 as a result of the extensive open-market operations carried out by the Federal Reserve banks in the first half of that year ; they were also assisted by loans from the Reconstruction Finance Corporation They accumulated large excess cash reserves, as already noted, and greatly increased their holdings of Government securities Their commercial discounts and advances, on the other hand, fell by 20 per cent in 1932, or more than in the previous year , part of this decline may represent the handing-over of assets to the Reconstruction Finance Corporation as collateral for advances, but the bulk undoubtedly represents a genuine contraction of bank credit At the end of 1932, the loans of the member banks of the Federal Reserve system were $11,000 million lower than at the end of 1929 ; their holdings of Government securities were $2,700 million higher In Canada, the current loans and discounts of the chartered banks fell by 13 per cent in 1932, as compared with 10 per cent in 1931 , their holdings of Government securities increased by 15 per cent. In New Zealand, both discounts (which are of slight relative importance) and loans fell between June 1932 and June 1933, the latter more sharply than in the previous year ; on the other hand, the banks bought large quantities of Treasury bills, and the total volume of bank credit outstanding increased. In spite, therefore, of the fall in the cash ratio to which reference has already been made, the trading banks enhanced their liquidity considerably , the same is true of Australia.

It has been stated above that Bolivia was the only Latin-American country where the cash ratio did not increase in 1932. The total volume of commercial bank credit outstanding fell by 10 per cent in the Argentine and 20 per cent in Colombia, and rose by 10 per cent in Brazil and 20 per cent in Peru , elsewhere the fluctuations were small Investments were well maintained in the Argentine and increased by almost 20 per cent in Colombia , the decline in both these countries was chiefly due to commercial discounts Investments also increased in Brazil and Peru, but not so rapidly as discounts , loans and advances also increased in these countries, but in both cases constituted a smaller proportion of total earning assets at the end of 1932 than at the end of the previous year

In Germany, the decline in loans and advances in 1931 and 1932 represents less the calling-in of credits than their writing-off, which was partly achieved through Government assistance. The German banks made a large proportionate increase in their holdings of Government bonds in 1931

and 1932, but at the end of the latter year such securities still constituted less than 5 per cent of their total credit portfolio. The same applies to Italy, where large amounts of frozen assets held by commercial banks were taken over by a special liquidation institute, and to Austria and certain other countries. On this point, reference may be made to the individual chapters and to the section of this introduction dealing with Government assistance to commercial banks.

Banking Developments in 1933 · The End of Contraction

At the time of writing, detailed annual statistics are not yet available for 1933. The more significant trends in commercial banking during that year may, however, be examined in the light of the monthly returns of the more important commercial banks in a number of countries.[1]

The outstanding event during 1933 was the American banking crisis in the spring of that year This crisis is analysed in some detail in the chapter on the United States of America and it is not necessary to give more than a rapid sketch of it here The background of the crisis is to be sought in the unit banking system prevalent in the United States. The very large number of commercial banks (24,000 at the middle of 1929), the majority of which operate in small localities, militates against the diversification of risk and exposes the system as a whole to the spread of shock originating in a particular quarter. During the three years 1930, 1931 and 1932, over 5,000 banks with deposits of $4,250 million suspended payments. Failures were particularly numerous during the financial panic of 1931-32, but they tended to decline in number and importance in the latter half of 1932, largely as a result, it would appear, of the remedial measures taken to overcome the financial panic. The most important of these measures were the establishment of the Reconstruction Finance Corporation (which in the course of 1932 made loans to 5,600 banks and trust companies amounting to $850 million) and the open-market operations carried out by the Federal Reserve system in the spring of 1932. The chief result of these operations was to expand the cash reserves of the member banks, in spite of gold exports and some increase in money circulation in the first half of 1932, and to enable them to reduce their indebtedness to the Federal Reserve banks. During the latter part of 1932, member banks continued to reduce their indebtedness and to accumulate excess reserves, which exceeded $500 million at the beginning of 1933

The crisis of 1933 started in the middle of February, when important banks in the State of Michigan were subjected to runs. A banking holiday was proclaimed in this State ; as runs spread to other States, it became necessary to generalise the moratorium, and on March 4th a national banking holiday was proclaimed. Between the middle of February and March 4th, the total volume of money in circulation in the United States of America increased by $ 1,600 million — a measure of the volume of hoarding during these three weeks. Federal Reserve bank credit outstanding increased by an almost equal amount , member banks rediscounted $1,150 million of new bills with the Reserve banks, and the latter also bought acceptances freely. The deflation of commercial bank credit was extremely drastic during this period , in the month of February alone, the total loans and investments of reporting member banks in 101 leading cities fell by $900 million

The re-opening of the banks was rapidly effected. By the end of March 1933, 12,800 of the 18,000 banks in operation before the crisis had been licensed to carry on business on an unrestricted basis and, by the end of 1933, this number had been increased to over 15,000 ; these banks accounted for more than 95 per cent of deposits of all banks prior to the crisis The development of commercial bank credit during 1933 may be estimated on the basis of the following table, which relates to reporting member banks in ninety leading cities :

End of :	March	June	Sept	Dec.
		$ (000,000's)		
Loans on securities	3,644	3,748	3,687	3,628
All other loans .	4,688	4,704	4,853	4,774
Investments in Government securities . .	4,583	5,254	5,056	5,267
Other investments . . .	3,086	2,959	2,933	2,997
Total loans and investments .	16,001	16,665	16,529	16,666
Net demand deposits	9,745	10,741	10,505	10,866
Time deposits .	4,330	4,406	4,501	4,339
Velocity of circulation of demand deposits (outside New York City , 1919 - 1925 = 100) . . .	72[2]	78	78	72

[1] Monthly or quarterly statistics of commercial bank deposits in over thirty countries are published in the *Monthly Bulletin of Statistics* of the League of Nations, to which reference should be made.

[2] February.

There was some expansion in bank credit as measured by total loans and investments during the second quarter of 1933 ; part of the apparent increase in the figures given in the above table for total loans and investments and for demand and time deposits was, however, no doubt due to the progressive licensing of banks still closed at the end of March. Among the credit items, the increase was largely confined to banks' holdings of Government securities, though loans on securities also rose at the same time as security prices and stock-exchange activity It is striking, however, that the increase in production and speculation characteristic of this period appears to have been financed less by an expansion in bank credit than by a more effective use of existing credit, as reflected in the increase in the velocity of circulation of bank deposits This index rose to 90 in July, but it has fallen almost continuously since then, and by December it was back to the low level of February In the third quarter of 1933 there was a tendency towards a contraction of credit, although " all other " loans rose during these months, as a result chiefly of increased holdings of acceptances. Commercial loans to customers showed little net change over this nine-month period Security loans fell somewhat in the final quarter of the year, as did "all other" loans, the increase in banks' holdings of Government securities reflect Treasury financing and the continued desire on the part of the banks to maintain assets in a liquid form. The desire for liquidity is even more strikingly demonstrated in the continuous accumulation of excess cash reserves. Early in November these excess reserves amounted to $850 million. This was largely the result of the purchase of $600 million of Government securities in the open market by the Federal Reserve banks between the middle of May and the beginning of November. Although excess cash reserves were somewhat lower at the end of 1933, they again increased in the first months of 1934 and the record figure of more than $1,200 million in March.

The British banking experience of 1933 may be compared with that in 1932 from the figures given at the top of the next column, which summarise the position of ten London clearing banks (representing about 95 per cent of the total resources of all British joint-stock banks) in December 1931, 1932 and 1933.

Total deposits were somewhat lower at the end of 1933 than at the end of 1932; there was, however, a definite shift from deposit to current accounts.

	Dec 1931	Dec. 1932	Dec. 1933
	£ (000,000's)		
Coin, bank notes and balances with Bank of England.	184	206	213
Money at call and short notice	121	128	120
Commercial and Treasury bills discounted . . .	246	408	311
Investments	296	475	562
Advances	903	778	738
Current, deposit and other accounts	1,737	1,983	1,941
Acceptances and endorsements	102	89	116

The former fell by £63 million in the course of 1933, while current accounts increased by over £20 million [1] Current accounts constituted 53 per cent of total deposits of the London clearing banks in December 1933, as compared with less than 51 per cent in December 1932. This change is partly to be explained by the low level of deposit rates and partly by the revival of trade The clearing banks continued to increase their cash holdings, and the ratio of the latter to total deposits was 11 per cent in December 1933, compared to 10 4 per cent in December 1932. Call loans, however, were lower The reduction in the bill portfolio in 1933 is largely due to Treasury bills, on which the rate was extremely low during the year. On the other hand, the banks bought Government securities in even greater volume than during the previous year and, at the end of 1933, total investments reached a record high figure Advances continued to decline, though less sharply than in 1932. This decline was no doubt due in part to the unfreezing of credit incidental to trade revival At £738 million, total advances stood at a lower level in December 1933 than at any time since 1923. The only item in the British bank accounts which appears to reflect the improvement in British trade which occurred in 1933 is acceptances and endorsements outstanding, which rose to the level they were at early in 1931, before the financial crisis. But the greater part of this increase is evidently due to endorsements, and, as many banks include open foreign exchange contracts under this head, the increase may be due to more active foreign exchange business. The improvement in trade is best seen in the figures for bank clearings shown below.

[1] The figures refer to the London Clearing Banks. See *Monthly Bulletin of Statistics* of the League of Nations, January 1934.

	1929	1930	1931	1932	1933
			£ (000,000's)		
Town clearings	39,935	38,783	31,816	27,834	27,714
Metropolitan clearings	1,882	1,812	1,668	1,610	1,657
Country clearings	3,079	2,964	2,752	2,668	2,767
Total	44,896	43,559	36,236	32,112	32,138

Town clearings are generally taken as indicative of financial and speculative activity, metropolitan clearings as indicative of London retail trade and country clearings as indicative of the general trade of the country. It will be seen that all classes of clearings fell continuously from 1929 to 1932, the first being 33 per cent lower in 1932 than in 1929, the second 15 per cent lower and the third 10 per cent lower. The decline was arrested in 1933, during that year, town clearings fell only fractionally and metropolitan and country clearings were both somewhat higher (2.8 and 3.6 per cent respectively) than in the previous year. A comparison of the latter half of 1933 with the corresponding period of 1932 shows a more striking improvement for both metropolitan and country clearings - the former being more than 4 per cent and the latter more than 6 per cent higher in 1933.

The recent development in France may be analysed on the basis of statistics relating to the four large deposit banks.

	October 1931	October 1932	October 1933
	Francs (000,000's)		
Cash on hand with Bank of France, etc.	11,551	11,776	7,853
Bill portfolio, including Treasury bills	18,861	19,638	20,097
Advances and contangoes	1,189	1,074	1,274
Debtors on current account and correspondents	10,200	8,352	7,715
Sight deposits and current accounts	36,971	36,197	32,810
Time deposits	1,370	1,342	976
Acceptances	573	334	257

Between October 1932 and October 1933, sight and time deposits were reduced by 3.7 milliard francs and the banks' cash holdings fell by about the same amount. The funds so withdrawn were largely used to invest in public and semi-public issues or to purchase gold for hoarding; deposits in the Caisse Nationale and in the private savings banks increased only at their normal rate during this period, and private deposits in the Banque de France fell slightly. The bill portfolio rose somewhat and advances and contangoes were also increased. On the other hand, the deposit banks' debtors on current account continued to decline, though much less sharply than in the preceding year.

The turnover of bank credit in France is reflected in the following figures, which show total amounts cleared through Paris clearing-houses during each year since 1929

	Francs (000,000's)
1929	512,464
1930	555,996
1931	460,524
1932	332,394
1933	378,544

Total clearings rose somewhat in 1930, but fell sharply in 1931 and 1932, being 40 per cent lower in the latter years than in 1930. They rose somewhat in 1933, but in December of that year were slightly lower than the corresponding month of 1932.

The following figures show the principal accounts of the big Berlin banks near the end of each of the past three years:

	Nov. 1931	Nov. 1932	Oct 1933
	(R M. (000,000's)		
Cash on hand and balances with Reichsbank	183	154	138
Bill portfolio:			
(a) Treasury bills	358	470	578
(b) Commercial bills	1,073	1,161	1,106
Loans on current account:			
(a) To banks	462	328	279
(b) To others	4,029	3,408	3,105
Other loans and advances:			
(a) Reimbursement credits	1,188	1,030	631
(b) Contangoes and lombard loans	159	34	26
Deposits	5,342	5,019	4,596
"Loro" correspondent accounts	1,328	1,145	684
Rediscounts	1,516	868	930

The above figures show that the contraction of commercial bank credit in Germany continued throughout 1933, but at a slower rate, on the whole, than in the previous year. The current account loans of the big Berlin banks, which constitute the bulk of their advances to industry, fell considerably less than in 1932, when very large sums were written off. These banks continued to buy Treasury bills, and their commercial bill portfolio was only slightly reduced. Their reimbursement credits, on the other hand, fell very markedly, in line with "loro" correspondent accounts under liabilities, the latter represent acceptance credits taken (largely abroad) by German banks on behalf of clients. Deposits in the large banks fell more than in the previous year and reached their lowest level since 1926. Savings bank deposits increased by 1 milliard RM., so that there was no net loss of deposits to the banking system as a whole.

The following statement shows the total volume of Reichsbank giro-transfers for each year since 1929

	RM (000,000's)
1929	750,654
1930	704,587
1931	622,139
1932	526,388
1933	503,577

Table IX.

PERCENTAGE CHANGE IN COMMERCIAL BANK DEPOSITS IN CERTAIN COUNTRIES, END OF 1932-1933.

Current accounts and sight deposits		Other deposits		Total deposits	
Union of South Africa [1]	+ 91	Mexico [5]	+ 44	Ecuador [1]	+ 67
Ecuador [1]	+ 91	Italy [4]	+ 18	Union of South Africa [1]	+ 46
Peru [2]	+ 43	Latvia [2]	+ 17	Mexico [5]	+ 38
Mexico [5]	+ 37	Peru [2]	+ 15	Peru [2]	+ 28
New Zealand	+ 29	New Zealand	+ 11	Chile [1]	+ 18
Chile [1]	+ 26	Portugal [2]	+ 9	New Zealand	+ 17
Colombia [1]	+ 26	Japan [1]	+ 8	Colombia [3]	+ 11
Finland [1]	+ 19	Denmark [1]	+ 6	Portugal [2]	+ 11
Denmark [1]	+ 15	Chile [1]	+ 3	Latvia [2]	+ 9
Portugal [2]	+ 13	Finland [1]	+ 3	Denmark [1]	+ 8
Japan [1]	+ 9	Greece [3]	+ 2	Japan [1]	+ 8
Argentine [2]	+ 8	Australia [3]	+ 1	Finland [1]	+ 6
Sweden	+ 8	Sweden	+ 1	Greece [3]	+ 3
Latvia [2]	+ 7	Ecuador [1]	0	Australia [3]	+ 2
Canada [1]	+ 6	Hungary [1]	0	Hungary [1]	+ 2
Lithuania [3]	+ 6	Uruguay [1]	0	Sweden	+ 2
Australia [3]	+ 4	Canada [1]	— 2	Canada [1]	+ 0
Hungary [1]	+ 4	Lithuania [3]	— 3	Lithuania [1]	+ 0
Greece [3]	+ 3	Argentine [2]	— 5	Argentine [2]	1
Brazil [3]	+ 2	Czechoslovakia [5]	6	Italy [4]	— 1
United Kingdom	+ 2	Estonia [1]	— 6	Estonia [1]	— 2
Estonia [1]	± 0	Norway [1]	— 6	United Kingdom	— 2
Norway [1]	— 2	United Kingdom	— 7	Brazil [3]	— 5
U.S.A. [4]	— 2	Colombia [3]	— 7	Czechoslovakia [5]	— 5
Poland [1]	— 4	Germany [2]	— 8	Norway [1]	— 5
Switzerland [3]	— 4	Switzerland [3]	— 9	U.S.A. [4]	— 7
Czechoslovakia [5]	— 5	Union of South Africa [1]	— 9	Switzerland [3]	— 7
Italy [4]	— 5	Poland [1]	—14	Germany [2]	— 9
France [2]	— 9	U.S.A. [4]	—14	Poland [1]	— 9
Germany [2]	—10	Brazil [3]	—18	France [2]	—10
Uruguay [1]	—21	France [2]	—27	Uruguay [1]	—12

[1] November 1932-November 1933
[2] October 1932-October 1933.
[3] September 1932-September 1933.
[4] August 1932-August 1933
[5] June 1932-June 1933

Total giro-transfers at the Reichsbank have fallen steadily since 1929 and in 1933 were almost 33 per cent lower than in that year. It will be observed, however, that the decline during 1933 (4 per cent) was less than in any of the preceding years.

Table IX above enables a rough estimate to be made of the general world development of commercial bank credit during 1933. The table shows the percentage change between the most recent month in 1933 for which data are available and the corresponding month of 1932 in current accounts, other deposits and total deposits in thirty-one countries for which this information is published in the League of Nations *Monthly Bulletin of Statistics*.

In sixteen of the thirty-one countries in Table IX total deposits rose in 1933, in two they showed no net movement; and in thirteen they fell. Special local conditions have influenced the evolution in certain countries and it would be dangerous to make any generalisation on the basis of the above figures. It is a striking fact, however, that the economy of all States which experienced a rise of more than 10 per cent in total commercial bank deposits in 1933 is largely based on the production of raw materials. The prices of many of these products, in terms of national currencies, rose in 1933, and the consequent improvement in the terms of trade may be reflected in the deposit figures. South Africa, for example, where the rise in current accounts was particularly marked, enjoyed higher prices (in terms of South-African pounds) for wool and gold, her chief export articles, and her surplus of exports increased in 1933. But the chief reason for the rise in bank deposits in this country is the fact that practically all the capital exported before the suspension of the gold standard at the end of 1932 was repatriated during 1933. It is noteworthy that almost the whole of the rise in deposits during 1933 — £25 million — was used by the banks to increase their cash holdings in the form of deposits with the South-African Reserve Bank; they continued to contract their loans and advances.

In Ecuador and Peru, there was a substantial increase in the monetary circulation during 1933. Prices rose sharply in the latter country and the exchange value of the sol declined. The average monthly surplus of exports increased from 7.8 to 12.9 million soles between 1932 and 1933. In Chile, the rapid increase in note circulation which had taken place in 1932 was checked to some extent in the latter part of 1933; the exchange rate, however, remained high and there was a distinct improvement in the trade position. Economic conditions in Mexico continued depressed in 1933. A very large part of the increase in deposits accruing to the ordinary banks was held by them either in the form of balances with the Banco de Mexico or cash in hand.

In Brazil and Uruguay - States producing raw materials in which total deposits fell — both imports and exports rose in 1933, but the former more than the latter. Thus, in Brazil, the surplus of exports fell from a monthly average of 85 million milreis in 1932 to a monthly average of 55 millions in 1933. In Uruguay, it fell from a monthly average of 420,000 pesos in 1932 to a monthly average of only 110,000 pesos in the first nine months of 1933.

Apart from Uruguay, commercial bank deposits fell most in France, Poland, Germany and Switzerland, countries where the gold standard was maintained and the pressure of deflation continued in 1933. The fall in deposits in the United States of America is largely accounted for in the fact that not all the banks closed during the banking crisis were subsequently licensed to re-open, as shown above, there was some net increase in deposits in licensed banks between the end of March and the end of 1933.

In twelve of the sixteen countries in which total deposits increased there was a rise in both current accounts and time deposits. In ten of these — namely, in Peru, New Zealand, Chile, Finland, Denmark, Portugal, Japan, Sweden, Australia and Greece — current accounts rose more than time deposits, and in only two — Mexico and Latvia — did time deposits rise more than current accounts. In Ecuador and Hungary there was an increase in current accounts and no net change in time deposits, and in South Africa and Colombia there was a rise in current accounts and a fall in time deposits.

In Canada and Lithuania, where total deposits remained stable during 1933, an increase in current accounts was offset by a fall in deposit accounts. Of the thirteen countries in which total deposits fell, the decline in four was entirely due to time accounts: in the Argentine, Brazil and the United Kingdom, current accounts rose, and in Estonia they remained stable, while time deposits fell. In Uruguay, on the other hand, the fall was entirely due to current accounts, as time deposits showed no net movement. In Norway, the United States of America, Poland, Switzerland, Czechoslovakia, France and Germany, both current accounts and time deposits fell; in all these countries except Germany, current accounts fell less than time deposits. Italy is the only country which shows

an increase in time deposits and a fall in current accounts.

In twenty-six of the thirty one countries included in Table VI, the ratio of current accounts to time deposits shifted in favour of current accounts in 1933, and in only five — Germany, Italy, Mexico, Latvia and Uruguay — did it shift in favour of time deposits. These figures indicate that there was, in general, a more active use of deposits — as well as, in many countries, a rise in their absolute amount — in 1933 than in the preceding year.

Such indications as are available regarding changes in banks' assets during 1933 suggest that — in Europe and North America, at any rate — they continued to enlarge their holdings of Government securities at the expense of commercial loans. The commercial banks of many countries also increased their cash holdings and they were, in most cases, in a position to expand considerably the volume of commercial credit outstanding without resort to central banks or other institutions for additional cash reserves.

Money Rates during the Depression.

The statistics available do not permit a comprehensive comparative analysis to be made of the changes in the rates charged on different types of loans by the commercial banks of the various countries covered by this volume. Information relating to the open-market rates on short-term commercial paper is, however, available for the majority of the European countries and the United States of America, and the movement of central bank rates of discount regularly reported for a larger number of countries in different parts of the world may be considered representative of the trend of short-term interest rates in general.

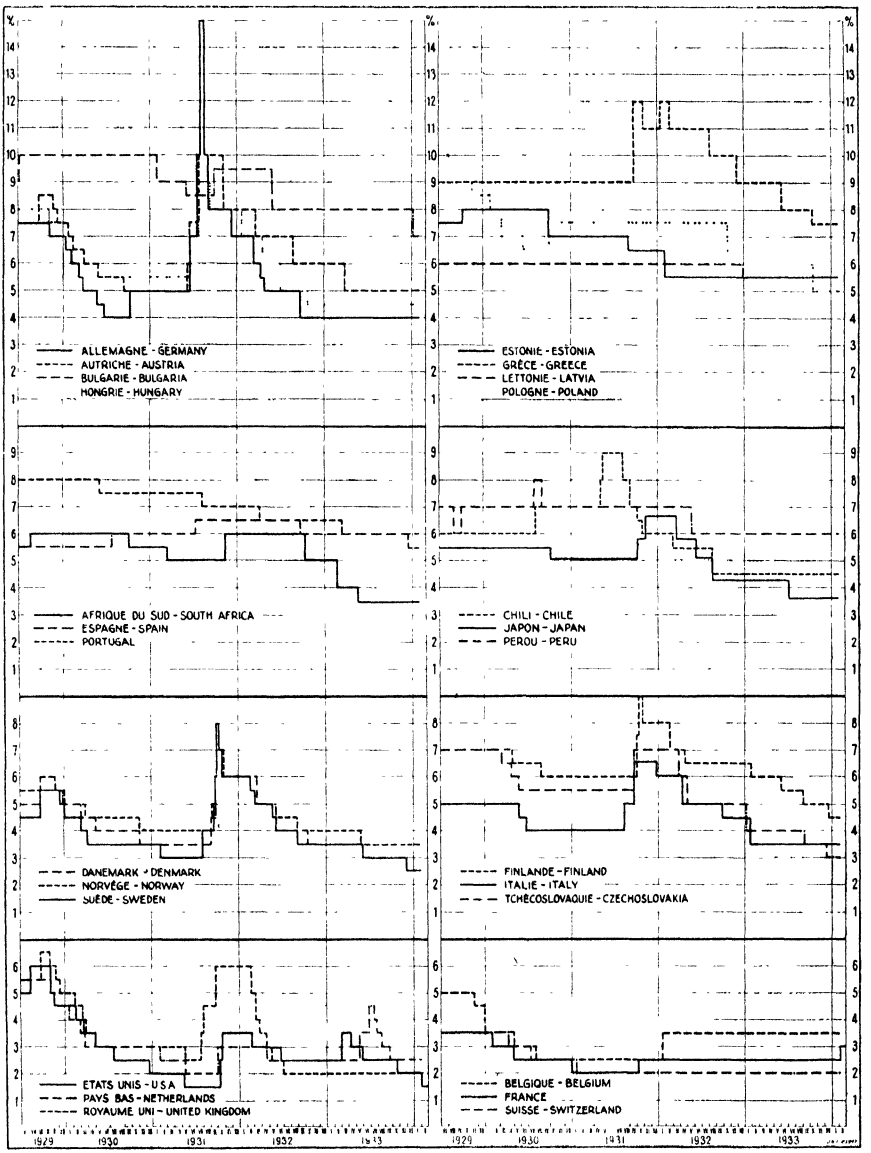
Changes in central bank discount rates during the period July 1929—February 1934 are shown for twenty-six countries in the diagram on page 34. The countries have been arranged in eight groups mainly according to the relative heights of their central bank rates throughout this period

The significance of these rates differs from country to country, in accordance with differences in the structure of money markets and in the degree of control exercised by the central bank over these markets Their significance as regulators of interest rates in general varies, moreover, from period to period , in particular, when the effective demand for capital for purposes of investment is slack and the amount of " idle " funds tends to increase, open-market rates of interest may fall well below central bank rates. In spite of these qualifications, however, the general level and the movements of the rates for various countries display certain features of considerable interest. It will be observed that all countries in the bottom groups of the diagram — those with the lowest average bank rates — are creditor countries, while the countries included in the groups with relatively higher average bank rates are all debtor countries. The reasons for this fact are obvious and need not be entered upon here.

The increase in the rediscount rate of the Federal Reserve Bank of New York from 5 to 6 per cent in August 1929 was immediately followed by a rise in the South-African rate, and, in the following month, the Bank of England raised its rate from 5½ to 6½ per cent. At the same time, rates were increased in all the Scandinavian countries and in Austria and Estonia. The break of the New York stock-market in October 1929 and the rapid fall in security prices and brokers' loans released a large volume of short-term money, foreign as well as American, previously tied up in security speculation. The effect on money rates was immediate , by the end of 1929, the New York rate had been reduced to 4½ per cent, the Bank of England rate to 5 per cent and, as the diagram shows, reductions had been effected in most other countries

With few exceptions, rates continued to fall throughout 1930. The stagnation in trade and decline in commodity prices, as well as the slump in stock-exchange activity, led to an accumulation of funds which could not be profitably invested at long-term. By the beginning of 1931, the central bank rediscount rates had been reduced to 2-3 per cent in all the countries included in the bottom groups of the diagram , rates were also very low in the Scandinavian countries. The only countries where bank rates were raised during 1930 are Chile, Peru, Spain, Germany and Poland. In the first two countries, the sharp fall in the prices of export products resulted in a loss of gold and foreign currency reserves, and discount rates were raised in consequence. In September and October 1930, considerable amounts of foreign short-term capital were withdrawn from Germany ; the Reichsbank lost gold and foreign exchange amounting to over 700 million RM. Early in October, it raised its rate from 4 per cent (to which it had been reduced, by stages, from 7½ per cent in November 1929) to 5 per cent ; the Bank of Poland immediately raised its rate from 6½ to 7½ per cent.

MOVEMENT OF CENTRAL BANK RATES OF DISCOUNT, JULY 1929 — FEBRUARY 1934.



In many countries rates continued to decline during the first part of 1931 ; the New York rediscount rate was reduced to the record low level of 1½ per cent early in May , the French, Dutch and Swiss rates were reduced to 2 per cent and the Bank of England rate to 2½ per cent. The Swedish rate was also lowered , only in Chile, where political disturbances occurred, was there an increase — from 7 to 9 per cent.

Market rates of discount, as shown in Table X below, [1] display a trend similar to that of central bank rates Short-term money rates fell in all countries in 1930 and (with the exception of Germany, where the relative stringency resulting from the withdrawal of capital still persisted) in the first part of 1931. During the first months of 1931, money was particularly cheap in Switzerland, the United States of America, the Netherlands and France creditor countries in which foreign capital was already seeking refuge. In the majority of countries included in Table X, market rates of discount were 2-3 per cent lower in the first period of 1931 than during 1929

This monetary ease came abruptly to an end as a result of the international financial panic precipitated by the Creditanstalt disclosures in May 1931 Large recourse was had to central banks for funds with which to meet the sudden demands , reference has already been made in an earlier section to the extensive assistance in the form of rediscount and other credits granted by central banks to commercial banks during the financial crisis, and further details are given in the individual chapters The price of credit rose very sharply in most parts of the world In Austria, bank rate was increased from 5 to 6 per cent early in June, then to 8 per cent, and to 10 per cent in July. In Germany, the rate was raised from 5 to 7 per cent in June, to 10 per cent at the culmination of the crisis in July, and 15 per cent just before the re-opening of the banks The Bank of England rate was raised from 2½ per cent to 4½ per cent in the latter part of July ; it was maintained at 4½ per cent until after the suspension of the gold standard in September, when it was raised to 6 per cent Rates in the other countries included in the bottom groups of the diagram remained unchanged until the end of September and beginning of October, when most of them were raised by 1 per cent. Bank rates were also increased in South Africa, Chile and Japan and in all European countries shown except Belgium, Latvia and Spain.

In Belgium, the rate was maintained at 2½ per cent throughout 1931, but raised to 3 per cent at the beginning of 1932 The Latvian rate remained unchanged at 6 per cent from 1928 until the beginning of 1933 when it was reduced to 5½ per cent In this country, however, the central bank applied a policy of direct restriction of credit in the latter part of 1931 Spain, which did not return to the gold standard after the war, appears to have been less affected by the financial crisis of 1931 than most European countries

In sympathy with the general movement of central bank rates, market rates of discount also rose sharply in most countries in the latter part of 1931 (see Table X) As compared with the rates prevailing earlier in that year, the increase was particularly marked in Germany and the United Kingdom , it was least in Belgium, France, the Netherlands and Switzerland

Late in 1931, central bank rates of discount were reduced from their crisis levels in Germany and Austria , reductions were also effected in Hungary, Finland and Greece In the course of 1932 and 1933 there was a rapid and universal transition from dear to cheap money, which is most strikingly illustrated in the reduction in the Bank of England rate from 6 per cent in February to 2 per cent in June 1932

The universality of the fall in money rates in 1932 and 1933 is worthy of particular stress. The countries included in the middle group of the diagram, which had not shared in the monetary ease of 1930 and the first part of 1931, were all able to lower their bank rates during these years The reduction is very striking in the case of Japan, where the bank rate was reduced by stages from over 6 6 per cent in March 1932 to 4 4 per cent in September, and to 3 65 per cent in July 1933. In pursuance of the cheap-money policy of the Japanese authorities since the abandonment of the gold standard at the end of 1931, interest rates at the Post Office Savings Banks, the Bank of Japan and the deposit banks of Osaka and Tokyo have been reduced, and the Bank of Japan has engaged in extensive open-market operations. In Greece, the bank rate was reduced from 12 to 7 per cent Indeed, the only countries where bank rates were raised at all between February 1932 and January 1934 are the United States of America and the Netherlands, and in both cases the increases were due to local phenomena of a transitory nature. In the United States, the New York rate was raised from 2½ to 3½ per cent during the banking

[1] This table comprises those countries for which information on market rates of discount is regularly published in the *Monthly Bulletin of Statistics* of the League of Nations

Table X.

MARKET RATES OF DISCOUNT IN CERTAIN COUNTRIES.

Country	Type of paper	1929 average	1930 average	1931			1932 average	1933 average	January 1934
				Average for first period *(a)*	Month of lowest average rate	Average for second period *(b)*			
United States	Bankers' acceptances 90 days	5 03	2 16	1.19	VIII	2.35	1.26	0 6	0.5
	Commercial paper 4-6 months	5.84	3 58	2 32	VIII	3.36	2 84	1.71	1.38
United Kingdom	Bankers' drafts 90 days	5 27	2 61	2 39	VI	4.82	1.84	0.69	1.02
Netherlands	Private discount	4 82	2 (6	1 23	IX	1 96	0.85	1.11	0 5
Switzerland	3 months' bills	3 31	2 01	1 05	III	1 56	1.52	1.5	1 5
France	Commercial paper 45-90 days	3 46	2.32	1 50	VI	1 65	1 28	1.83	2 38
Belgium	Commercial paper 1-3 months	4 3	2 78	2 25	VI	2.39	3 12	2.42	
Sweden	Commercial paper 3 months	4 74	3 72	3 10	VI	5.08	4 39	3.17	2.5
Denmark	Bankers' discount rate	5 13	4 19	3 50	VIII	5.66	4 5	3 17	2.5
Czechoslovakia	Private discount ; 3 months and shorter bills	5 01	4 46	4	VII	5 85	5 15	3 57	3 5
Italy	Private discount , commercial bills 4 months	6 38	6	5 30	VIII	6 44	5 88	3 88	3.25
Germany	Private discount , 56-90 days' bills	6.87	4 43	4 75	V	7 39	4 95	3.88	3 88
Japan	Commercial paper 60 days	5 11	4.93	4 38	IX	4 87	5 38	4.67	4 38
Austria	Private discount 60-92 days' bills	7.14	4 91	3 98	III	Since July 1931 no transactions.			
Hungary[1]	Commercial paper up to 3 months	5 37-10 25	5 5-10	5.5-7	V	5.75-10.5	4.38-10	4.38-7.5	
Bulgaria[1]	Private discount	11-15	11-16	9-12	VIII	10-14	9.5-14	8-11	8-11
Poland	Rates of the Ass. of Private Banks ; 4-5 months' bills	12 22	11 46	10 95	VII	10.96	10 67	9 38	9 3

[1] Range of rates.

(a) Period extending from January to month indicated in next column
(b) Remainder of year

crisis of March 1933, by May the rate had been again reduced to 2½ per cent. Moreover, the Federal Reserve banks bought Government securities to a value of $600 million between May and October, and the money market was so saturated with funds that the reduction of the bank rate to 2 per cent in October and 1½ per cent at the end of January 1934 represented nothing more than adjustments to prevailing market rates. In the Netherlands, the discount rate was raised from 2½ to 4½ per cent during the speculation against the florin in the summer of 1933, but when this speculation subsided the rate was soon restored to 2½ per cent.

Table XI below provides a summary of the trend of discount rates in recent years.

Table XI.

CENTRAL BANK DISCOUNT RATES

Central Bank of	Average rate 1925/1929	Average rate 1933	Rate prevailing February 1st, 1934	Date on which rate in column (3) was established	Most recent period since 1925 on which a lower rate prevailed
	(1)	(2)	(3)	(4)	(5)
United States (N.Y.)	4 14	2 56	1 5	1 II 1934	
United Kingdom	4 84	2	2	30 VI 1932	—
Switzerland	3.58	2	2	22 I 1931	—
France	5 07	2.5	2 5	9 X 1931	2 % ; 2.I 1931-8.X 1931
Netherlands	4 15	2 87	2 5	19 IX 1933	2 % , 18 V 1931-28 IX 1931
Sweden	4 51	3 17	2 5	1 XII 1933	—
Denmark	5 37	3 7	2 5	23 VIII 1932	—
Italy	6 64	3 85	3	4.IX 1933	—
Belgium	5 35	3 5	3 5	14 I 1932	2.5 % ; 31.VII.1930-13 I 1932
Norway	5 36	3 7	3 5	24 V 1933	—
Czechoslovakia	5 55	3 57	3 5	25 I 1933	—
South Africa	5.57	3.82	3 5	15.V.1933	—
Japan	6 30	4 02	3 65	3 VII.1933	—
Germany	7.16	4	4	22.IX 1932	—
Finland	7 43	5 58	4 5	5 IX 1933	—
Hungary	7 05	4 5	4 5	17.X.1932	—
Chile	6 83 [1]	4 5	4 5	23.VIII.1932	—
Austria	7.66	5 23	5	24 III 1933	—
Poland	9 35	5 82	5	26.X 1933	—
Estonia	8.53	5.5	5 5	28.I.1932	—
Latvia	7.45	5.5	5 5	1 I.1933	—
Portugal	8 32	6 07	5 5	13.III 1933	—
Peru	6 22	6	6	21.V 1932	—
Spain	5.12	6	6	26.X.1932	5.5 % ; 18.XII.1928-17.VII.1930
Roumania	6 44	6 26	6	5 IV.1933	—
Bulgaria	9.85	8	7	25.V.1932	—
Greece	9.70	8	7	14.X.1933	—
Yugoslavia	6	7.50	7 5	18.VII 1931	5.5 % ; I.V.1930-26 VI.1931

[1] Average 1926-1929.

The countries are arranged in the inverted order of the height of central bank discount rates on February 1st, 1934. An examination of the last column will show that — besides Spain [1] and Yugoslavia [2] — France, Belgium and the Netherlands are the only countries where a lower bank rate than that in force on February 1st, 1934, has prevailed at any time in recent years. The movements of the Dutch and Belgian bank rates have already been commented upon above. The discount rate of the Banque de France was reduced to the record low level of 2 per cent at the beginning of 1931, in October of that year, at the same time as the New York rate, it was raised to 2½ per cent and remained unchanged until February 8th, 1934, when it was increased to 3 per cent. A glance at Table X will show that money rates were considerably higher in France in January 1934 than the average of any year since 1929. This stiffening of rates was already marked during the last months of 1933, it was largely due to budgetary difficulties and to the repatriation of American capital and export of gold to that country.

The movements of market rates of discount as shown in Table X must not be regarded as typical of the fluctuations in the rates charged by commercial banks on loans to customers. The latter are generally much more "sticky"; they move less frequently and within a much narrower range than the open-market rates. Data are published regularly in the *Federal Reserve Bulletin* giving average rates charged on loans by commercial banks in various sections of the United States of America, and, in the following statement, their movements during the past five years are compared with those of central bank and open-market rates.

Average	Average discount rate of Federal Reserve Bank of New York	Average rate on 90 days' bankers' acceptances	Average rate on bank loans and advances[1]		
			New York City	Eight other northern and eastern cities	Twenty-seven southern and western cities
	%	%	%	%	%
1929	5 16	5 03	5 88	6 04	6.14
1930	3.04	2 46	4 67	5 07	5 72
1931	2.12	1.58	4.22	4.61	5 19
1932	2.81	1 26	4 47	5.05	5 62
1933	2.56	0.6	4.02	4 83	5.56

[1] Average of rates on commercial loans and demand and time loans on securities

The average rate on ninety-day bankers' acceptances was 4.4 per cent lower in 1933 than in 1929, while the average rate charged by commercial banks on loans to customers was only 0 6-1 8 per cent lower. It will be observed that the decline in loan rates was greatest in New York City, the chief money-market of the United States of America, where the surplus funds of the country were largely concentrated, and least in the agricultural west and south, with the industrial east and north in an intermediate position. In southern and western cities, the average rate still remained higher during 1933 than in 1931; in other parts of the United States, the banks raised their rates late in 1931 and during the first half of 1932, but by 1933 they had been reduced below the 1931 level.

Long-term Interest Rates

The fall in long-term interest rates during the past years has not been nearly so marked as the fall in money rates, indeed, long-term rates have risen in certain countries. Table XII below shows the average percentage yield of bonds in certain countries by years since 1929. During 1930 and the first part of 1931, long-term interest rates tended to decline in all European countries included in the table, except Poland and Roumania. The decline was greatest in France, Belgium, Sweden and Switzerland, but in no case did long-term rates fall as much as market rates of discount. In the Argentine and Japan, the average yield on Government bonds rose in 1930.

[1] In Spain, the bank rate remained unchanged at 5 per cent for several years up to the end of 1928, when it was raised to 5½ per cent. That rate remained in force until the middle of 1930, when it was increased to 6 per cent, a year later it was further increased to 6½ per cent, and lowered again to 6 per cent in October 1932.

[2] In Yugoslavia, the rate was reduced from 6 per cent, at which it had remained fixed since the establishment of the Bank in 1921, to 5½ per cent at the beginning of May 1930. At the beginning of the financial crisis, in June 1931, it was raised to 6½ and, a month later, to 7½ per cent. The latter rate remained in force until February 9th, 1934, when it was reduced to 7 per cent.

Table XII.

ACTUAL PERCENTAGE YIELD OF BONDS.

DOMESTIC QUOTATIONS.

Country	Issue	1929 average	1930 average	1931			1932 average	1933 average
				Average of first period (a)	Month of lowest average yield	Average of second period (b)		
United Kingdom	Consols, 2½ %	4.60	4 48	4.28	VI	4 50	3.76	3.38
United States of America	3 Treasury Bonds	3 65	3 40	3 35	VI	3·57	3·74	3·48
	15 Indust. Bonds	5.06	4 95	4 99	III	5.68	7 46	6.93
Switzerland	Fed. Railways, 3½ %	4 38	4 07	3.70	VIII	3·95	3 62	3 84
Sweden	7 Govt. Bonds	4 56	4 18	4 04	VI	4 40	4 32	4.02
	Industrial Bonds	5.06	4.95	4 87	VI	5 19	5 33	4·75
Italy	Rente, 3.5 %	5 14	5 21	4 91	VIII	4 88	4·77	4 35
France	Rente perpét. 3 %	3.99	3 48	3 41	IV	3 52	3 85	4.39
	Average rate of capitalisation of new private bonds	5.86	5.01	4·73	II	4 96	5 49	6.67
Belgium	Rente Belge 3 %	4 54	4.00	3 72	IV	4.12	4.48	4·54
Canada	Province of Ontario Treas. Bonds	4.90	4 71	4 47	VI	4 80	5 21	4 68
Netherlands	Average yield of 4½ % (1916) and 6 % (1922) Govt. Bonds	5.16	5.11	5 11	VI	5.20	4.98	4.75
Japan	Average yield of public bonds	5.07	5.41	5.23	VI	5 64	5.50	4·78
Czechoslovakia	Govt. Bonds	5.76	5.68	5.56	VII	5.97	6 50	6.06
Austria	Mortgage Bonds 7 %	7.25	7 23	7.10	II	7.41	7.79 [2]	.
Germany	6 % Mortgage Bonds	7 40	7.15	7.05	IV	.	8.38 [3]	7.15
Argentine	Mortgage cedulas 6 %	6 06	6 16	6 14	III	6 49	6 65 [4]	7.20 [6]
Poland	8 Loan 1919/20, 6 %	7 22	7.84	8 41	VII	9.80	10.86	10 82
	Miscellaneous Govt Bonds	9.57	10.58	11.63	III	13.61	16 48	15.34
Roumania	4 Govt. Bonds	8 87	9.74	9 95	IV	11.02	16 32	16 78
Hungary	Forced Loan 1924, 5 %	8 76	8.18	8 46	IV	8.81 [1]	22.51 [5]	17.74 [6]

[1] V.-VII 1931
[2] I.-XI 1932
[3] IV.-XII 1932
[4] I.-IX 1932
[5] IV.-XII.1932
[6] I.-VIII 1933

(a) (b) } See Table X

A comparison of the columns of Tables X and XII indicating the month in 1931 in which money and interest rates reached their lowest point shows that, in the great majority of countries, long-term rates began to rise before short-term rates. The rise was, however, not in most cases so sharp for long-term rates ; it was greatest in Poland and Roumania, where the price of Government bonds fell almost continuously from 1929 to 1932.

The year 1932 witnessed a remarkable reduction in the yield on Government bonds in the United Kingdom ; 2½ % Consols, which were on a 4½ % basis in the latter part of 1931, gave an average yield of 3¾ per cent during the year. The Bank of England, through its discount and open-market policy, assisted in the conversion operations of 1932 ; the joint-stock banks used £172 million of the additional resources, amounting to £246 million, placed in their hands through the open-market operations of the Bank to purchase Government securities and the remainder to purchase Treasury bills. In most other countries — Italy, the Netherlands, Sweden and Switzerland are exceptions — the long-term rate of interest, as measured by the yield on Government securities, tended to rise during this year. Budgetary deficits were common and most States found it necessary to increase their debt at an abnormal

rate. There was an almost general improvement, however, in the latter half of 1932; this improvement coincided with the large purchases of Government securities by commercial banks to which reference has already been made. It is worthy of note that, in the United States of America, the yield on industrial bonds remained very high throughout 1932. The margin between the yield on these bonds and the yield on Government securities was 3 7 per cent in that year, as compared with 1.4 per cent in 1929 — a reflection of the depressed state of the private capital market.

In 1933, long-term interest rates fell in all countries included in Table XII except the Argentine, France, Belgium, Switzerland and Roumania. In France, the persistence of budgetary deficits coincided with a slowing-up of the accumulation of deposits in the Caisse nationale and Caisses ordinaires d'épargne, which constitute an important element in the market for Government stocks. The rate of capitalisation of new issues of private bonds also rose sharply in France in 1933, while in the United States of America and Sweden it declined. The average yield on Government bonds in 1933 was particularly low (less than 3½ per cent) in the United Kingdom and the United States of America, and particularly high (over 15 per cent) in Hungary, Roumania and Poland.

The above paragraphs have shown that in many countries there was a fairly steady decline in discount and interest rates from 1929 to 1933, with an interruption during the financial crisis. Short-money rates fell much more than long-term rates, and industrial bonds reacted more slowly than Government bonds The experience of the United Kingdom, where the cheap-money policy was most continuous and successful, is summarised in the following statement .

	Average bank rate	Average 3 months' bill rate	Average rate paid by all Government borrowers	Average rate on new issues of industrial debentures	Average rate on new issues of preference shares
	%	%	%	%	%
1929	5 50	5 27	5.07	6 10	6 58
1930	3 42	2 61	5 43	5 96	6 00
1931	3 93	3 55	5 60	6.33	6 50
1932	3 00	1 84	3 72	5 44	6 32
1933	2 00	0 60	3 14	4 58	5 28

Source. *Economist*, February 3rd, 1934

In 1932 and 1933, short-term money rates broke away from their customary level of ¼ to ½ per cent below bank rate. The rate on Government borrowing improved most noticeably during 1932 and the improvement continued in 1933 The yield on new issues of industrial debentures also declined quite sharply in 1932, and the improvement in 1933 was equally marked Preference shares did not benefit appreciably until the latter year, when the average rate on new issues fell by slightly more than 1 per cent. Average rates on new issues of both industrial debentures and preference shares were about 1½ per cent lower in 1933 than in 1929.

Commercial Bank Profits during the Depression.

The conditions which have been described in the preceding sections of this introduction could not fail to reduce the profitability of commercial banking during the past few years. The contraction in the total volume of credit outstanding naturally involved a reduction in the banks' gross income. Moreover, this contraction was generally greatest for commercial loans and advances, on which average earnings are higher than on such types of asset as Government securities and Treasury bills, which were better maintained. With the fall in prices and the depressed condition of industry, the value of certain assets fell heavily, and the banks were obliged to devote a large proportion of their gross profits to writing down the book value of such assets, and frequently to make inroads on

reserve funds and capital for this purpose. In most countries, banks met serious difficulties in reducing their ordinary expenses in proportion to the decline in their earnings.

The difficulties encountered in securing complete profit-and-loss statistics for commercial banks and in adapting them to a common form were set out in the last edition of this memorandum.[1] Although the absolute figures shown in the profit-and-loss summaries given for the individual countries are seldom strictly comparable,[2] certain broad conclusions may be drawn from the changes which have taken place during the period under review in the ratios of the published expense and depreciation accounts to gross profits, and in the ratios of published gross profits and of net profits[3] to banking capital.[4] These ratios are summarised in Tables XIII and XIV below

The joint-stock banks of the United Kingdom, the French deposit banks and the banks of Australia and New Zealand do not disclose their expense and depreciation accounts , they are therefore omitted from Table XIII, and only the ratio between their *net* profits and banking capital is shown in Table XIV. An examination of the former table shows that, in many countries, expenses have absorbed an increasing share of gross profits in recent years. The rise in the relative importance of expenses is most striking in the case of the Austrian banks in 1931 and 1932.[5] In Latvia, Italy and France (investment banks), the ratio of expenses to gross profits also rose very sharply in 1931 and 1932 In the four countries mentioned and in Germany, expenses constituted more than two-thirds of gross profits in 1932 In most other countries, the increase in the relative importance of expenses was smaller and less regular in recent years than in the first four mentioned, and the banks of Denmark and Sweden were able to reduce their expenses as much as, or more than in proportion to, the decline in their gross profits in both 1931 and 1932.

Perhaps the most striking feature of Table XIII is the increase in the importance of the depreciation accounts in recent years The amounts written off the assets of the Viennese banks, including the Creditanstalt, in 1931 and 1932 exceeded their gross profits eight-fold In Germany, Norway and Czechoslovakia, off-writings exceeded gross profits in 1931. In Sweden, where the commercial banking position was still comparatively favourable in 1931, they exceeded gross profits in 1932 when certain banks were heavily affected by the failure of the Kreuger concern The banks of most other countries effected their principal amortisations in 1931. The favourable ratios shown for France (investment banks only) and Italy in 1931 and 1932 are more apparent than real The commercial banks of Italy were able to sell most of their frozen assets at their nominal value to official liquidation institutes , and in France the Treasury likewise assumed a large part of the losses suffered by one of the large banks here considered. Certain French deposit banks (which are not included in this table) were seriously affected by the financial crisis of 1931 In certain other countries, notably in Germany and Austria, the writing-down of bank assets was also largely achieved through the financial assistance of the State Details are given in the individual chapters and in the next section of this introduction.

The commercial banks of the majority of countries included in Table XIII suffered a net loss in 1931 and/or 1932. The importance of these losses is best seen in Table XIV, which shows gross and net profit or loss as a percentage of banking capital in each year. In Germany, the net loss of the big Berlin banks in 1931 wiped out their entire capital, reserve funds and accumulated profits, and a further net loss, amounting to 15 per cent of banking capital, was made in 1932. In Austria, over a third of the own funds of the banks other than the Creditanstalt was lost in 1931, and in 1932 losses exceeded aggregate capital, reserves, etc.[6] The capital of the Czechoslovak, Danish, Dutch, Finnish, French and Norwegian

[1] See *Memorandum on Commercial Banks, 1913-1929*, pages 55, 56

[2] Reference should be made in all cases to the detailed notes in individual chapters showing the composition of the various items

[3] Net profits are taken in each case as the difference between gross profits and the total of expenses (including taxes), staff allocations and depreciation accounts

[4] Banking capital is taken as the total of paid-up share capital, published reserves and balances carried forward

[5] In 1930, the Viennese banks — in particular, the Creditanstalt, which effected certain administrative economies at the time of the absorption of the Boden Creditanstalt — were able to reduce the ratio of expenses to gross profits, but this ratio rose very sharply in 1931 and 1932 Of the gross profits of the four principal Viennese banks, including the Creditanstalt, 60 per cent were absorbed by expenses in 1930 and 80 per cent in 1931-32 The agreement between the Austrian Government and the foreign creditors provided for a reduction in the expenses of the Creditanstalt, which were reduced in 1932 considerably more than the expenses of the other Viennese banks ; it will be seen that the expenses of the latter absorbed practically the whole of gross profits in 1932.

[6] For information relating to the losses of the Creditanstalt, see chapter on Austria.

Table XIII.

Relation between Gross Profits, Expenses and Net Profits of Commercial Banks of Certain Countries

Country		(a) Expenses (b) Depreciation accounts (c) Net Profit or *Loss (L)* as percentage of Gross Profits				
		1925	1929	1930	1931	1932
Austria	(a)	73·7	71·3	69·6	75·8	97·7
	(b)	0·3	0·5	0·2	150·9	398·1
	(c)	26·0	19·1	21·3	*L140·1*	*L421·3*
Czechoslovakia	(a)	70·8	71·3	75·1	86·1	
	(b)	3·4	2·6	2·8	108·5	
	(c)	24·1	24·7	20·3	*L95·0*	
Denmark	(a)	38·6	43·9	43·1	43·1	38·8
	(b)	209·9	18·2	22·4	65·9	21·6
	(c)	*L140·0*	36·9	33·4	*L10·1*	38·1
Estonia	(a)	55·3	55·8	54·3	56·3	
	(b)	15·8	27·9	34·3	34·4	
	(c)	28·9	16·3	11·4	9·4	
Finland	(a)	54·6	48·5	51·1	47·5	52·2
	(b)	8·2	14·0	16·1	63·3	27·4
	(c)	37·1	37·3	32·6	*L11·3*	20·4
France (Deposit Banks)	(a)					
	(b)					
	(c)					
France (Investment Banks)	(a)	49·2	47·6	19·8		69·6
	(b)	4·2	4·3	4·5		5·5
	(c)	15·4	47·1	43·8		21·5
France (Dep. and Invest Banks)	(a)					
	(b)					
	(c)					
Germany	(a)	82·6	82·1	77·8	81·5	79·7
	(b)	1·6	0·4	0·6	191·8	10·9
	(c)	13·0	13·5	8·0	*L177·7*	*L25·6*
Greece	(a)					
	(b)					
	(c)					
Italy	(a)	64·2	63·7	70·9	74·1	78·9
	(b)	1·3	1·3	1·3	1·4	1·4
	(c)	32·7	34·4	27·0	23·6	19·2
Latvia	(a)	61·2	60·2	60·2	76·2	91·1
	(b)	13·6	17·2	10·9	7·8	8·6
	(c)	25·2	22·6	*L1·1*	*L54·0*	*L40·5*
Netherlands	(a)	49·3	46·1	48·7	51·8	51·6
	(b)	20·3	21·3	21·4	45·7	32·6
	(c)	28·5	20·9	27·5	*L3·1*	13·3
Norway (Free Banks)	(a)	42·0	49·8	49·2	53·3	52·6
	(b)	70·8	20·6	20·4	142·4	28·9
	(c)	*L12·8*	29·6	30·4	*L95·7*	18·5
Poland	(a)	94·2	85·2	59·7		
	(b)	43·8	7·6	30·0		
	(c)	*L38·0*	7·2	10·3		
Sweden	(a)	47·5	46·4	40·6	44·5	43·5
	(b)	23·3	12·3	24·7	36·4	146·0
	(c)	28·9	40·5	25·1	18·8	*L89·6*
Switzerland	(a)	49·9	48·1	49·6	49·6	51·3
	(b)	11·3	6·5	6·0	25·4	36·5
	(c)	38·8	45·4	44·1	24·7	11·9
England and Wales	(a)					
	(b)					
	(c)					
Scotland	(a)					
	(b)					
	(c)					
Ireland	(a)					
	(b)					
	(c)					
U.S.A. (National Banks)	(a)	53·0	51·2	52·7	55·7	54·2
	(b)	18·2	17·7	22·0	38·1	63·5
	(c)	28·8	31·1	25·3	5·9	*L17·7*
Australia and New Zealand	(a)					
	(b)					
	(c)					

Table XIV.

Yield of Banking Capital in Certain Countries

	(a) Gross Profits (b) Net Profit or *Loss (L)* as percentage of Capital and Reserves plus amounts brought forward				
	1925	1929	1930	1931	1932
(a)	41·0	28·0	23·6	24·5	32·6
(b)	8·2	5·4	5·0	*L34·4*	*L136·0*
(a)	34·6	27·2	25·0	24·8	
(b)	8·3	6·7	5·1	*L23·6*	
(a)	24·5	17·4	17·0	19·2	20·3
(b)	*L36·4*	6·4	6·0	*L1·9*	7·7
(a)	42·7	49·8	40·5	44·1	
(b)	12·4	8·1	4·6	4·1	
(a)	32·0	28·9	26·4	23·2	23·4
(b)	12·2	10·8	8·6	*L2·6*	4·8
(a)					
(b)	10·1	8·8	8·4	*L7·0*	6·3
(a)	18·6	23·1	23·3		14·1
(b)	8·4	10·9	10·2		3·0
(a)					
(b)	9·6	9·3	8·8	*L5·3*	5·5
(a)	57·8	51·8	50·1	66·4	58·6
(b)	7·5	7·0	4·5	*L118·1*	*L15·0*
(a)	29·1	25·1	23·3	19·4	17·8
(b)	9·8	8·7	6·3	4·6	3·4
(a)	37·5	27·6	27·0	18·6	11·8
(b)	9·5	6·2	*Lo·1*	*L10·1*	*L4·8*
(a)	17·1	20·3	11·0	16·0	16·1
(b)	1·9	6·1	1·8	*Lo·5*	2·1
(a)	16·2	16·2	16·1	20·1	18·2
(b)	*L2·1*	4·8	5·0	*L19·3*	3·4
(a)	52·3	41·3	15·3		
(b)	*L19·9*	3·2	4·6		
(a)	17·6	18·6	17·9	19·4	19·1
(b)	5·1	7·5	4·5	3·6	*L17·1*
(a)	16·2	15·0	14·8	14·6	13·1
(b)	6·3	6·8	6·5	5·6	1·6
(a)					
(b)	8·5	8·2	7·3	7·9	6·9
(a)					
(b)	7·5	7·7	7·4	7·2	7·2
(a)					
(b)	9·9	8·6	8·5	8·7	7·7
(a)	31·2	31·2	29·2	28·1	27·9
(b)	9·0	9·7	7·4	1·7	*L4·9*
(a)					
(b)	7·5	6·8	5·3	3·6	2·7

[1] 1930-1932, excluding the Creditanstalt. The complete figures including this institution for Table XIII were :

1930 : *(a)* 60.4 %, *(b)* 143.5 %, *(c) L116.8%*.
1931-32 : *(a)* 80.5 %, *(b)* 807.3 %, *(c) L818.6 %*.

The Creditanstalt has not published separate profit-and-loss accounts for the two years 1931 and 1932

banks was also impaired by losses in 1931. The Latvian banks suffered a net loss in each year since 1930, and Sweden (for reasons indicated above) and the United States of America in 1932

The yield of banking capital appears to have been better maintained in the British Isles than elsewhere In England and Wales, it was reduced from 8 2 per cent in 1929 to 6 9 per cent in 1932, in Scotland and Ireland, the reduction was even smaller.

The reduced profitability of banking is naturally reflected in the prices of bank shares. It is of interest to compare their trend in recent years with that of industrial shares, this comparison is made in Table XV below

Table XV.

INDICES OF PRICES OF BANK SHARES AND INDUSTRIAL SHARES IN CERTAIN COUNTRIES, 1930-1933

(1929=100)

	VI 1930	XII 1930	VI 1931	XII 1931	VI 1932	XII 1932	VI 1933	XII 1933
Belgium Banks	66	55	47	36	30	35	35	35
Belgium Industrial	72	55	52	35	29	36	35	29
Canada Banks	85	80	72	69	45	50	54	47
Canada Industrial	62	45	34	28	18	22	39	40
Denmark Banks	93	96	92	75	70	78	91	101
Denmark Industrial	92	90	88	81	71	74	85	90
France Banks	89	76	73	46	47	54	52	50
France Industrial	85	66	62	41	44	47	48	43
Germany Banks	88	74	66	[1]	35	35	37	...
Germany Industrial	86	62	53	[1]	36	47	56	52
Netherlands Banks	94	83	81	56	47	57	66	58
Netherlands Industrial	73	51	43	30	21	30	33	32
U K [2] Banks [3]	92	97	89	68	82	96	96	104
U K [2] Industrial	75	64	56	49	45	57	63	70
U S A Banks [4]	67	43	38	21	14	23	21	15
U S A Industrial	77	55	47	29	18	24	42	43
Sweden Banks	104	101	93	70	50	53	53	58
Sweden Industrial	90	80	73	48	31	35	39	39
Switzerland Banks	98	96	97	61	49	61	60	60
Switzerland Industrial	89	75	77	50	45	54	68	66

[1] No quotation.
[2] 31 XII 1928 = 100.
[3] Banks and discount companies.
[4] New York bank shares

State Intervention in Commercial Banking.

The years since 1929 have witnessed in most parts of the world a notable extension of the rôle of the State in the field of banking. This extension has taken several forms . direct financial assistance has been granted by Governments to banks to enable them to write off losses and improve their liquidity , legislation has been passed setting aside or changing past contracts ; legislation has been passed directly controlling the activities of commercial banks ; and, finally, new central banking institutions have been set up in several countries.

Direct Government Assistance to Commercial Banks.

The granting of direct Government assistance to commercial banks has been a particularly marked feature of the recent banking evolution in Central-European States. Reference has been made above to the fact that - in view of the immobilisation of their assets in the course of the depression - the commercial banks in several of these countries had extensive recourse to the central banks in connection with the financial crisis of 1931. Ultimately, the State took over from the central banks or directly from the commercial banks assets which could not be liquidated In *Austria*, for example, the Government contributed substantial amounts to cover the losses of the Creditanstalt and provide that institution with new capital By an arrangement reached in January 1933, the State became, along with the foreign creditors, the joint owner of the Creditanstalt. It took over from the Austrian National Bank all finance bills (571 million schillings) discounted for the Creditanstalt in the summer of 1931, and gave its own bonds in exchange. The Austrian Government also assisted in the re-organisation of the other Viennese banks through contributions to the Gesellschaft fur Revision und Treuhändige Verwaltung ; this trust company purchased frozen bank assets and took up new capital stock issued by banks

The part played by the *German* State in the banking re-organisation of that country is described in detail in the chapter on Germany The Government contributed over 400 million RM. to the institutions amalgamating into the new Dresdner Bank in order to enable them to write off bad assets. In exchange for its contributions, it received shares in the reconstructed bank of a nominal value of 152 million RM. The Reich also contributed considerable funds to the reconstructed Commerz- und Privat-Bank. Additional funds were supplied to that bank by the Golddiskont Bank (a subsidiary of the Reichsbank), which further contributed a great proportion of the fresh capital required by the Deutsche Bank. The Reich and the Lander helped in common in the reconstruction of various provincial institutions

As a result of these measures, the Reich held, directly or indirectly, at the beginning of 1934 (according to a statement by the President of the Reichsbank), over 70 per cent of the capital of all German banks with a share capital exceeding 10 million RM. Of the big Berlin banks, the Berliner Handelsgesellschaft alone remained entirely privately owned.

In *Roumania*, the State used resources obtained as a result of the Stabilisation Law of 1929 to relieve the National Bank of frozen assets and to support directly banks and other enterprises. In addition, it relieved by other means a Roumanian banking group of its share-holdings in a large petrol concern. In *Estonia*, help was given by the Government to the joint-stock banks through the National Mortgage Bank, and in *Poland* the Treasury granted certain assistance to financial institutions through the intermediary of the National Economic Bank

In *Italy*, the commercial banks were enabled to realise their frozen industrial advances through a special liquidation institute, the Società Finanziaria Industriale Italiana. This institute secures its funds by borrowing from the Istituto Mobiliare Italiano, which is authorised to issue State-guaranteed debentures. At the end of 1932, the Government established the Istituto per la Reconstructione Industriale to aid in the long-term financing of industry and in the unfreezing of credit. For the latter purpose, an annual Government subsidy is granted and the Institute is authorised to issue bonds , these funds are used to purchase frozen assets from commercial banks and other credit institutes.

In Western and Northern Europe, too, the State has granted important assistance to commercial banks. In *France*, for example, the Treasury advanced large sums in 1931-32 to prevent the failure of the Banque d'Alsace et Lorraine and the Banque Nationale de Crédit. The total financial assistance extended by the State in this connection amounted to almost 3.2 milliard francs. In *Switzerland*, the Federal Government established

in the summer of 1932 a Caisse des Prêts, with a guarantee fund of 100 million francs, to make advances to banks against illiquid assets. In 1933, it took up share capital of 100 million francs (of which 25 per cent paid up immediately) in the Banque Populaire Suisse and made substantial contributions to other banks to enable them to write off assets. In *Sweden*, the Treasury came to the assistance, in 1932, of the Skandinaviska Kreditaktiebolaget and certain other institutions affected by the Kreuger failure.

Direct State intervention has been a very striking feature of the banking history of the *United States of America* during the past few years Assistance has been granted chiefly through the instrumentality of the Reconstruction Finance Corporation, a Governmental institute established in February 1932. The Corporation has a capital of $500 million subscribed by the Treasury and, in addition, it is authorised to issue bonds unconditionally guaranteed by the United States Government up to an amount of almost $4,000 million. Between the date of its establishment and the end of 1933, the Corporation made cash advances aggregating some $4,500 million. Of its total loans and subscriptions, about $2,000 million remained outstanding at the end of 1933 In the course of 1932, it made loans of $850 million to 5,600 banking institutions, including 535 closed banks in the hands of receivers, and in 1933 it made further loans to banks amounting to $1,000 million Of its loans to banks, some $700 million were outstanding at the end of 1933.

In the last quarter of 1933, the Reconstruction Finance Corporation adopted the policy of buying preferred stock and capital notes in commercial banks By the end of 1933, the Reconstruction Finance Corporation had authorised purchases of preferred stock amounting to $825 million in over 4,500 American banking institutions. Many of the banks selling the Corporation their preferred stock had no need for the additional funds thus secured , to them the Corporation offered - until the middle of January 1934 - - its own short-term debentures bearing interest at 2-3 per cent

Legislation affecting Past Contracts

State intervention in commercial banking during the past few years has also taken the form of the enactment of laws setting aside or altering past contracts. The declaration of banking moratoria dispensed the banks of many countries of their obligation to repay depositors without suffering the legal consequences of such default. Reference may be made to the individual chapters for details regarding these moratoria , in Germany and Hungary, a three-days banking holiday was declared in July 1931, and withdrawals were subsequently limited to fixed proportions of deposits , similar restrictions were imposed in certain other European and in some Latin-American States , in the United States of America, partial or complete banking holidays were declared in all the forty-eight States during the crisis of February-March 1933 and culminated in the declaration of a national banking moratorium on March 4th, 1933.

Exchange restrictions, standstill agreements and transfer moratoria have all resulted in the temporary waiving of certain contractual obligations of commercial banks , in certain cases other obligations have been substituted - *e.g.* , banks have been required to surrender to the central monetary authority their gold and *devisen* holdings at fixed prices, to pay specified sums into blocked accounts with the central banks, etc. It is not possible to review here all the measures taken to protect currencies, but special reference may be made to certain laws which directly changed the content and tenor of commercial banks' contracts with their depositors.

After the stabilisation of the drachma in 1926, the commercial banks of Greece continued the practice of accepting deposits and making loans expressed in foreign currencies Greece abandoned the gold standard on April 24th, 1932 , on July 29th, 1932, a law was passed under which domestic debts of all kinds, including bank deposits, contracted in terms of foreign exchange before the abandonment of gold were converted to a drachma basis at the rate of 100 drachmæ = $1.[1]

The commercial banks of Brazil had also habitually accepted deposits expressed in foreign currencies , a decree issued in that country on April 25th, 1932, provided that all current account deposits in foreign currencies made in national banking establishments should be immediately converted into domestic currency at the prevailing rates of exchange.

The Hungarian Gold-Pengo Law, passed in the summer of 1931, was, in a sense, the opposite of the two laws last mentioned , it attached a gold clause to bank deposits made in the national currency. The law was designed to put a stop to runs on banks resulting from fear of depreciation of the pengo. It defined the gold content of the pengo, in which

[1] The par rate was 77 drachmæ and the rate at the end of July 1932 about 150 drachmæ to the dollar

bank deposits became payable, but provided that until further notice one paper pengo should be regarded as equivalent to one gold pengo.

Past contracts have been affected not only by measures taken for the protection of national currencies, but also by legislative measures taken for the relief of debtors. It is not necessary in this connection to refer to the voluntary and forced conversions of Government loans which have taken place in certain countries, and have affected the position of commercial banks and other holders of Government stock. Brief reference need only be made to two or three examples of legislation affecting private debtors This legislation has been common in the agricultural States, which suffered most severely from the fall in prices. In Hungary, for example, various temporary measures were passed in the summer of 1931 and subsequently to prevent the foreclosure of agricultural debtors for default, and to reduce interest rates, etc. In October 1933, a decree was passed regulating for a period of two years beginning January 1st, 1934, the position of internal agricultural debts, short- and long-term, and permanently relieving certain categories of the most heavily encumbered small owners of a portion of their debt. The bulk of the charges resulting from the application of this law will be met by the State , for this purpose, the statutes of the National Bank have been altered to enable it to lend 100 million pengo to the Government, to be repaid within the next ten years.

A Law on Conversion of Debts passed in Roumania in April 1932 provided that debtors could not be forced into liquidation for non-payment of debt , the capital of certain classes of debt was to be reduced and the State undertook to make good losses suffered by the Rural Credit Society, the Central Co-operative Bank, commercial banks, etc., through the application of this law The law was partly suspended in October 1932. Many banks, particularly the smaller institutions, have taken advantage of the new Law on Judicial Liquidation of Commercial Debts, passed in October 1932, which provided for the compulsory composition of debts in certain circumstances if a minimum of 40 per cent was offered to creditors.

In Bulgaria, a Law on Relief to Debtors and Rehabilitation of Credit was passed on December 31st, 1933. This law, which is applicable to debts contracted before 1931, gives relief to agriculturists, tradesmen and artisans, provided their assets are not less than 50 per cent of their liabilities, and to persons of liberal professions, workers, etc , without limitation. Banks are not subject to the provisions of the measure. An official Caisse d'amortissement is to take over certain debts and to pay creditors with its own bonds, guaranteed by the State. The State is to make certain contributions to the Agricultural Bank and to the Central Co-operative Bank (People's Banks) to enable them to grant direct relief to their debtors , no such provision is made for the commercial banks.

Legislation controlling Commercial Banks.

The detailed chapters which follow summarise most of the important legislation controlling the business of commercial banks which has been passed since the last issue of this memorandum Far-reaching changes have been introduced in certain European countries. In *Bulgaria*, the commercial banks were not subjected to any special regulations, apart from the law on companies, until the enactment of the Law for the Protection of Depositors at the beginning of 1931. This law lays down minimum capital requirements of joint-stock banks, provides that their sight deposits shall not exceed their unimpaired paid-up capital and reserve funds and fixes minimum ratios of cash and commercial paper to be held against deposits. The *Czechoslovak* Banking Law of April 24th, 1932, changes and supplements in important respects the law of 1924. It is chiefly concerned with widening the scope of the Special and General Guarantee Funds, the first of which is to help the banks cover losses suffered " as a result of special post-war conditions ", and the second to protect depositors against loss Under the new law, the Government may force the banks to change their interest rates where these " do not correspond to the economic conditions of the country " Minimum capital requirements are raised and the responsibilities of directors increased. The *Finnish* Banking Law of March 17th, 1933, replaces the laws of 1886 and 1901. It lays down minimum cash ratios and limits the banks' participation in industry. Banks are expressly prohibited from issuing bearer bonds. A Supplementary Law on Bank Inspection passed on the same date strengthens the official supervision of joint-stock banks and provides for more detailed information to be given in the obligatory returns submitted regularly by the banks to the banking inspectorate.

Of other recent banking legislation, special reference may be made to the modifications of the *Swedish* banking law which were passed in June 1933 and became effective in February 1934. New restrictions are imposed on the granting of credits destined for speculative purposes ; banks are

forbidden to hold their own shares. The new law also strengthens the supervisory powers of the State. In *Switzerland*, a banking law was introduced in March 1933, but has not been finally enacted at the time of writing. It provides for the annual audit of all bank balance-sheets by specially designated bodies, for more detailed balance-sheets, for a control by the National Bank of banks' loans abroad and foreign capital issues of an amount exceeding 10 million francs, for the special protection of savings deposits and for the establishment of a Federal Supervisory Commission for Banks. A special Commission of Enquiry has been considering the question of the reform of the *German* banking system for some time, but it has not yet submitted its report and no legislation has been introduced.

Several Latin-American States have revised their banking laws in recent years. A very comprehensive banking law was introduced in *Peru* in May 1931. This law provides for the establishment of an Inspectorate of Banks, to which the banks are required to submit regular returns on a specified form. It lays down rules for the establishment of joint-stock banks, imposes on them minimum capital and cash reserve requirements and in general regulates the business of banking. In *Chile*, a law of March 1932 limited severely the amount of credit which might be granted by banks to directors and employees. The Banco de *Mexico* was required, by a law passed in April 1932, to give up its ordinary commercial banking business and confine itself to central banking activities, the commercial banks must buy shares in the Banco de Mexico or maintain sight deposits with it to a specified proportion of their own deposit liabilities. In June 1932, a further law was passed regulating the organisation and business of Mexican "credit institutions" and extending the powers of supervision and control exercised by the National Banking Commission.

In the *United States of America*, many important changes were introduced in the Glass Banking Act of June 1933. This measure is primarily designed to restrict the use of commercial bank credit for speculative purposes and to ensure depositors against loss through bank failures, etc. Towards the first end, member banks are required to divorce their security affiliates; and restrictions are placed on the granting of security loans to brokers and others. The deposits of banks buying stock in the Federal Deposit Insurance Corporation are ensured, after July 1st, 1934, in proportions ranging from 50 to 100 per cent, according to the size of the deposit. After July 1st, 1936, all stock-holding banks must be members of the Federal Reserve System. Other sections of the law extend somewhat the authority of national banks to open branches and prohibit member banks from paying interest on demand deposits and from waiving requirement of notice before payment of time and savings accounts.

Growth of Central Banking

During the past few years, new central banks have been projected or established, and existing institutions have been strengthened in their central banking functions, in several countries. This development has been particularly marked in Latin America and in the British Dominions. In *Mexico*, *Bolivia* and *Brazil*, banks which formerly carried on both central and commercial banking business have increasingly concentrated on the former. In the *Argentine*, the rediscount operations of both the Banco de la Nacion Argentina, a State institution carrying on chiefly commercial banking business, and the official Caja de Conversion, which is primarily responsible for the note-issue, have been developed in recent years. Proposals have been made for the establishment of a central bank to take over all the central banking functions performed by these two institutions.

In *Australia*, the central banking functions of the Commonwealth Bank have been increasingly developed in recent years. Since 1931, this bank has centralised foreign exchange operations, and has assisted in a programme of credit expansion for State purposes by discounting Treasury bills. Moreover, the ordinary banks have held an increasing proportion of their cash reserves in the form of deposits with the Commonwealth Bank and notes issued by that institution.

In *New Zealand*, an Act of Parliament was passed in November 1933, providing for the establishment of a Reserve Bank. The commercial banks are to lose their right of note issue, and have been required to turn over to the new Reserve Bank their gold holdings at their nominal price. The Reserve Bank is to begin functioning on August 1st, 1934. On February 16th, 1934, the Reserve Bank Bill of *India* was passed by Council-in-State, the Imperial Bank is to be relieved of its central banking functions when the new institution is established. In *Canada*, the Royal (Macmillan) Commission on Finance and Industry, which reported in the latter part of 1933, recommended the establishment of a central bank. A Bill to this end was introduced in Parliament in February 1934.

APPENDICES.

(Observations regarding the composition of the various items, given in the corresponding tables of the last edition of this memorandum, are omitted for reasons of space. Reference should be made to those observations in the previous edition and to the detailed notes given in the individual chapters.)

Appendix I. — PERCENTAGE MOVEMENTS OF DEPOSITS

(1929 100)

a Current accounts and sight deposits, *b* Other deposits, *c* Total deposits.

Country		1925	1929	1930	1931	1932
EUROPE						
Austria	*a*	90	100	122		54
	b	29	100	120		34
	c	79	100	121		51
Belgium	*a*	53	100		94	82
	b	56	100	.	81	71
	c	54	100	102	91	79
Bulgaria	*a*	.		.	.	.
	b	.		.	.	.
	c	*60	100	85	64	56
Czechoslovakia	*a*	90	100	103	85	
	b	82	100	111	102	
	c	86	100	107	93	
Denmark	*a*	107	100	111	99	97
	b	106	100	104	98	94
	c	106	100	106	98	95
Estonia	*a*	*55	100	108	92	87
	b	*42	100	113	103	70
	c	*50	100	110	96	81
Finland	*a*	87	100	105	110	108
	b	70	100	102	96	93
	c	73	100	103	99	96
France	*a*	64	100	104	106	104
	b	27	100	112	89	80
(Deposit banks)	*c*	61	100	105	105	102
France (Investment banks)	*a*	93	100	109	79	87
	b	60	100	83	58	49
	c	79	100	98	70	71
France (Deposit and Investment banks)	*a*	66	100	105	104	102
	b	40	100	100	77	68
	c	63	100	104	101	99
Germany	*a*[1]		100	102	90	81
	b[1]		100	87	53	54
(All banks)	*c*[1]		100	93	67	64
"	*c*[2]		100	90	64	58
"	*c*[3]	51	100	91	64	.
Germany	*a*[4]		100	97	78	71
(Big Berlin banks)	*b*[4]		100	83	51	55
	c[4]		100	86	62	61
"	*c*[3]	41	100	87	58	54
Greece	*a*		100	99	79	73
	b		100	134	144	141
	c	. .	100	113	104	100
Hungary	*a*					.
	b	.				.
	c	40	100	105	85	77
Italy	*a*[5]	*94	100	100	88	
	b	*93	100	103	85	
(All banks)	*c*[5]	*93	100	101	87	.
"	*a*[6]	*80	100	94	83	
	b	*93	100	103	85	.
"	*c*[6]	*90	100	101	84	
Italy	*c*[5]	86	100	105	94	91
(Principal banks)	*c*[6]	78	100	99	89	92
Latvia	*a*	45	100	103	43	44
	b	68	100	108	62	43
	c	17	100	103	44	44
Lithuania	*a*		.	.		
	b		.	.		
	c	57	100	126	104	101
Netherlands	*a*	107	100	112	92	96
	b	80	100	106	91	70
	c	93	100	109	92	82
Norway	*a*	73	100	103	91	81
	b	124	100	102	94	84
	c	118	100	102	94	84
Poland	*a*	48	100	101	70	60
	b	14	100	116	64	58
	c	31	100	109	67	59
Portugal	*a*	74	100	81	96	
	b	68	100	88	62	
	c	70	100	85	78	
Roumania	*a*					
	b	.		.	.	
	c	55	100	104	59	
Spain	*a*	72	100	108		
	b	55	100	107		
	c	65	100	108	.	
Sweden	*a*	106	100	103	93	95
	b	99	100	105	104	104
	c	100	100	104	102	102
Switzerland	*a*	73	100	61	65	64
	b	71	100	123	119	116
	c	72	100	108	104	102
United Kingdom and Irish Free State						
England & Wales (10 London Clearing banks)	*a*	100	100	104	90	104
	b	83	100	104	104	118
	c	92	100	104	97	110
England and Wales (All banks)	*c*	95	100	103	95	108
Scotland	*c*	96	100	102	97	110
Ireland	*c*	104	100	101	101	111
Yugoslavia	*a*	.			.	
	b	.			.	
	c	83	100	107	89	.
NORTH AMERICA						
Canada	*a*	78	100	84	85	66
	b	89	100	96	89	91
	c	86	100	92	88	83
U S A [7] (All banks)	*a*	71	100	100	89	69
	b	110	100	102	97	74
	c	88	100	101	92	71
U S A [7] (National banks)	*a*	91	100	103	96	76
	b	80	100	105	103	87
	c	86	100	104	99	81
LATIN AMERICA						
Argentina	*a*	99	100	104	83	91
	b	81	100	101	93	90
	c	87	100	102	90	90
Bolivia	*a*	116	100	79	73	185
	b	102	100	74	73	97
	c	109	100	77	73	128
Brazil	*a*	69	100	82	100	136
	b	51	100	118	101	87
	c	62	100	97	101	115
Chile	*a*	*141	100	85	78	117
	b	*71	100	90	66	58
	c	*90	100	88	71	82
Colombia [7]	*a*	53	100	66	53	63
	b	43	100	94	115	103
	c	50	100	74	72	75
Ecuador	*a*	.		100	97	52
	b			100	111	68
	c	.		100	97	57
Mexico	*a*	77	100	104	58	77
	b	27	100	140	101	63
	c	67	100	111	67	74
Peru [8]	*a*	81	100	61	57	61
	b	107	100	78	63	68
	c	94	100	69	60	59
Uruguay	*a*	64	100	103	93	94
	b	61	100	108	99	95
	c	63	100	106	96	95
Venezuela	*a*	.	.	.	.	.
	b			.		
	c	72	100	48	67	70
ASIA						
India	*a*	.	.	.	.	.
	b	.	.	.	.	
	c	100	100	103	97	

* 1926

* 1926

Country		1925	1929	1930	1931	1932
ASIA *(continued)*:						
Japan	*a*	106	100	91	82	86
(Clearing-House Member banks)	*b*	83	100	99	97	101
	c	89	100	97	93	98
SOUTH AFRICA and OCEANIA :						
Union of South Africa [9]	*a.*	109	100	91	81	76
	b.	89	100	118	106	103
	c.	99	100	105	93	90
Union of South Africa [10] . . .	*a.*	87	100	95	79	95
	b.	68	100	111	90	104
	c	78	100	103	84	100
Australia [11]	*a*	124	100	90	97	99
	b.	83	100	101	107	105
	c.	96	100	97	104	103
New Zealand [11] . . .	*a.*	119	100	78	72	81
	b.	70	100	104	104	108
	c	89	100	94	75	98
Australasia [12] . . .	*a*	.		.	.	
	b.	.				
	c.	90	100	95	98	100

[1] November returns , deposits and balances due to German banks
[2] November returns ; deposits only
[3] December figures , deposits only
[4] Deposits and balances due to German banks
[5] Current accounts include correspondents
[6] Deposits only
[7] End of June each year
[8] Figures for 1925 and 1929 have been converted into soles.
[9] Deposits within the Union only
[10] Including deposits with branches outside the Union
[11] End of June following year Deposits within the Dominion only.
[12] End of June following year Including deposits with branches outside the Dominions

Appendix II. — COMPOSITION OF DEPOSITS.

a Current accounts and sight deposits
b Other deposits
} as percentage of total deposits

Country		1925	1929	1930	1931	1932
EUROPE						
Austria	*a*	93 3	82 0	82 2		88 0
	b	6 7	18 0	17 8	.	12 0
Belgium . . .	*a*	71 3	72 5	.	75.3	75.4
	b	28.7	27 5	.	24.7	24 6
Czechoslovakia	*a*	54 2	52 1	50 2	47 7	.
	b	45 8	47 9	49 8	52 3	
Denmark .	*a* .	27 8	27 7	29 1	27 8	28 2
	b	72 2	72 3	70 9	72 2	71 8
Estonia .	*a*	*69 3	63 2	61 9	60 6	67 9
	b .	*30.7	36.8	38 1	39 4	32 1
Finland . .	*a*	23 7	19 9	20 2	22 2	22 5
	b	76 3	80 1	79 8	77 8	77 5
France (Deposit banks)	*a*	96 7	92 7	92 2	93 8	94 2
	b .	3 3	7 3	7 8	6 2	5 8
France (Investment banks)	*a*	67.7	57 4	64 0	64 7	70 5
	b	32 3	42 6	36.0	35 3	29 5
France (Deposit and Investment banks)	*a*	93 0	89 1	89.5	91 7	92.5
	b	7 0	10 9	10 5	8 3	7.5
Germany [1] . . (All banks)	*a*	.	37 1	40 7	50 3	46 7
	b		62.9	59 3	49 7	53 3
Germany [2] . . (Big Berlin banks)	*a*		41 8	45 8	52.3	48 2
	b .		58 2	54 2	47.7	51 8
Greece .	*a* .		61 2	53.9	46 6	45.1
	b		38.8	46.1	53.4	54.9
Italy . . (All banks)	*a* [3].	*73.0	72.8	72 1	73 5	.
	b .	*27.0	27 2	27 9	26 5	.
Italy . . (All banks)	*a* [4]	*20 3	22 8	21.2	22 6	.
	b	*79 7	77.2	78.8	77 4	.
Latvia .	*a*	91 3	94 0	93.7	91 6	94.2
	b	8 7	6 0	6.3	8 4	5.8
Netherlands	*a*	54 0	46 8	48 3	47 1	54 5
	b	46 0	53 2	51 7	52 9	45 5
Norway . .	*a* .	7 2	11.7	11 8	11 4	11 3
	b	92 8	88 3	88 2	88 6	88 7
Poland	*a*	76 9	49 2	45 9	51 4	49.8
	b	23 1	50 8	54 1	48 6	50 2
Portugal .	*a* .	48.2	46.1	44.0	57 1	.
	b .	51 8	53 9	56 0	42 9	
Spain .	*a*	66 6	60 6	60 7		
	b	33 4	39.4	39 3	.	
Sweden	*a*	20 0	18 9	18 8	17 2	17 6
	b .	80 0	81.1	81.2	82 8	82 4
Switzerland .	*a*	27.9	27 5	15.5	17.2	17 4
	b [5].	72.1	72 5	84.5	82 8	82 6
United Kingdom and Irish Free State ·						
England & Wales (10 London Clearing banks)	*a* .	58.7	54 0	53 9	50.6	50 7
	b .	41.3	46.0	46 1	49 4	49 3
NORTH AMERICA						
Canada . . .	*a* .	27.7	30.4	27.7	29.5	24 0
	b .	72.3	69.6	72 3	70.5	76.0
U S A [6] . (All banks)	*a*		56 6	55 1	54.5	54 7
	b .	.	43 4	44.9	45 5	45 3
U S.A. [6] (National banks)	*a*	59 5	56.3	55 9	54 7	52.9
	b	40 5	43 7	44 1	45 3	47 1
LATIN AMERICA						
Argentine .	*a*	35.3	30.9	31.3	28 4	31 3
	b .	64 7	69 1	68.7	71.6	68 7
Bolivia .	*a*	55 4	52 2	53 6	52 2	75.1
	b	44 6	47 8	46 4	47 8	24 9
Brazil . .	*a*	66 1	58.8	49 8	58 5	69 2
	b .	33 9	41 2	50 2	41 5	30 8
Chile . .	*a*	*57 3	40 2	38 8	44.2	57.6
	b	*42 7	59 8	02 2	55 8	42.4
Colombia [6]	*a*	73 3	69 0	60 8	50 8	57 5
	b .	26 7	31 0	39 2	49 2	42.5
Ecuador	*a*	.	71 3	67 0	65 3	81.9
	b .	.	28 7	33 0	34 7	18 1
Mexico .	*a*	92 0	80 4	75 2	70.2	83.4
	b .	8.0	19 6	24 8	29.8	16.6
Peru .	*a*	44 1	51 2	45 0	48 8	52.4
	b	55 9	48 8	55 0	51 2	47 6
Uruguay .	*a*	48 7	47 4	46 1	46 0	47 1
	b	51 3	52 6	53 9	54 0	52 9
ASIA						
Japan (Clearing-House Member banks)	*a*	27 1	22 7	21 3	19 9	19 9
	b	72 9	77 3	78 7	80 1	80 1
SOUTH AFRICA and OCEANIA						
Union of South Africa [7 8]	*a*	55 4	50.3	43.9	43 6	42 8
	b	44 6	49 7	56 1	56 4	57 2
Union of South Africa [8]	*a*	55 6	49 5	45 6	46 4	47 2
	b	44 4	50 5	54 4	53 6	52 8
New Zealand [9]	*a*	52 5	39 5	32 9	31 1	32 9
	b	47 5	60 5	67.1	68 9	67 1
Australia [9]	*a*	42 8	30 5	30 9	31 1	32 1
	b .	57 2	60 5	69 1	68 9	67 9

[1] November returns Including balances due to German banks.
[2] Including balances due to German banks
[3] Including correspondents
[4] Deposits only
[5] Including the "Obligationen" issued by the banks.
[6] End of June each year.
[7] Deposits within the Union only
[8] Including deposits with branches outside the Union.
[9] End of June following year Deposits within the Dominion only

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Appendix III. — PERCENTAGE MOVEMENTS OF CREDITS AND INVESTMENTS.

(1929 100)

a Discounts
b Loans and advances
c Total discounts, loans and advances
d Government securities
e Other investments and participations.
f Total

Country		1925	1929	1930	1931	1932
EUROPE						
Austria	*a*	64	100	85		28
	b	82	100	117		59
	c	80	100	113		55
	d	95	100	130		63
	e					
	f	81	100	115		56
Belgium	*a.*	48	100	104	101	83
	b	40	100	98	74	59
	c	42	100	99	80	64
	d.	74	100	125	126	123
	e					
	f	47	100	104	88	74
Bulgaria	*a*	*49	100	75	54	45
	b	*71	100	89	67	53
	c.					
	d					
	e					
	f	62	100	83	61	50
Czechoslovakia	*a.*	89	100	103	79	
	b	86	100	99	83	
	c	86	100	100	83	
	d	60	100	110	112	
	e					
	f	83	100	101	87	
Denmark	*a.*	114	100	106	107	87
	b	108	100	99	98	88
	c	100	100	101	100	88
	d	96	100	96	77	86
	e	102	100	116	104	102
	f.	107	100	104	100	91
Estonia	*a*	*42	100	91	76	69
	b	*65	100	115	98	86
	c	*54	100	104	88	78
	d	*71	100	143	121	136
	e					
	f	*55	100	105	88	79
Finland	*a*	58	100	82	71	55
	b	73	100	104	103	102
	c	68	100	96	92	86
	d.	38	100	106	122	128
	e.	104	100	122	129	160
	f	69	100	97	93	88
France (Deposit banks)	*a*	66	100	95	81	98
	b	45	100	115	97	73
	c	59	100	102	86	89
	d	88	100	117	132	101
	e					
	f	59	100	102	86	89
France (Investment banks)	*a*	80	100	97	82	96
	b	65	100	78	46	33
	c	71	100	85	59	56
	d	55	100	109	118	115
	e					
	f.	68	100	89	69	66
France (Deposit and investment banks)	*a*	67	100	95	81	98
	b	48	100	109	88	66
	c	60	100	100	84	86
	d	63	100	111	121	112
	e					
	f	60	100	100	84	87
Germany [1] (All banks)	*a*	.	100	85	62	66
	b		100	102	79	66
	c		100	97	75	66
	d	.	100	141	1.190	1.741
	e		100	94	117	102
	f.	.	100	97	80	72
Germany [2] (All banks)	*a.*	52	100	90	61	.
	b	45	100	97	66	
	c	47	100	95	65	.
	d	47	100	98	129	
	e					
	f.	47	100	95	69	.
Germany (Big Berlin banks)	*a.*	43	100	85	49	57
	b	37	100	96	65	58
	c	39	100	93	60	57
	d	7	100	127	373	440
	e	59	100	91	85	97
	f	40	100	93	61	60

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Country		1925	1929	1930	1931	1932
Greece	*a*	.	100	69	58	42
	b		100	150	142	141
	c		100	122	113	108
	d		100	123	123	110
	e					
	f		100	122	115	108
Hungary	*a*	35	100	109	103	93
	b	37	100	105	91	78
	c	36	100	107	97	85
	d	85	100	98	96	213
	e					
	f	38	100	107	97	89
Italy (All banks) [1]	*a*	*98	100	104	102	
	b	*78	100	97	73	
	c	*88	100	101	87	
	d	.	100	103	75	
	e					
	f	*83	100	101	85	
Italy (All banks) [4]	*a*	*98	100	104	102	.
	b	*57	100	90	53	
	c	*87	100	100	88	.
	d.		100	103	75	
	e					
	f	*81	100	101	85	
Italy (Principal banks) [3]	*a*	104	100	107	122	114
	b	79	100	104	76	74
	c	92	100	106	100	95
	d	70	100	101	65	71
	e					
	f	89	100	105	95	97
Italy (Principal banks) [4]	*a*	104	100	107	122	114
	b	77	100	84	54	42
	c	99	100	103	100	100
	d.	70	100	101	65	71
	e					
	f	94	100	103	101	95
Latvia	*a*	47	100	91	41	29
	b	58	100	94	51	42
	c	51	100	93	47	37
	d	42	100	125	125	131
	e					
	f	53	100	94	49	39
Lithuania	*a*	50	100	164	123	96
	b	62	100	113	112	96
	c	59	100	127	115	96
	d	35	100	97	97	94
	e					
	f	55	100	123	113	96
Netherlands	*a*	95	100	101	82	81
	b	90	100	91	82	65
	c	91	100	94	82	69
	d.	130	100	135	146	128
	e					
	f	95	100	97	88	74
Norway	*a*	123	100	104	100	96
	b	141	100	100	100	94
	c	135	100	101	100	95
	d.	114	100	98	86	76
	e		100	103	88	83
	f.	131	100	101	97	92
Poland	*a*	23	100	92	56	44
	b	37	100	110	80	69
	c	30	100	102	69	57
	d.	52	100	102	87	83
	e.					
	f.	32	100	102	70	59
Portugal	*a*	70	100	66	55	
	b.	76	100	96	86	.
	c.	72	100	79	68	.
	d.	59	100	93	79	.
	e.					
	f	71	100	80	69	.
Roumania	*a*	49	100	98	81	.
	b.	60	100	100	72	
	c.	54	100	99	77	
	d	67	100	96	99	.
	e					
	f	55	100	99·	78	

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Country		1925	1929	1930	1931	1932
Spain	*a.*	74	100	102	.	.
	b	75	100	105	.	.
	c	75	100	104	.	.
	d	61	100	113		
	e.	47	100	105		
	f	66	100	108		
Sweden	*a*	86	100	110	102	118
	b	104	100	106	106	95
	c	100	100	107	105	100
	d	88	100	117	104	108
	e					
	f	99	100	108	105	101
Switzerland	*a*	70	100	105	72	60
	b	73	100	103	101	101
	c	72	100	103	97	96
	d	74	100	116	121	121
	e					
	f	73	100	104	99	97
United Kingdom and Irish Free State	*a*	101	100	141	104	174
England and Wales	*b*	91	100	94	91	78
	c	93	100	102	93	64
	d	111	100	119	119	197
	e	111	100	102	102	118
	f	96	100	105	97	111
Scotland	*a.*	97	100	100	133	140
	b	83	100	94	79	70
	c	85	100	95	86	80
	d	117	100	116	119	163
	e	79	100	130	139	165
	f	95	100	103	99	109
Ireland	*a*	159	100	531	533	592
	b	102	100	75	75	69
	c	105	100	98	98	96
	d	102	100	101	100	115
	e					
	f	103	100	101	99	105
Yugoslavia	*a*	61	100	107	101	
	b	98	100	117	102	
	c	83	100	113	102	
	d	71	100	127	117	
	e					
	f	83	100	114	103	
NORTH AMERICA	*a.*		.			
	b					
Canada	*c*	71	100	81	73	64
	d	125	100	137	162	186
	e	97	100	118	113	93
	f	79	100	90	86	82
USA [5]	*a*					
	b					
	c	81	100	97	82	62
	d	87	100	97	145	51
	e	89	100	108	97	75
	f	83	100	99	91	73
USA [6]	*a*					
	b					
	c	86	100	101	89	69
	d	88	100	100	119	123
	e	84	100	108	111	91
	f	86	100	101	97	81
LATIN AMERICA	*a*	99	100	101	102	93
	b	78	100	109	99	95
Argentine	*c*	87	100	105	100	94
	d.	66	100	112	125	126
	e					
	f.	86	100	106	102	96
Bolivia	*a*	68	100	91	91	54
	b	182	100	98	87	89
	c	145	100	95	88	78
	d	127	100	118	148	416
	e					
	f	141	100	100	101	157
Brazil	*a*	77	100	85	83	102
	b	52	100	103	101	105
	c	63	100	95	92	104
	d	126	100	138	157	161
	e					
	f	66	100	96	95	106
Chile	*a*	*75	100	76	32	26
	b	*97	100	103	93	94
	c	*91	100	95	74	73
	d.	*581	100	88	200	156
	e	*85	100	102	78	88
	f.	*95	100	95	76	75

Country		1925	1929	1930	1931	1932
Colombia [5]	*a*	35	100	84	69	41
	b	49	100	86	89	75
	c	41	100	85	78	57
	d	57	100	108	121	145
	e					
	f	43	100	87	83	66
Ecuador	*a*		100	109	73	84
	b	.	100	91	73	73
	c	.	100	95	73	76
	d		100	100	100	100
	e		100	103	79	77
	f		100	96	74	76
Mexico	*a*	59	100	104	45	51
	b	172	100	97	104	88
	c	125	100	100	79	73
	d	204	100	97	60	68
	e					
	f	135	100	100	77	72
Peru [6]	*a*	104	100	70	48	66
	b	82	100	76	80	82
	c	92	100	73	66	75
	d	75	100	89	4	9
	e				44	40
	f	89	100	76	63	70
Uruguay	*a*	17	100	74	39	--
	b	70	100	107	101	103
	c	75	100	107	100	101
	d	91	100	522	456	389
	e.					
	f	75	100	111	104	104
Venezuela	*a*	39	100	119	126	109
	b	61	100	92	101	104
	c	58	100	96	105	105
	d	97	100	103	93	128
	e					
	f	61	100	96	103	100
ASIA						
Japan (Clearing House Member banks)	*a.*	179	100	95	87	94
	b	97	100	102	102	101
	c	110	100	101	100	100
	d	60	100	96	93	96
	e					
	f	92	100	99	97	99
SOUTH AFRICA and OCEANIA						
Union of South Africa [7]	*a*	85	100	74	58	57
	b	72	100	92	100	86
	c	75	100	87	89	79
	d	83	100	151	154	209
	e	167	100	67	83	133
	f	77	100	91	93	87
Union of South Africa [8]	*a*	103	100	82	55	62
	b	59	100	89	86	81
	c	71	100	87	78	76
	d	59	100	182	129	223
	e	108	100	75	97	108
	f	69	100	103	86	101
Australia [9]	*a*					.
	b					.
	c	80	100	92	87	89
	d	87	100	111	226	274
	e					
	f	81	100	93	97	102
New Zealand [9]	*a*	142	100	75	58	50
	b	89	100	99	94	87
	c	90	100	99	94	86
	d	93	100	82	163	257
	e	129	100	57	57	57
	f	91	100	97	100	102
Australasia [10]	*a*	.	.			.
	b	.		.	.	.
	c	81	100	95	90	89
	d	114	100	101	147	170
	e					
	f	84	100	96	96	99

[1] November returns
[2] December figures
[3] Loans include correspondents
[4] Loans excluding correspondents
[5] End of June each year
[6] Figures for 1925 and 1929 have been converted into soles
[7] Accounts of offices within the Union only
[8] Including accounts of branches outside the Union
[9] End of June following year Accounts of domestic offices only
[10] End of June following year Including accounts of branches outside the Dominions

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Appendix IV. — COMPOSITION OF CREDITS.

a Discounts
b Loans and advances
c Government securities
d Other investments and participations

} as percentage of total of these items.

Country		1925	1929	1930	1931	1932
EUROPE						
Austria	*a.*	9 7	12 4	9 2		6 2
	b.	77 9	77 0	78 8		81.8
	c					
	d.	12 4	10 6	12 0	.	12.0
Belgium . .	*a.*	19.6	19 2	19 2	22 2	21.5
	b.	53 8	63 8	60 3	53 4	50 4
	c.					
	d	26 6	17 0	20 5	24 4	28 1
Bulgaria . . .	*a.*	*35.2	43.7	39 7	32 7	32.2
	b	*64 8	56 3	60 3	61 3	60 5
	c.				0.1	0 5
	d			.	0 5	6 8
Czechoslovakia .	*a*	10 8	10 1	10 2	9 1	
	b.	79.1	76.0	74.7	73 0	.
	c.	10 1	13 9	15.1	17.9	.
	d.					
Denmark . . .	*a*	17.5	16 5	16.0	17.7	15.9
	b	60 0	59 6	57.2	58 6	58 0
	c	3.8	4 2	3 9	3 2	4 0
	d	18 7	19 7	22 0	20 5	22 1
Estonia . .	*a*	*34.7	45.7	39 9	39 4	39.9
	b.	*63.5	53.0	58 2	58 7	57 7
	c.					
	d.	*1.8	1 3	1.9	1 9	2 4
Finland	*a.*	28 8	34 1	28 9	26 2	21 5
	b.	67 4	63 2	67 8	70 1	73 7
	c	0.2	0.3	0 3	0 4	0 5
	d.	3.6	2 4	3.0	3.3	4 3
France .	*a*	72.5	64.5	60 0	60 2	70.8
(Deposit banks)	*b*	26.5	34 8	39 2	38 8	28.4
	c					
	d	1 0	0.7	0 8	1 0	0 8
France .	*a*	36.5	30 9	33 7	36 8	44 9
(Investment	*b.*	50 2	52 6	46 0	34 9	26 4
banks) . .	*c.*					
	d.	13.3	16.3	20 3	28 3	28 7
France .	*a*	67 6	60 5	57 2	57 9	68 5
(Deposit and	*b*	29.7	36 9	39 9	38 4	28 2
Investment	*c*					
banks)	*d.*	2 7	2 6	2.9	3.7	3 3
Germany [1] . . .	*a.*	.	23.3	20 3	18 2	21 3
(All banks)	*b.*	.	70.9	74 0	70 6	65.8
	c	.	0 2	0 3	3 0	4 9
	d.	.	5 6	5 4	8.2	8 0
Germany [2] .	*a*	28.3	25.6	24 2	22 7	.
(All banks)	*b*	64.8	67.5	68.7	64 5	
	c.					
	d.	6 9	6 9	7 1	12 8	.
Germany	*a.*	30 5	27 8	25 3	22 0	26 4
(Big Berlin	*b*	63 0	67.7	70 2	71 2	65 5
banks)	*c*	0 0	0 1	0 2	0 8	1 0
	d	6.5	4 4	4 3	6.0	7.1
Greece .	*a*	.	27.8	15 5	14 0	10.7
	b	.	54 0	66 2	66.5	70 7
	c					
	d	.	18.2	18.3	19.5	18 6
Hungary	*a*	43.7	46.7	47.9	49 8	48 9
	b	49.3	50 2	49 2	47 1	43 6
	c					
	d	7 0	3.1	2 9	3.1	7 5
Italy .	*a*	*48 9	41 5	42 7	49 6	
(All banks) [3]	*b*	*40 3	43 1	41 5	36.9	
	c					
	d	*10 8	15 4	15 8	13 5	.
Italy	*a*	*68.7	56 3	58.2	67.5	
(All banks) [4]	*b*	*16.1	22 7	20 2	14 1	.
	c.					
	d.	*15.2	21.0	21 6	18 4	.
Italy . .	*a*	52 6	45 0	45 9	57 7	56 0
(Principal	*b*	37 7	42 7	42 2	33 9	34.5
banks) [3]	*c*					
	d	9 7	12.3	11.9	8.4	9.5
Italy .	*a*	73 4	66 1	69 1	79 8	79 5
	b.	13 0	15 8	13 0	8 5	7 0
(Principal banks) [4]	*c*					
	d	13 6	18 1	17 9	11.7	13 5
Latvia	*a*	34.5	39.0	37 9	32 3	29.3
	b	63.6	58.6	58 8	61.5	62 5
	c.					
	d	1 9	2 4	3 3	6 2	.8 2
Lithuania	*a*	21.7	23 8	31.7	25.9	23.9
	b.	69.2	61.7	56.9	61.6	61 9
	c					
	d	9 1	14.5	11 4	12 5	14 2
Netherlands .	*a*	25 7	25.6	26 6	24 0	27 8
	b	62 2	65 6	61.3	61 5	57 1
	c					
	d	12 1	8 8	12 1	14 5	15 1
Norway .	*a*	24 0	25 6	26 3	26 2	26 8
	b	58.1	54 0	53 2	55 5	55 1
	c		6 0	5.8	5 3	5 0
	d	17 9	14 4	14 7	13 0	13 1
Poland	*a*	31 8	43 7	39 6	35 3	32 5
	b	59 6	51 1	55 2	58.2	60 1
	c					
	d	8 6	5 2	5 2	6 5	7 4
Portugal .	*a*	52 1	53 1	44 0	42 5	.
	b.	41 0	38 6	46 3	48 0	.
	c					
	d	6.9	8.3	9 7	9 5	.
Roumania	*a*	38 3	43 8	43 4	45 3	.
	b.	51 2	47 5	48 1	43 7	.
	c.					
	d	10.5	8 7	8 5	11 0	.
Spain	*a.*	26 1	22.9	22 0		.
	b.	35 6	31 4	30 9		.
	c	24 7	26 8	28 5		.
	d	13.6	18.9	18 6		.
Sweden	*a*	19.6	22.5	22 9	21.9	26 4
	b	72.8	69 0	67 9	69 7	64 5
	c					
	d.	7 6	8 5	9 2	8 4	9 1
Switzerland	*a*	11.4	11 9	12 0	8 6	7 3
	b.	81 3	80.9	80 0	82 6	83 7
	c					
	d	7 3	7 2	8 0	8 8	9 0
United Kingdom and Irish Free State :						
England and Wales	*a*	15 4	14 6	19 7	15 7	22 8
	b	63 1	66.8	59 9	62 3	46 7
	c	17.5	15 1	17 1	18 4	26 9
	d	4 0	3 4	3.3	3 6	3 6
Scotland	*a*	9 3	9 1	8 8	12 3	11 7
	b	48 7	55 7	51 0	44 5	35 7
	c.	39 5	32 2	36 4	39 0	48 1
	d	2 5	3 0	3.8	4 2	4 5
Ireland	*a*	4.1	2.7	14 1	14 5	15 2
	b.	49 7	50 4	37.5	38 2	33 4
	c.					
	d	46 2	46 9	48 4	47 3	51 4
Yugoslavia . .	*a.*	26 7	36 2	33 9	35 8	.
	b.	67 3	56.8	58 3	56 2	.
	c.					
	d.	6 0	7.0	7 8	8 0	.
NORTH AMERICA						
Canada	*a.*	74 4	83 3	74 9	70 1	64 7
	b.					
	c.	22.6	14.3	21 9	26 7	32 5
	d	3 0	2.4	3.2	3 2	2 8
U S A [5] (All banks)	*a*	70.8	33 0	35.0	31 1	29 3
	b		39 4	36.1	34 0	31 6
	c	10 9	10 4	10 2	16 6	21 5
	d	18 3	17 2	18 7	18 3	17 6
U.S A [5] . . (National banks)	*a.*	68 9	35.3	32.5	30.2	28.2
	b		33 7	35 9	33 0	30.6
	c	17.0	16 6	16.3	20 4	25.1
	d	14.1	14 4	15 3	16 4	16.1
LATIN AMERICA .						
Argentine . . .	*a*	49.4	42 9	40 9	42.9	41 5
	b	46.6	51.8	53 5	50 6	51 5
	c.					
	d.	4.0	5 3	5.6	6.5	7.0
Bolivia . .	*a.*	12 0	25.1	22 7	22.7	8.6
	b	68 6	53 3	51 9	45.7	30.1
	c.					
	d.	19.4	21.6	25.4	31 6	61.3

* 1926

Country		1925	1929	1930	1931	1932
Brazil	a	51.7	44.4	30.3	38.8	42.9
	b	41.3	51.9	55.4	55.1	51.5
	c	70	37	53	61	56
	d					
Chile	a	*22.6	28.4	22.6	12.2	9.9
	b	*66.0	64.2	69.7	78.7	80.6
	c	*5.6	0.9	0.8	2.4	1.9
	d	*5.8	6.5	6.9	6.7	7.6
Colombia [1]	a	40.2	48.9	47.2	41.0	32.7
	b	45.7	40.4	39.6	43.4	45.9
	c	14.1	10.7	13.2	15.6	23.4
	d					
Ecuador	a		21.9	24.8	21.7	24.3
	b		68.1	64.5	67.6	65.6
	c		0.2	0.2	0.2	0.2
	d		9.8	10.5	10.5	9.9
Mexico	a	15.6	36.3	37.8	21.2	25.5
	b	65.4	51.3	50.0	69.2	62.9
	c	18.8	12.4	12.2	9.6	11.6
	d					
Peru	a	43.2	37.0	34.0	28.0	34.6
	b	42.7	46.3	46.4	59.2	53.7
	c	14.1	16.7	19.6	11	2.2
	d				11.7	9.5
Uruguay	a	0.3	1.2	0.8	0.5	
	b	98.5	97.9	94.9	95.5	96.6
	c	0.3	0.3	4.3	4.0	3.4
	d	0.9	0.6			
Venezuela	a	6.9	11.0	13.6	13.4	11.3
	b	80.9	81.3	78.1	79.7	79.4
	c	12.2	7.7	8.3	6.9	9.3
	d					

Country		1925	1929	1930	1931	1932
ASIA	a	10.9	10.2	9.9	9.2	9.7
Japan	b	56.0	53.0	54.5	55.5	54.3
(Clearing-House	c	24.1	36.8	35.6	35.3	36.0
Member banks)	d					
SOUTH AFRICA and OCEANIA						
Union of South Africa [2]	a	26.4	23.8	19.3	14.7	15.6
	b	64.1	68.8	69.3	73.8	67.6
	c	6.8	6.3	10.6	10.5	15.1
	d	2.4	1.1	0.8	1.0	1.7
Union of South Africa [3]	a	33.0	22.2	17.7	14.1	13.7
	b	50.8	59.8	51.8	59.8	47.9
	c	14.2	16.8	29.6	25.1	37.1
	d	2.0	1.2	0.9	1.0	1.3
Australia [4]	a	92.6	93.2	91.8	84.0	81.6
	b					
	c	7.4	6.8	8.2	16.0	18.4
	d					
New Zealand [5]	a	3.1	2.0	1.5	1.2	1.0
	b	85.8	87.6	89.0	83.0	75.0
	c	9.5	9.3	7.9	15.1	23.1
	d	1.6	1.1	0.7	0.7	0.6
Australasia [3]	a	85.0	88.8	88.2	82.9	79.8
	b					
	c	15.0	11.2	11.8	17.1	20.2
	d					

[1] November returns
[2] December figures
[3] Loans include correspondents
[4] Loans excluding correspondents
[5] End of June each year
[6] Accounts of offices within the Union only
[7] Including accounts of branches outside the Union
[8] End of June following year. Accounts of domestic offices only
[9] End of June following year. Including accounts of branches outside the Dominions

* 1926

Appendix V. — CASH RATIOS.

a Cash as percentage of demand deposits
b Cash and other items of a cash nature as percentage of demand deposits
c Cash as percentage of total deposits
d Cash and other items of a cash nature as percentage of total deposits

Country		1925	1929	1930	1931	1932
EUROPE						
Austria	a	3.6	4.4	3.5		2.5
	b	3.6	4.4	3.5	.	2.5
	c	3.4	3.6	2.8	.	2.3
	d	3.4	3.6	2.8	.	2.3
Belgium	a	.	.			
	b	12.0	17.2		18.2	27.2
	c					
	d	8.6	12.5	11.5	13.7	20.5
Bulgaria	a.		.	.		
	b.	.	.		.	
	c		.	.	15.9	18.4
	d	*14.2	10.3	14.8	21.8	22.6
Czechoslovakia	a.	18.9	20.7	18.4		
	b	29.4	31.5	31.7	23.3	.
	c	10.3	10.8	9.2	.	.
	d	9.7	16.4	15.9	11.1	.
Denmark	a.	14.0	14.0	15.0	14.1	26.4
	b	17.9	18.5	19.7	18.9	32.3
	c.	3.9	3.9	4.4	3.9	7.4
	d	5.0	5.1	5.7	5.3	9.1
Estonia	a	*11.0	7.5	6.8	7.3	5.8
	b	*11.9	12.8	13.8	14.0	13.6
	c	*7.6	4.8	4.2	1.4	3.9
	d	*8.2	8.1	8.5	9.1	9.3
Finland	a	18.4	16.0	14.3	14.2	13.3
	b	22.5	20.6	17.7	16.8	15.3
	c	4.4	3.2	2.9	3.1	3.0
	d	5.3	4.1	3.6	3.7	3.4
France (Deposit banks)	a.	17.6	16.3	19.1	31.9	27.4
	b.	.	.		.	.
	c					
	d.	17.0	15.1	17.7	29.9	26.8
France (Investment banks)	a.	16.1	14.7	13.8	24.4	24.6
	b.	42.5	38.0	45.8	43.2	39.5
	c.	14.7	8.4	8.8	15.8	17.3
	d.	38.8	21.8	29.3	28.0	27.8

* 1926

Country		1925	1929	1930	1931	1932
France (Deposit and Investment banks)	a	19.9	17.7	21.0	32.5	28.1
	b					
	c	18.5	15.8	18.8	29.8	25.9
	d					
Germany (All banks) [1]	a		.		.	.
	b		5.7	5.8	5.9	6.0
	c					
	d		2.1	2.3	2.9	2.8
Germany (All banks) [2]	a				.	
	b			.		
	c					
	d	.	2.4	2.7	3.4	3.4
Germany (All banks) [3]	a				.	.
	b	.		.		.
	c		.	.		.
	d	6.9	4.6	5.1	5.8	.
Germany (Big Berlin banks) [4]	a	.	.	.		.
	b	.	10.0	10.4	12.1	8.5
	c	.	.	.		
	d		4.2	4.8	6.3	4.1
Germany (Big Berlin banks) [4]	a	.	.	.	.	.
	b		.		.	
	c		.	.	.	
	d.	6.7	4.6	5.4	7.4	5.1
Greece	a	.	13.3	16.0	16.8	14.1
	b	.	13.3	16.0	16.8	14.1
	c		8.2	8.6	7.8	6.3
	d.	.	8.2	8.6	7.8	6.3
Hungary	a		.		.	.
	b					
	c	.	.		.	.
	d.	7.0	10.7	9.3	9.7	9.6
Italy (All banks) [5]	a		5.2	5.5	5.5	.
	b	*13.5	12.9	11.3	13.0	
	c	.	3.8	3.9	4.1	
	d	*9.8	9.4	8.1	9.5	.

* 1926

Country		1925	1929	1930	1931	1932
Italy (All banks) [6]	a		47 5	52 7	52 8	.
	b	*142.9	116 8	108.4	123 6	.
	c		10 8	11 1	11 9	
	d	*29.0	26 6	22 9	27 9	
Italy (Principal banks) [5]	a.	.	.	.	.	
	b					
	c					
	d	8 7	10 4	8 4	8 5	9 0
Italy (Principal banks) [6]	a	.	.	.	.	
	b	.	.	.	.	
	c	.				
	d	50 6	55 5	47 1	48 0	47 4
Latvia	a	16 0	12 4	12 4	19 5	19 1
	b	10 4	14 7	11 9	21 1	20 7
	c.	14 6	11 7	11 6	17 9	17 9
	d	17 7	13 8	11 0	19 3	19 0
Lithuania	a	.		.	.	
	b					
	c					
	d	12 2	7 5	7 8	7 6	6 9
Netherlands	a				.	
	b	14 9	14 7	14 9	20 7	31 9
	c	.			.	
	d	8 0	6 9	7 2	9 7	19 0
Norway	a	61 7	45 5	43 9	40 2	54 0
	b	61 0	46 0	44 4	40 6	54 4
	c	4 4	5 3	5 2	4 6	6 1
	d	4 5	5 4	5 2	4 6	6 1
Poland	a	10 2	19 8	17 8	20 3	20 5
	b	18 8	25.0	23 2	24 6	24 2
	c	7 8	9 7	8 2	10 4	10 2
	d	14 4	12 3	10 6	12 3	12 1
Portugal	a					
	b	40 3	33 7	37 3	45 3	
	c					
	d	19 1	15 5	16 1	25 0	
Roumania	a					
	b					
	c.					
	d.	17 5	12 9	15 0	10 1	
Spain	a.	22 5	26 4	25 3		
	b	40 8	47 6	44 0		
	c	15 0	16 0	15 3		
	d	27 1	28 8	26 0		
Sweden	a	12 3	12 8	13 1	14 4	21 3
	b	18 0	19 4	19 8	22 1	28 8
	c	2 5	2 4	2 4	2 5	3 7
	d	3 6	3 7	3 7	3 8	5 1
Switzerland	a			.		
	b.	10 1	9 8	20 0	52 2	51 1
	c.					
	d	2.8	2 7	3 1	8.9	8.9
United Kingdom and Irish Free State						
England and Wales (to London Clearing banks)	a			.		
	b	22 7	23 8	23 2	21 2	22 6
	c.					
	d	13 3	12 9	12 5	12 2	11 5
England and Wales (All banks)	a.					
	b.	.				
	c.	.	.	.	.	.
	d	24 5	25 2	23 9	22 9	21 7
Scotland	a	.				
	b	.				
	c				.	
	d	25 0	24 8	24 9	21 8	24 6
Ireland	a				.	
	b					
	c.	.		.		
	d	13 1	12 6	11 7	13 1	15 0
Yugoslavia	a.					
	b.	.		.	.	
	c.	.				.
	d.	5 9	5 6	5 4	5 4	.
NORTH AMERICA						
Canada	a	52 0	35 4	30 5	31 7	40.6
	b	74 8	56 4	60 2	51 0	63 8
	c	14 1	10 8	11 0	10 2	11 2
	d.	20 7	17 2	16 7	15 0	15 3
U.S.A. (All banks) [7]	a.	20 5	16 0	17 1	19 0	19 8
	b	33 1	23 0	29 0	28 0	25.6
	c.	9.4	9 1	9.5	10.4	10 8
	d.	15.2	13 0	16 2	15 3	14.0

Country		1925	1929	1930	1931	1932
U S A (National banks) [7]	a	17 2	15 3	15 9	17 3	18 3
	b	28 9	22 6	27 6	35 2	23 5
	c	10 3	8 6	8 9	9 4	9 7
	d	17 2	12 7	15 4	19 2	12 1
Argentine	a	51 0	38.6	37 0	50 9	57 6
	b.	61.6	46 2	47 7	58 6	68 4
	c.	18 0	11 9	11 6	14 5	18 0
	d	21 8	14 3	15 0	16 6	21 1
Bolivia	a.	76.3	79 5	43 0	57 8	20 6
	b	76.3	79 5	43 0	57 8	20 6
	c	42.3	41 5	23 1	30 2	22 3
	d.	42.3	41 5	23 1	30 2	22 3
Brazil	a	36 9	44 5	10 8	35 2	39 0
	b	42 9	50 3	17 1	39 9	41 1
	c	21 4	26 2	20 3	20 6	27 0
	d	28 4	29 6	23 6	23 4	28 6
Chile	a	*31 7	32 4	30 1	44 7	50 3
	b	*37 2	44 9	40 7	51 5	55 2
	c	*19 9	13 0	11 7	19 8	29 0
	d	*21 3	18 0	15 8	22 8	31 8
Colombia [7]	a	34 2	25 8	27 6	34.1	41 8
	b.	34 2	25 8	27 6	34 1	41 8
	c	25 1	17 8	16 8	17 3	24 1
	d.	25.1	17 8	16 8	17 3	24 1
Ecuador	a		36 2	38 5	31 0	54 2
	b		38 3	43 0	31 1	55 8
	c		25 8	25 8	20 2	44 1
	d		27 3	28 8	22 3	45 7
Mexico	a	38 2	31 0	39 2	29 4	45 9
	b	40 2	35 8	42 9	32 8	50 3
	c	35 2	24 9	29 5	20 6	38 3
	d	37 0	28 7	32 3	23 0	41 9
Peru	a	33 8	30 7	34 2	34 5	33 1
	b	33 8	30 7	34 4	35 2	33 5
	c	14 9	15 7	15 4	16 8	17 3
	d	14 9	15 7	15 5	17 2	17 7
Uruguay	a	138 6	106 9	102 2	111 1	119 9
	b	148 4	118 8	112 8	128 2	130 8
	c	67 5	50 7	47 1	51 1	50 5
	d	72 2	50 3	51 0	50 0	65 9
Venezuela	a					
	b					
	c	94 4	86 0	136 9	103 4	108 5
	d	96 6	88 8	143 1	112 2	113 4
ASIA						
India	a					
	b					
	c					
	d	17 8	15 1	13 2	13 6	.
Japan (Clearing-House Member banks)	a					
	b	35 9	49 8	13 5	43 0	43 7
	c					
	d	9 7	11 3	9 3	8 6	8 7
SOUTH AFRICA and OCEANIA						
Union of South Africa [8]	a	27 0	23 3	22 6	22 9	18 1
	b	37 3	31 5	34 2	30 5	30 6
	c	15 0	11 5	10 3	10 6	8 7
	d	20 7	15 6	15 6	14 1	14 1
Australia [9]	a	44 2	41 9	65 6	57 2	46 1
	b	46 3	44 0	67 2	58 7	48 0
	c	18 9	13 9	20 2	17 8	14 9
	d	19 8	14 6	20 7	18 3	15 4
New Zealand [9]	a	29 3	29 7	38 7	37 5	27 5
	b	31 9	32 8	41 4	39 9	28 0
	c	15 4	11 7	12 7	11 7	9 0
	d	16 7	12 9	13 6	12 4	7 5
Australasia [10]	a			.		
	b					
	c	26 9	20.9	22 0	22 8	21 0
	d	40 0	30 4	28.4	32 0	27 3

[1] November 13 items Deposits include balances due to German banks
[2] November returns Deposits excluding balances due to German banks
[3] December figures Deposits excluding balances due to German banks
[4] Deposits include balances due to German banks
Current accounts include inland correspondents
[5] Deposits excluding correspondents
[6] End of June each year
[7] Including accounts with branches outside the Union
[8] End of June following year Accounts of domestic offices only.
[9] End of June following year Including accounts of branches outside the Dominions

* 1926

* 1926

AUSTRIA.

Introductory Note.

The banks operating in Austria can be roughly classified as follows commercial banks proper *(Aktiencreditbanken)*, mortgage banks *(Hypotheken-, Boden-Credit-* or *Pfandbrief-Anstalten, Landesbanken)*, savings banks *(Sparkassen)*, and agricultural and trade credit associations But, as in most Central European countries, there is no clear division of functions between the different types of banks Thus, the mortgage institutions and, indeed, the savings banks to some extent engage in current commercial banking business, making loans on securities and discounting bills and dividend warrants Many of the commercial banks (among them the Creditanstalt) undertake mortgage business and almost all banks compete for savings deposits The commercial banking system consists of *(a)* the big Viennese banks enumerated below, *(b)* certain other Viennese institutions, such as the Credit-Institut fur offentliche Unternehmungen, the Arbeiterbank and the Kompassbank, which specialise in particular forms of credit, and *(c)* a number of small provincial banks The banks under *(a)*, which are alone dealt with here, are representative of Austrian commercial banking as a whole, the more so as the provincial commercial banks and mortgage institutions are to a large extent in their control The names of the banks included in the summary tables and the amount of their capital and reserves and of their deposits at the end of 1925, 1930 and 1932 are shown below For the sake of comparison, deposits of the Vienna branch of the Zentral-europaische Landerbank are also given. The Landerbank is a French institution, the capital and reserves of which are held in Paris It carries out three-quarters of its total business from its Vienna office

	Schillings (000,000's)					
	1925		1930		1932	
	Capital and Reserves	Deposits	Capital and Reserves	Deposits	Capital and Reserves	Deposits
Creditanstalt	70	530	178	1,359	142	363
Boden Credit-Anstalt	50	315	Amalgamated with Creditanstalt 1929			
Nieder-Oesterreichische Escompte-Gesellschaft	61	308	76	477	32	373
Wiener Bankverein	69	271	83	446	31	334
Unionbank	36	152	Amalgamated with Boden Credit-Anstalt 1927			
Verkehrsbank	14	89				
Merkurbank	16	111	25	112	16	66
Landerbank	—	186		326	—	273

The characteristics of Austrian commercial banking may be summarised as follows : First, as has just been mentioned, it is centralised and concentrated All of the Viennese banks, with the exception of the Escompte-Gesellschaft, have branches in the provinces, but they extend their influence over the country mainly through the local banks with which they are affiliated or in which they have a controlling interest The number of big Viennese banks was reduced by amalgamations from seven to four (or from eight to five, if the Landerbank be included) between 1925 and 1929.

Secondly, although the degree of their interest in and the nature of their relations with industry vary considerably, the Viennese banks are industrial banks *par excellence*. They control directly or indirectly the great bulk of the industry of the country and their relations with industry are, in general, closer even than in Germany. They are in a real sense the intermediary between saver and industry, for private investment in other than public issues is little practised and a normal form of gilt-edged investment is the savings account or the *Kassenschein* They not only hold themselves a substantial amount of industrial shares, but supply industry with short-term credits which have tended in fact to run on indefinitely and to be used partly at least for investment purposes The fact that certain principal banks have become more and more indebted in order to support their weaker industrial concerns has been a factor of vital importance in recent years

Thirdly, a legacy of their pre-war greatness, the

Viennese banks extend their sphere of interest far beyond the present frontiers of Austria and, up to the period of the banking crisis, have been the principal channel through which capital has flowed from Western Europe and America to Eastern and South-Eastern Europe.

All but a fraction of the capital of the Viennese banks is now held either abroad or directly or indirectly by the Government and the National Bank. The wiping out of the original capital of the three biggest Viennese banks has eliminated the small holder of bank shares.

The expenses of the Viennese banks have been for many years unduly heavy and these high expenses a contributory cause of the high price of credit and the abnormal spread between the lending and the borrowing rates of banks.[1] Under the law, the banks were unable to make any considerable reductions in their salaries and pensions expenses until the spring of 1933.

The years 1929-1933 were a period of catastrophe for the big Viennese banks, all of which (excluding the Länderbank) had to write off heavy losses and reconstruct their capital. Owing to their close association with industry, they were caught in a vicious circle, every attempt to increase their liquidity by calling in credit involving the freezing of part of their remaining industrial assets and a further fall in the value of their security holdings. The losses written off their assets during this period amounted to 1,182 million schillings, or not far from 40 per cent of their total balance-sheet at the end of 1930. This sum does not include losses on current transactions, or the depreciation of assets covered by hidden reserves (which, in the case of certain banks, are believed to have been large so late as 1930), or the frozen assets, amounting to 109 million schillings, taken over from the Bankverein and the Escompte-Gesellschaft by the Gesellschaft für Revision und treuhändige Verwaltung in 1933.

In the same period, the net profits on current transactions of the three biggest banks disappeared, all showed net losses on such transactions for 1932.[2] As might be expected, cash and bill portfolios (except in the case of the Länderbank) fell more heavily than any other assets. The ratio of cash to total deposits, which, at 3 6 per cent, had been one of the lowest in the world in 1929, dropped to 2.2 per cent in 1932

"Nostro" balances with correspondents also contracted rapidly. Such balances represented 18 per cent of the total *Debitoren* of the Wiener Bankverein and the Merkurbank in 1929 and less than 6 per cent of the much reduced total in 1932. Acceptance business, which had been very small in 1929, completely ceased.

Savings deposits, which had grown year by year since the end of the inflation period until 1930, had declined by nearly three-quarters at the end of 1932 An exception is again provided by the Landerbank, in which deposits increased steadily throughout the depression

After expanding rapidly for more than six years, the volume of bank credit has contracted enormously since 1929 The fall in 1930 is concealed in the summary table, for the figure for the Creditanstalt as at the end of 1929 did not cover the business of the Boden Credit-Anstalt, which it had just taken over, while the loans and advances, participations and current account deposits of the other banks continued to rise slightly in 1930. If it be assumed that the oustanding loans and advances on account of the Boden Credit-Anstalt stood at the same figure at the end of 1929 as a year earlier, the total drop in this item in 1930 would have been approximately 9 per cent. The drop in subsequent years represents in large measure the writing off of bad and doubtful debts and only in part the calling-in of credit lines The following table must be read with that reservation The table includes the Länderbank throughout, it excludes the Boden Credit-Anstalt in 1925 and 1929, in order to give a truer picture of the credit expansion between those years. The figures do not distinguish between business within Austria and without and should not be taken to indicate the degree of changes in that country

	Schillings (000,000's)					
	1925	1929	Percentage of increase 1925-1929	1930	1932	Percentage of decrease 1930-1932
Loans and advances	1,225 6	2,097 9	71 2	2,443 0	1,267 7	48 1
Participations	110 6	198 8	79 7	282 4	145 2	48 6
Investments and securities	51 0	98 6	93 3	101 3	57 3	43 4
Sight deposits	1,250 0	2,251 4	80 1	2,454 2	1,149 5	53 2
Savings and time deposits	147.1	483 3	228 6	582 2	251 2	56 9

[1] The sight deposit rate and the overdraft rate in the summers of 1929-1933 have been as follows :

	1929	1930	1931	1932	1933
Deposit rate	4.75	4	7	4	3.25
Overdraft rate	11.5	10.5	15	12	8.5

[2] In the case of the Creditanstalt, for 1931-32.

It is of interest to compare these figures with the estimated changes in the short-term capital liabilities and assets of Austria in this period. The following figures, which include every kind of short-term transaction, were prepared by the Oesterreichischer Verband der Banken und Bankiers, and reproduced in the League memorandum on *Balances of Payments*, 1929 It should be borne in mind that the short credit came mainly from the United States of America, England, the Netherlands and Switzerland and was re-lent mainly in Central and Eastern Europe

	Schillings (000,000's)			
	1925	1926	1927	1928
Foreign short-term debtors	465 0	535 2	662 3	728 1
Foreign short-term creditors	480 1	685 2	836.2	649 4

This series was not continued, but it is stated[1] that both assets and liabilities rose in 1929, the rise in the former being attributed in part to a flight of capital. Between 1925 and 1929, the Creditanstalt, the Bankverein, the Escompte-Gesellschaft and Merkurbank raised their capital from 139.5 million to 239 million schillings, the greater part of the new capital being subscribed abroad. At the beginning of 1931, the foreign short-term liabilities of the Creditanstalt amounted to 466 million schillings and, four months later, to 442 million schillings ; at the latter date, the corresponding liabilities of the other Austrian banks amounted to approximately 380 million schillings[2] These figures exclude various categories of creditors included in the series shown above ; they thus show clearly that the Austrian banks were able to maintain their foreign credits at a high level until the Creditanstalt crisis. The foreign short-term liabilities of the Creditanstalt were rapidly reduced to approximately 420 million schillings ; the corresponding liabilities of the other banks had been reduced to 230 million schillings ($34 million) by the time of the first standstill agreement (August 1931), and to 155 millions by the end of that year.

The violent changes in certain items of the balance-sheet and profit and loss account over the period under consideration reflect the crises through which each of the Viennese banks has passed. The fall of the Boden Credit-Anstalt — the second bank in Austria — in November 1929 was the beginning of the series of disasters. The entire business of this bank was taken over by the Credit-anstalt, new shares of which to the amount of 11 million schillings were allotted to the holders of the 55 million schillings share capital of the Boden-Credit-Anstalt In view of the extension of its liabilities, the Creditanstalt raised its capital, through subscriptions of an international consortium by a further 20 million schillings to 125 millions.

The position of the Boden Credit Anstalt had become more and more illiquid and vulnerable in the course of 1928 and 1929 owing to the difficulties, and consequent increase in the loan requirements, of its dependent firms and its policy of supporting the price of these shares on the stock market A considerable withdrawal of deposits in the autumn of 1929 had driven it to make heavy discounts with the National Bank, which eventually refused to grant further accommodation. This liability to the National Bank was gradually liquidated by the Creditanstalt as shown in the drop in the total bill portfolio of the National Bank from 307 million schillings on October 30th, 1929, to 89 millions at the end of April 1931.

During these eighteen months, a period of almost uninterrupted decline in trade and security values, it became clear that a considerable part of the non-liquid assets of the Creditanstalt, and more especially of the claims taken over from the Boden Credit-Anstalt, required to be written down. An assessment of the assets as at December 31st, 1930, showed losses amounting to almost the entire share capital and reserves of the bank In order to avoid the complete breakdown of the banking system and the economic disruption which the failure of the Creditanstalt would have involved, the Government, together with the National Bank and Messrs Rothschild, agreed to put up the funds necessary to write off these losses and to reconstruct the capital of the bank The estimated loss of 159 million schillings was covered as follows :

	Schillings (000,000's)
From the Austrian Government .	41 4
From the Austrian National Bank.	12.4
From Messrs. Rothschild	9 3
Total	63.1
Writing down of existing capital from 125 to 88.1 millions . . .	36 9
Taken from reserves	40 0
Profit and loss account.	19 0
Total	159.0

[1] *Statistische Nachrichten*, No. 4, 1931

[2] Figures taken from the Annual Report of the Austrian National Bank, 1932.

The capital of the bank was raised to 177.5 million schillings by subscriptions :

	Schillings (000,000's)
By the Austrian Government to the extent of	58 6
By the Austrian National Bank .	17.6
By Messrs Rothschild	13 2
Total new preferred capital *(Vorzugs-Aktienkapital)*.	89 4
Old capital of the bank, after writing off 36 9 million schillings *(Stamm-Aktienkapital)*	88.1
Total	177 5

This scheme of capital reconstruction was incorporated in the 1930 balance-sheet published on May 8th, 1931

The publication of this balance-sheet led immediately to heavy withdrawals by domestic and foreign depositors and a serious flight of capital, which the Government attempted to check by guaranteeing, first, certain categories of deposits; subsequently, all foreign deposits in return for a two years' Standstill Agreement from the foreign creditors; and, finally also domestic liabilities of all kinds. Negotiations were immediately opened between the representative of the Government and the Creditanstalt on the one hand and the foreign creditors (who set up for the protection of their interests an Austrian Creditanstalt International Committee) on the other with a view to working out a scheme for meeting the foreign liabilities of the bank.

In spite of the Government guarantee, withdrawals of domestic deposits from the Creditanstalt continued throughout 1931 and the bank was obliged to discount heavily with the National Bank, whose bill portfolio rose rapidly from 69 5 million schillings on May 7th to 907 millions at the end of the year. Of this figure, some 600 millions represented rediscounted Creditanstalt bills[1], and the greater part of the remainder bills of the other commercial banks, which also suffered extensive withdrawals of both domestic and foreign deposits. Foreign withdrawals from these banks were partly checked by the Bruins Standstill Agreement concluded at the end of August which, however, provided for the quarterly repayment of 20 per cent on cash credit and 15 per cent on acceptance credits[2] ; of the domestic withdrawals, part was hoarded, but the greater part is believed to have been transferred abroad. The total flight of capital from Austria between May and the beginning of 1932 is estimated to have amounted to between 700 and 900 million schillings, of which approximately one-half is believed to represent a flight of domestic capital

A conservative revaluation of the assets of the Creditanstalt revealed that its losses were far greater than had been estimated in the spring of the year, and it became clear that the greater part of its debt to the National Bank (consisting mainly of finance bills drawn on its own firms) together with a considerable part of its foreign liabilities would have to be borne by the State In November 1932, the Government took over from the National Bank its entire portfolio of Creditanstalt finance bills, amounting to 571 4 million schillings,[3] which it subsequently cancelled, and, in January 1933, an agreement with the foreign creditors, comprising a scheme of reconstruction for the Bank, was initialled. By the terms of this agreement, the foreign creditors and the State became the joint owners of the Creditanstalt, the former exchanging 70 million schillings of their total claims of 422 millions for an equal nominal amount of preference shares, while the Government obtained ordinary shares to the amount of 71 million schillings in consideration of the obligations assumed by it. The existing capital of 177 5 million schillings, of which the State held an important part, was written down to 1 million The foreign assets of the Creditanstalt were taken over by a special liquidating company — the Creditanstalt Foreign Assets Company, which was registered in Monaco. Of the 30 million schillings share capital of this company, 10 millions were handed over to the foreign creditors, together with its entire issue of 5 per cent bonds amounting to 130 million schillings The remaining foreign short-term claims of 212 million schillings are covered by long-term Government bonds, which will be repaid over a period of years. Any appreciation in the value of the assets of the bank above their present book-value will be used to repay these " live claims " and Government bonds will be cancelled accordingly. It was later agreed (April 1933) by the foreign creditors that the service of these bonds should not begin for two

[1] The total rediscount liability of the Creditanstalt to the National Bank amounted to 679 million schillings at the end of 1931 Part of this sum was entered under "other assets" in the National Bank accounts

[2] This agreement expired in the following January New agreements, with a currency of six months, providing for the regular transfer of interest and commission, but the complete suspension of amortisation, were concluded with the British, the American and, later, the Swiss creditors From July 1932, the transfer of interest also ceased From this time forth, payment of interest and commission was made in schillings, to be paid into the newly established Foreign Debt Fund In August 1932, a new Standstill Agreement was concluded for the time until the middle of January 1933 After its expiry, a new arrangement was agreed upon after lengthy negotiations, according to which the credits were renewed for another year

[3] The National Bank also held rediscounted commercial bills of the Creditanstalt amounting to 112 million schillings.

years and that, at the end of this period, the Government might in certain circumstances claim a readjustment of the payments originally agreed upon.

The losses of the Creditanstalt covered by the reconstruction scheme were as follows :

	Schillings (000,000's)
Written off :	
Investments and securities . .	122.6
Participations . .	77 4
Premises, etc	11.7
Debtors.	602 3
	814 0
Operating loss, 1931-32 . .	14 2
	828 2
Offset by :	
Reduction of capital	105 5
Finance bills taken over by State	571 4
State bonds covering live claims of foreign creditors .	151 3[1]
	828 2

This total is of course additional to the 159 million schillings written off in 1931

Since the crisis of 1931, an important change has been made in the management of the Bank An Executive Committee with extensive powers of supervision and control has been set up. This Committee, over which the General Manager presides, consists of four Austrian members (of which the National Bank and the Government each nominate one) and three foreign members (two of whom represent the foreign shareholders) It is to act as sole liaison between the Government and the Bank

The Creditanstalt crisis was shortly followed by the closing of the Merkurbank, which was affected by the difficulties of its parent institution, the Danatbank in Germany It was assisted by a banking consortium and subsequently reduced its capital and reserves of about 15 million schillings to write off losses, raising new capital by an issue to the Dresdner and other banks The Wiener Bankverein wrote off losses of 46 million schillings in July 1932 by reducing capital and reserves , new capital stock was also issued to foreign and domestic banks

By the end of that year, it was realised that the voluntary reconstruction of the Wiener Bankverein has been inadequate and that a re-organisation of the Escompte-Gesellschaft would also be required. Both these banks had become heavily indebted to the National Bank through the rediscount mainly of finance bills, and, in the circumstances, the Government decided to assist the banks in reconstructing their capital and increasing their liquidity. For this purpose, an instrument similar to the *Amortisationskasse* (the TILKA) recently established in Germany, was chosen. By a Decree of March 20th, 1933, a trust company controlled by the National Bank, the Gesellschaft fur Revision und treuhandige Verwaltung, was endowed with 180 million schillings (140 millions from the Government and the rest from the National Bank), of which 140 million schillings was to be used to purchase new shares and frozen and doubtful assets of the two Viennese banks, and part of the remainder to assist other credit institutions With the aid of the trust company, the banks reconstructed their balance-sheets as follows

	Wiener Bankverein	Niederösterreichische Escompte-Gesellschaft
	Schillings (000's)	
Amounts written off assets . .	22,336	80,222
Loss on current operations .	3,913	1,230
Total loss to be covered.	26,249	81,452
Capital written down	21,120	35,280
Taken from reserves . .	5,129	42,313
Taken from profit and loss account	—	3,859
Total.	26,249	81,452

The Wiener Bankverein cancelled its own shares in its possession to the amount of 107,500 schillings and the Niederosterreichische Escompte-Gesellschaft cancelled such shares to the amount of 18 million schillings, using the difference between the nominal and purchase price to write off further losses

The reduction of capital was effected in the case of the Wiener Bankverein by writing down the outstanding B shares (22,000,000 less 107,500 held by the Bank and cancelled) to

	Schillings
	875,700
New B shares were taken up by the trust company to the value of . . .	5,624,300
thus bringing up the B capital to. .	6,500,000
and, with the addition of the A capital which was not reduced . .	23,000,000
the total capital to.	29,500,000

The outstanding capital of the Niederosterreichische Escompte-Gesellschaft (54 million schillings, less 18 millions held by the bank and cancelled) was reduced in the proportion of 50 to 1 to 720,000

This was raised, by the subscriptions of the trust company. 25,245,500
and of a foreign consortium, . . . 3,534,500
to 29,500,000

[1] The difference between this figure and the total Government liability on account of foreign creditors is due to the exclusion of liabilities amounting to 60.7 million schillings, consisting mainly of guarantees of claims against the Amstel Bank.

As the amount of their own resources was low in relation to deposits, both banks obtained authorisation from their respective general meetings to increase their capital to 45 million schillings in due course

The new share capital of both banks was issued at a premium of 10 per cent, the yield of which went to form the new reserves. To the 562,430 schillings acquired in this way by the Wiener Bankverein were added 500,000 schillings, which had formerly constituted a special provident fund (shown under Sundry Liabilities) ; the reserves of the Niederösterreichische Escompte-Gesellschaft were brought up to 2,950,000 schillings by the addition of 72,000 schillings " from its own funds " to the 2,878,000 schillings yielded by the premium on the new share issue.

The second task of the trust company was to increase the liquidity of the banks. To this end, it purchased frozen and doubtful assets to the book-value of 43,509,388 schillings from the Wiener Bankverein and of 65,049,165 schillings from the Niederösterreichische Escompte-Gesellschaft and credited the banks with these amounts. The purchase-price was in all cases the value at which the assets were entered in the balance-sheets of the banks before reconstruction. Payment in cash for the purchased assets will only be made by the trust company to the extent that it realises or obtains income from these assets ; but the banks may discount bills with the company during a period of five years up to three-quarters, and subsequently up to one-half, of the amount of their credit with it. The banks' assets will be administered and liquidated in due course by the trust company. A sinking fund, to which the Wiener Bankverein and Niederösterreichische Escompte-Gesellschaft will contribute out of profits, was set up to compensate, as far as possible, such losses as may be incurred by the trust company. After fifteen years *(i.e.,* in 1948) the relations between the banks and the trust company will cease ; and any loss on account of the purchase of the bank assets will be borne by the funds contributed to the trust company by the Government and the National Bank.

The *Bankentlastungsverordnung* of March 20th, 1933, dealt not only with the problem of bank liquidity, but also with that of the high administrative costs in banks and their dependent industrial concerns. In the course of 1931, salaries and pensions regulated by individual contract had been cut down by law in the Creditanstalt and its dependent undertakings and small reductions had been accepted by the bulk of the staff engaged under collective contract. In the Wiener Bankverein, some economies in personnel costs had been made in 1932, but further economies in these banks and very substantial economies in the other banks and the network of industries controlled by them appeared to be essential if the running losses were to be checked. The ratio of expenses to gross profits in the Wiener Bankverein, the Niederösterreichische Escompte-Gesellschaft and the Merkurbank rose from 77 per cent in 1930 to 89 per cent in 1931 and to over 115 per cent in 1932. In the latter year, salaries and pensions alone represented 88 per cent of gross profits and had fallen relatively little (9 per cent) since 1930. Of the various other cost items, taxes had been reduced between 1930 and 1932 by more than 50 per cent in the case of the above three banks and almost wiped out in the case of the Credit-anstalt, and there were obvious limitations to a reduction in " working expenses ".

The Decree of March 20th, 1933, cancelled all existing private contracts held by the employees (mainly the upper staff) of Austrian banks other than the Creditanstalt and the National Bank and of the " concerns " under their control, and required that the new scale of salaries and pensions should be brought into line with that ruling at the Creditanstalt. It rescinded collective contracts in respect of these banks and the Creditanstalt, together with their dependent concerns, and abolished the *Dienstpragmatik* (embodying *inter alia* the rights of employees to compensation in case of dismissal, mentioned above). Following this decree, new contracts at considerably reduced scales of salary were negotiated, and, by a decree of the Minister of Finance (August), pensions were reduced between 20 and 30 per cent. As a result of these arrangements, a saving of some 14 million schillings in the costs of the three largest banks alone is anticipated in 1934.

This reduction in working costs was accompanied by a further reduction of the rediscount rate of the National Bank from 6 to 5 per cent (the rate had previously fallen by stages from the 10 per cent imposed in July 1931) and was shortly followed by a decree providing for a general lowering of deposit rates, to which effect was given as from July 1st, 1933.

As a result of these economies, the Viennese banks agreed to reduce the average cost of banking accommodation (interest on overdrafts) from 12 per cent to 8½ per cent. The margin between sight deposit rates and interest on overdrafts was thereby reduced from 8¼ to 5¼ per cent. This may be compared with a margin of approximately 6½ per cent in 1929 and 1930, 7 ½ per cent in the latter part of 1925 and less than 3 per cent before the war.

The summer of 1933 saw some easing of the position of the big Viennese banks as a result, not only of the new wage agreements, but also of the repayment, rendered possible by the Lausanne Loan, of 20 million schillings of the 106 millions short-term debt of the State Railways to them. But it also brought fresh banking difficulties. The Kompassbank, a Viennese institution specialising in credit insurance and mortgage business was obliged to reconstruct its capital to cover losses of

AUSTRIA. COMMERCIAL BANKS **Table 1 *(a)***

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :						
	1925	1929	1930	1932	1930	1931	1932
Number of Banks	7	4	4	4	3	3	3
ASSETS.	Schillings (000,000's omitted)						
1. Cash	59.7	81.2	77.1	25.4	48.0	28.6	17.5
(a) Gold, silver and small coins	—	—	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—	—	—
2. Other Items of a Cash Nature	—	—	—	—	—	—	—
3. Bills discounted and bought	195.9	307.1	261.3	84.6	169.6	108 2	44.1
(a) Treasury bills	—	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—	—
4. Investments and Securities	103.4	92.5	90.9	51.6	20.1	17.2	12.1
(a) Government	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—
5. Participations	145.5	169.7	248 7	114.2	146.1	127.3	105.7
6. Due from Banks (Correspondents)	—	—	—	—	—	—	—
(a) At home	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—	—
7. Loans and Advances	1,565.2	1,903.0	2,236 2	1,112.4	855.6	689.5	654.9
(a) On current account	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—
8. Cover for Acceptances	4.7	1.9	1.6	0.0	0.1	0.1	0.0
9. Premises, etc.	33.9	22.4	33.1	13.1	10.7	10.0	9.9
10. Sundry Assets	21.9	11.4	186 3	77.9	0.4	0.4	0.0
11. Total Assets	2,130.2	2,589.2	3,135.2	1,479.2	1,250.6	981.2	844.3
LIABILITIES							
12. Capital paid up	206.2	239.0	381.1	221 0	129.0	114.0	74.0
13. Reserve Funds	101.4	96.9			74.6	48.3	5.0
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	25.1	19.1	10.9	0.4	10.9	4.2	0.2
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—	—	—
16. Due to Banks (Correspondents)	—	—	—	—	—	—	—
(a) At home	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—	—
17. Deposits	1,767.1	2,231.4	2,710.4	1,128.0	1,035.2	813 9	764.8
(a) Current accounts and sight deposits	1,649.3	1,829.4	2,226.9	991.7	868 0	701.0	663.5
(b) Savings accounts							
(c) Time or fixed deposits	117.8	402 0	483.5	136.3	167 2	112 9	101.3
(d) Other deposits							
18. Rediscounts and other Borrowings	—	—	—	—	—	—	—
19. Acceptances and Endorsements	4.7	1.9	1.6	0.0	0.1	0.1	0.0
20. Sundry Liabilities	25.7	0.9	31.2	129.8	0.8	0.8	0.3
21. Total Liabilities	2,130.2	2,589.2	3,135.2	1,479.2	1,250.6	981.2	844.3
22. Guarantees *(Avale and Burgschaften)*	—	—	—	114.8	—	34.8	46.1
23. Other Contingent Liabilities	—	—	—	212.2	—	—	—
24. Value of currency in cents of a U.S. dollar at the end of each year	14.07	14.07	14.09	11.69	14.09	11.86	11.69

AUSTRIA. COMMERCIAL BANKS **Table 1 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNT AT END OF :						
	1925	1929	1930	1931 and 1932	1930	1931	1932
Number of Banks	7	4	4	4	3	3	3
	Schillings (000,000's omitted)						
Capital paid up	206.2	239.1	381.3	—	129.0	114.0	74.0
Reserves and Undivided Profits	101.4	97.3		—	74.8	49.6	5.2
1. Gross Profits	**126.2**	**94.1**	**111.2**	**121.2**	**48.0**	**40.1**	**25.8**
To be deducted:							
2. Expenses	93.0	67.1	67.2	97.6	33.4	30.4	25.2
(a) Salaries, etc.	61 0	42 8	42 6	68 8	20 8	19.1	17.2
(b) Other working expenses	10 7	8 4	9 7	17 0	5 3	5 0	4 4
(c) Taxes, etc	21 3	15 9	14.9	11 8	7 3	6 3	3.6
3. Reserved for Pension Funds, etc.	7.6	8 5	14.3	37.3	4.3	5.4	5.6
4. Written off							
(a) Ordinary depreciation accounts	0 4	0 5	0 6	1 4	0 1	0 1	0 1
(b) Extraordinary accounts	...	...	159 0	977 0	...	60 4	102 6
5. Net Profit or Loss							
(a) Including extraordinary offwritings	**25.2**	**18.0**	**−129.9**	**−992.1**	**10.2**	**− 56.2**	**−107.7**
(b) On current transactions	25 2	18 0	19 8	− 15 1	10 2	4 2	− 5 1
6. Carried forward from preceding year		1.1	1.2	5.1	0 7	1.1	4.0
7. *(a)* Taken from Reserves or Capital	—	—	76.5	272.5	-	59 3	103.8
(b) Contributions *à fonds perdu*	—	-	63 1	722.7	—		
8. Total Amount disposed of for Dividends, etc.	**25.2**	**19.1**	**10.9**	**0.2**	**10.9**	**4.2**	**0.2**
9. Carried to Reserves	1.5	1.9	0.1	0.2	0.1	0.1	0.2
10. Dividends	21.1	15.3	9 4	—	9.4	—	—
11. Director's Fees, etc.	1.5	0.0[1]	0.4	—	0.4	—	—
12. Carried forward to following year	1.1	1.0	1.0	—	1.0	4.1	—
13. Total as above	**25.2**	**19.1**	**10.9**	**0.2**	**10.9**	**4.2**	**0.2**
14. Value of currency in cents of a U.S. dollar at the end of each year	14.07	14.07	14.09		14.09	11.86	11.69

[1] Including 0 1 million schillings in contributions to Provident Funds.

5.5 million schillings. A reconstruction was also undertaken by the Bank für Ober-Oesterreich und Salzburg, the largest provincial bank in Austria, which had suffered principally from the losses of the hotel industry. In contrast with the other big Viennese banks, whose relations with industry are more direct, the Länderbank has maintained a liquid position. Cash and commercial bills, for example, constitute 12 per cent and 23 per cent respectively of its total balance-sheet, as against approximately 2 per cent and 6 per cent in the case of the other banks. Owing partly to the existence of a large unsettled debt on account of pre-war sterling certificates — this debt was funded early in 1933 — it avoided large disbursements of dividends in the more prosperous years.

Balance-sheet Summary.

It is impossible to give continuous series for the period 1929-1932 covering all the Viennese banks considered. Until 1930, the Creditanstalt did not include in its balance-sheet the assets and liabilities taken over from the Boden Credit-Anstalt in 1929. Thus, for 1929, no published data for the Boden Credit-Anstalt are available, and the figures in the summary table for that year cannot be compared with those for previous and subsequent years. Again, no balance-sheet was published by the Creditanstalt for 1931. In order to facilitate comparison, summary figures for the Bankverein, the Escompte-Gesellschaft and the Merkurbank only are added for each of the years 1930 to 1932.

The significance of the changes shown in the summary tables in the past few years can only be understood in the light of the events recorded in the Introductory Note — in particular, the absorption of the Boden Credit-Anstalt and the reconstruction schemes applied in turn to each of the remaining banks It should be kept in mind, for example, that the balance-sheet figures for 1932 exclude the former foreign liabilities of the Creditanstalt and the foreign assets of this bank which were transferred to the Foreign Assets Company.

Care should also be taken in drawing conclusions from the composition of the summary balance-sheets, as the banks do not apply uniform principles in drawing up their accounts, and these accounts contain relatively little detail. This question is dealt with further below. Since its reconstruction, the Creditanstalt has changed its methods of showing various items, and it is stated in its report for 1931-32 that exact comparison with previous years is impossible.

A *de facto* depreciation of the Austrian currency has occurred since the Creditanstalt crisis The value of the schilling in United States cents in December 1930, 1931 and 1932, as shown at the foot of the summary table, has been calculated according to the daily quotations on the Basle Stock Exchange.

1. *Cash.*

The figures given consist of actual cash and balances with the National Bank.

3. *Discounts.*

Foreign bills are not shown separately. A distinction between bills labelled in foreign currencies and in schillings is, however, made in the 1932 balance-sheet of the Creditanstalt, of whose total bill portfolio, amounting to 40.5 million schillings, 6 millions were in foreign currencies.

The banks' bill portfolios consist mainly of bills of exchange ; discounted invoices (open book accounts) and Treasury bills, which, in 1931, appears to have been of some importance, are also included.

4 and 5 *Investments and Securities — Participations.*

No distinction is made in the published balance-sheets between Government and other securities. On the other hand, in so far as the securities *(Effekten)* include shares, the distinction between investments and participations *(Konsortial- und Kommanditbeteiligungen)* necessarily becomes somewhat arbitrary.

Since 1929, separate figures have been given by the big banks for permanent and other participations, the latter representing mainly temporary holdings of new issues subsequently placed by the banks

	Schillings (000,000's)			
	1929	1930	1931	1932
Creditanstalt				
Permanent participations	42 1	43 4	.	
Other participations .	10 8	59 1	.	
Escompte-Gesellschaft				
Permanent participations		29 8	30 1	31.6
Other participations .	.	42 9	38 0	36 4
Wiener Bankverein	.			
Permanent participations in banks . .	20 5	20 5	13 4	5 2
Other participations .	40 8	46 1	41 2	28 8

In its balance-sheet as at December 31st, 1932, the Creditanstalt abandons the above distinction, but alone among the banks shows separately foreign (1.9 million schillings and domestic (6.5 million schillings) participations

6 and 7. *Correspondent Accounts and Loans and Advances*

No distinction is made between these two items by the Escompte-Gesellschaft nor by the Creditanstalt before 1932. For the other banks, the following figures are available .

	Schillings (000,000's)			
	1929	1930	1931	1932
Bankverein and Merkur-bank				
Correspondent accts. . .	83	68	19	19
Loans and advances . .	383	380	325	323
Total	466	448	344	342

The figures in the summary table represent almost exclusively the item *Debitoren*, shown in the bank balance-sheets, which covers, in addition to correspondent accounts, advances on current account (including credits granted, sometimes on very long term, to the undertakings directly or indirectly controlled by the banks), the accounts of the merchandise departments of the banks, cover for acceptances, and contango and other miscellaneous loans and advances.

The following details are shown by the Creditanstalt in 1932 :

	Schillings (000,000's)
"Nostro" accounts with foreign banks.	8.8
Domestic bank accounts.	36.2
Advances to associated industrial concerns.	141.5
Public bodies	49.4
Loans on current bank account . . .	211.5
Other accounts (transitory, etc.) . . .	10 1
	457·5

of which 271.4 million schillings (59 per cent) were in foreign currencies

In 1929, 70 per cent of the *Debitoren* of the Creditanstalt were in foreign currencies. In that year "nostro" accounts with foreign banks amounted to approximately 183 million schillings.

The figures for 1932 include claims of the Bankverein and the Escompte-Gesellschaft on the Gesellschaft für Revision und treuhändige Verwaltung, amounting to 108.56 millions, on account of the sale to that company of frozen and doubtful assets under the scheme sponsored by the Government and the National Bank.

A sum equal to that shown under item 19 has been excluded from item 7 in the summary balance-sheet and shown as "Cover for Acceptances" under item 8.

8. *Cover for Acceptances.*

See note on "Loans and Advances" above.

9. *Sundry Assets.*

The figure for 1925 represents mainly mortgage loans (20.8 million schillings) of the Boden Credit-Anstalt and that for 1929 the price at which the share capital of the Boden Credit-Anstalt was taken over by the Creditanstalt (11 million schillings). Of the figure for 1930, 33.3 million schillings represent mortgage loans of the Creditanstalt and 152.5 millions the contributions *à fonds perdus* on account of the Creditanstalt (63.1 millions) and payments in respect of the increase in capital of that bank (89.4 millions) referred to above. The 1932 figure covers mortgage loans (40.4 million schillings) and building loans (37.5 million schillings) of the Creditanstalt.

12 and 13. *Capital and Reserves.*

For certain years, the figures for capital paid up would appear to include considerable amounts of share capital held by the banks themselves. At the time of its first capital reconstruction in 1932, the Bankverein cancelled 11 million schillings and, in 1933, this bank cancelled a further 107,500 schillings and the Escompte-Gesellschaft 18 million schillings of own shares, which had been purchased on the open market.

16 and 17. *Correspondent Accounts and Deposits.*

The sums shown under item 17*(a)* represent the aggregate of a number of different accounts which, in the balance-sheets of the banks, are combined under the single general heading *Kreditoren*. This item consists mainly of current accounts (of private depositors, debtors on industrial account and correspondents) both in schillings and in foreign currencies. As mentioned above, the total foreign short-term credits (excluding guarantees) of the Creditanstalt at the end of April 1931 amounted to 442 million schillings , at the same date, the acceptance and cash credits of the other banks stood at 380 million schillings.

Certain details are available in the 1932 balance-sheet of the Creditanstalt. Of the total item "Creditors" amounting to 328.3 million schillings, 273.7 millions represent balances in schillings and 54.6 millions those in foreign currencies. Credit balances of debtors — mainly industrial connections of the bank — amounted to 69.5 million schillings, current account deposits to 192.1 million schillings, and sundry accounts (which include those of the pensions fund, special reserves, transitory items, etc.) to 647 million schillings.

The other sums given in this group of the summary table (item 17 *(b)*) represent *Kassenscheine*, deposits and savings accounts.

18. *Rediscounts.*

Figures relating to rediscounts are available for the Creditanstalt as at the end of 1932. Rediscounted finance bills (61.02 million schillings) are shown under the balance-sheet liabilities (included in "Sundry Liabilities" in the above summary table) : rediscounted commercial bills (21.2 million schillings), given below the balance-sheet of the bank, are excluded entirely from the summary table. For the other banks and for the Credit-anstalt in previous years, no such information is published, rediscounted paper of all kinds being merely excluded from the banks' bill portfolios and used to strengthen the form of asset in which the rediscount is furnished — *i.e.*, the "cash" or "correspondent" debtor item. The following figures of the bill-holdings of the National Bank (exclusively inland bills) throw some light

on the use made by the commercial banks of rediscount privileges during the period under review and serve to illustrate the remarks in the Introductory Note regarding the borrowings of the Boden Credit-Anstalt in the latter part of 1929, the Creditanstalt and other banks in 1931 and the Bankverein and the Escompte-Gesellschaft in 1932.

	Schillings (000,000's)				
	1929	1930	1931	1932	1933
March 31st .	188	166	92	867	287
June 30th.	255	125	529	881	275
Sept. 30th. .	289	96	689	323 [1]	225
Dec 31st	306	148	908	379	

20. *Sundry Liabilities.*

The figure for 1925 represents mainly mortgage bonds of the Boden Credit-Anstalt, 18.3 million schillings, and that for 1930, mortgage bonds of the Creditanstalt, 30.3 million schillings. That for 1932 covers the following items in the Credit-anstalt balance-sheet . Rediscounted finance bills (61 02 million schillings), mortgage bonds (30.6 million schillings) and bonds covered by building loans (37 9 million schillings).

22. *Guarantees.*

Except for the small *aval* business of the Bankverein, no data regarding guarantees are available before 1931, in which year the *aval* liabilities of the Merkurbank (which have been excluded from the *Kreditoren* of this bank) was stated to be 6 million schillings and a new item "Guarantees", amounting to 26.8 million schillings, was published below the balance-sheet of the Bankverein. For 1932, figures are available for all the banks considered. A single item "Guarantees" is shown by the Bankverein 22.9 million schillings) and the Escompte-Gesellschaft (18.9 million schillings); *aval* liabilities are shown by the Creditanstalt (68.7 million schillings) and the Merkurbank (4 3 million schillings).

23. *Other Contingent Liabilities*

The figure shown for 1932 represents the "live claims" of the foreign creditors of the Creditanstalt, which became frozen after the crisis of May 1931. These claims are not shown in the balance-sheet proper, as they constitute a liability, not on the assets, but only on the net profits of the bank

Summary of Profit-and-Loss Accounts.

In the summary table, an attempt has been made to show, not only the banks' profit and loss position on current transactions, but also the extent of their losses and the manner in which these losses were covered. For this purpose, amount written off have been divided into those of an extraordinary and of an ordinary nature (the latter representing the normal depreciation accounts included year by year in the banks' profit and loss statements), and net profits or losses have been shown, *a*) including and *b*) excluding the extra-ordinary depreciation accounts.

As the Creditanstalt has not published any complete profit and loss account for 1931, and the accounts published after the reconstruction relate to the two years 1931 and 1932 jointly, it has been thought advisable to cover both years in the last column referring to all the four banks concerned. In this statement for 1931-32, double-counting on account of sums brought forward in 1931 has, of course, been avoided. Separate figures for each of the years 1930, 1931 and 1932 relating to three banks only *(i.e.,* excluding the Creditanstalt) are also shown

Item *7(b)* refers exclusively to the Creditanstalt. The figure for 1931-32 covers not only the purchase by the Government of the Creditanstalt bills held by the National Bank but also the Government bonds issued against the live claims of the foreign creditors The contribution of the Government and the National Bank to the trust company on behalf of the Bankverein and the Escompte-Gesellschaft are not included in the above table.

[1] October 15th, 1932.

BELGIUM.

Introductory Note.

The history and characteristics of the Belgian banking system and its development until the end of 1929 were summarised in the first edition of this publication. The most important banking events in subsequent years are :

(1) The amalgamation by the " Banque de Bruxelles " of all its Belgian banking affiliations in 1931, so that the group of formally autonomous institutions previously headed by this bank now form a large unit bank with over 400 branch offices controlling about 15 per cent of the aggregate commercial bank assets of the country. Even after this amalgamation, however, the " Banque de Bruxelles " is greatly surpassed in importance by the " Société Générale de Belgique ", which maintains, moreover, a large number of affiliations The group headed by this bank represents some 45 per cent of aggregate commercial bank assets

(2) The amalgamations effected within the Louvain group headed by the " Algemeene Bankvereeniging ", the third among the domestic commercial banks in order of magnitude ; and the formation of another large unit bank, the " Société Belge de Banque " in 1932 through the amalgamation of a number of medium-sized banking institutions.

(3) The failure and subsequent liquidation of certain banks of secondary importance.

As a result of these events, the total number of banks covered by the summary table has dropped from 87 in 1929 to 62 in 1932. Thus, the movement towards concentration in evidence since 1914 has become further accentuated.

In the absence of official banking statistics, the annual compilations of the *Moniteur des Intérêts Matériels* (reproduced also in the *Bulletin d'Information et de Documentation* of the National Bank of Belgium), which are shown on a very compressed balance-sheet form, have been utilised for the summary table as hitherto It should be remembered that the statistics on which this table is based include a number of banks primarily of a mortgage or savings bank character and several banks which carry on the bulk of their operations abroad. [1]

The development of deposits in commercial banks in the course of the past few years may be compared with that in other institutions on the basis of the following figures :

	Commercial banks total liabilities to the public	Central Credit Bank of the Boerenbond total deposits	Post Office Savings Bank Deposits on pass books and c/a	Post Cheque Office Clients' balances at end of year	Total
	Francs (000,000's)				
1925	15,796	655	2,621	1,085	20,157
1929	29,363	1,275	5,626	1,900	38,164
1930	30,001	1,481	7,880	2,070	41,432
1931	26,593	1,706	9,387	2,180	39,866
1932	23,214	1,637	10,015	2,465	37,331

In addition to the institutions included above, there is a large number of mainly rural banks of minor importance for which deposit figures are not available.

Between the end of 1929 and the end of 1932, the commercial banks' liabilities to the public fell by about five millard francs, a measure of the credit contraction in this period. On the other hand, deposits in the Post Office savings banks, which enjoy a Government guarantee, increased by almost 4½ milliards, and balances to the credit of clients in the post cheque system rose by over 500 million. Deposits, etc., in commercial banks accounted for 77 per cent of the total in 1929 as compared with only 63 per cent in 1932.

[1] The Banque du Congo Belge, the Banque Commerciale du Congo and the Crédit Général du Congo, which were added to the statistics of the *Moniteur* only in 1927, and the Banque Italo-Belge, added only in 1930, have, however, been excluded from the summary table.

BELGIUM. COMMERCIAL BANKS **Table 2 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF:				
	1925	1929	1930	1931	1932
Number of banks	96	87	88	62	62
ASSETS.	Francs (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	1,354	3,659	3,456	3,649	4,769
2. Other Items of a Cash Nature					
3. Bills discounted and bought	3,127	6,482	6,726	6,557	5,384
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities					
(a) Government					
(b) Other	4,234	5,717	7,154	7,208	7,046
5. Participations					
6. Due from Banks (Correspondents)					
(a) At home					
(b) Abroad					
7. Loans and Advances	8,566	21,471	21,091	15,789	12,602
(a) On current account					
(b) Other					
8. Cover for Acceptances					
9. Premises, etc.	1,482	411	514	447	473
10. Sundry Assets					
11. Total Assets	**18,763**	**37,740**	**38,941**	**33,650**	**30,274**
LIABILITIES.					
12. Capital paid up	1,664	4,157	4,591	3,828	3,986
13. Reserve Funds	988	3,350	3,548	2,755	2,653
14. Profit-and-Loss Accounts, Undivided Profits, etc.	315	870	801	474	421
15. Cheques and Drafts, etc., in circulation					
16. Due to Banks (Correspondents)					
(a) At home					
(b) Abroad					
17. Deposits					
(a) Current accounts and sight deposits	15,796	29,363	30,001	26,593	23,214
(b) Savings accounts					
(c) Time or fixed deposits					
(d) Other deposits					
18. Rediscounts and other Borrowings					
19. Acceptances and Endorsements					
20. Sundry Liabilities					
21. Total Liabilities	**18,763**	**37,740**	**38,941**	**33,650**	**30,274**
22. Value of currency in cents of a U.S. dollar at the end of each year	4.5	2.8	2.8	2.8	2.8

Balance-sheet Summary

1 and 2. *Cash Assets*, etc.

The combined sums shown for the two first groups include certain amounts of coupons due for payment, foreign bank-notes and the balances of some minor banks with the post cheque office.

3. *Bills discounted and bought.*

According to indications in the *Moniteur*, the sums shown represent net amounts excluding rediscounts.

4 and 5. *Securities and Participations.*

Figures available for banks holding about half the securities and participations of all Belgian commercial banks in 1929 show that less than 15 per cent were in the form of Treasury bills, State bonds and other public securities, and the remainder in the form of private securities and participations.

6, 7 and 8. *Correspondents, Loans and Advances, Cover for Acceptances.*

The statistics of the *Moniteur* do not contain any separate heading for correspondents, the inter-bank accounts being generally merged in the published balance-sheets with those of the ordinary customers of the banks. All forms of loans and advances are grouped together under the single heading "Debtor current accounts" without distinction. The major part of the current account loans represents long-term working credits granted by the banks to the undertakings, industrial and other, which they control.

9 and 10. *Premises and Sundry Assets*

The statistics of the *Moniteur* do not show premises separately from "Sundries".

12. *Capital.*

The amount of the uncalled capital of the banks considered in the various years is given below:

	Francs (000,000's)
1925	376
1929	758
1930	380
1931	413
1932	462

The above sums are excluded from both liabilities and assets in the summary table.

14. *Profit-and-Loss Accounts.*

The figures shown in the summary table represent aggregate net profit balances less net losses, as follows:

	Francs (000,000's)			
	1925	1930	1931	1932
Net profit	325	804	489	446
Net losses	10	3	15	25
Profit balances	315	801	474	421

The statistics of the *Moniteur* do not contain any information on gross profits, expenditure and depreciation, or on the disposal of net profits for dividends, allocations to the reserves, etc

15-20 *Correspondents, Deposits and Other Liabilities*

Detailed figures for these various items are not given in the statistics of the *Moniteur*. The following is the specification available in the years under review.

	Francs (000,000's)				
	1925	1929	1930	1931	1932
Deposits	11,264	21,290	.	20,037	17,506
Creditors	4,532	8,073	.	4,772	2,754
Bonds, mortgages and other borrowings				1,784	2,954
Total	15,796	29,363	30,001	26,593	23,214

BULGARIA.

Introductory Note.

Before the creation of an independent Bulgarian State, only a rudimentary credit organisation existed in the country. For several decades, the National Bank of Bulgaria, founded in 1878 with capital entirely subscribed by the State, remained the only important banking establishment ; in addition to acting as bank of issue and Government banker, this institution also transacted commercial and mortgage banking business. It was not until the beginning of the present century that the general economic and financial situation of the country became sufficiently stable to encourage the organisation of private commercial banks. The most important of these — *e.g.*, the General Bank of Bulgaria, the Banque Balkanique and the Banque de Crédit were established in 1905 and 1906 with the participation of large banks of Vienna, Paris, Berlin and Budapest During and after the war, there was a new wave of private banking organisation, but the National Bank of Bulgaria and other State-owned institutions have remained the most important elements in the Bulgarian system.

Apart from the Central Bank, the principal public banking institution is the Agricultural Bank, organised in 1903 on the basis of small *caisses d'utilité générale* already in existence. In 1927, the commercial and mortgage banking activities of the National Bank of Bulgaria were transferred to the Agricultural Bank Its capital stock amounts to some 700 million leva The bank grants direct loans to the agricultural population, at the beginning of 1933, it had 409,000 individual farmers' debit accounts. It also grants credit to the State and communes, functions as a land mortgage bank, and finances agricultural co-operatives. At the end of July 1933, its total advances exceeded 5,000 million leva, of which 2,600 million was loaned directly to farmers, 1,700 million to co-operative societies, and 800 million to communes, etc. Of the loans to farmers, about half are secured by cattle and the remainder by demand notes and mortgages. About 75 per cent of the loans to co-operatives are open credits, the remainder being secured by mortgages or other pledges. The bank's deposits have steadily increased in recent years, having doubled since 1927 ; at the end of July 1933, its deposits exceeded 5,000 million leva, of which one-third were deposits of the Postal Savings Bank and other public bodies.

Agricultural co-operative societies made their first appearance in Bulgaria around 1890 and developed most rapidly after 1898 At the end of 1932, there were over 1,000 agricultural co-operatives. On an average, they are very small institutions, with deposits amounting to 500,000 leva per co-operative, and loans and advances totalling some 800 million leva for all these societies. The majority of the agricultural co-operatives are credit-distributing agencies of the Agricultural Bank and work under its supervision

The popular banks, or urban credit co-operatives, are a more recent development in Bulgarian banking. The first was established in Sofia in 1903 ; in 1914, when a Union of People's Banks was organised, they numbered 44. The object of these banks is to accumulate the savings of artisans, small merchants, etc , and to extend credit to them. Most of the banks operate in cities, though a certain number are also established in villages In general, credit is granted for a period of three months and is usually based on promissory notes bearing three signatures. In 1933, there were 200 popular banks, with both loans and deposits totalling about 2,000 million leva. In addition to receiving deposits, they also operate largely with resources borrowed from the Central Co-operative Bank, a State-owned institution, founded in 1910, the paid-up capital of which exceeds 100 million leva During the economic depression, the Central Co-operative Bank has frequently been forced to come to the assistance of the popular banks Between the end of 1930 and the middle of 1933, their borrowings from this institution increased by 680 million. The bulk of this increase took place in the form of advances against paper which the Central Co-operative Bank could, in turn, rediscount with the National Bank and other institutions. Its rediscounts with the National Bank rose by 180 million leva in this period ; its time deposits rose by 155 million and its sight deposits by 200 million.

The most important commercial banks proper are established at Sofia and many of the larger ones are constituted with foreign capital. There were until recently six " big " foreign banks and four " big " Bulgarian banks, but, as a result of amalgamations which have taken place in the course of the economic depression, the number of big banks has now been reduced to six, of which four are foreign. The most important of these amalgamations was the grouping of the Bulgarska Banka, the Banque Franco-Bulgare and the Banque pour le Crédit National into the Union de Banques Bulgares. In addition, the Banque

de Crédit merged with the Deutsche Bank. The most important joint-stock banks in Bulgaria are now the Banque Commerciale Italienne et Bulgare, the Banque de Crédit and the Union de Banques Bulgares. The " big " Sofia banks, and among them the foreign banks in particular, play an important part in financing the import and export trade and the larger industrial concerns. They rediscount, to some extent, the commercial portfolio of the smaller banks. In addition to the " big " banks, there are about fifteen other joint-stock banks and private banking houses located in Sofia and over 100 in the provinces; the clientele of the last group consists largely of small tradesmen, artisans, etc.

The relative importance of the various institutions enumerated above in the Bulgarian banking system, and the evolution of their principal accounts during the economic depression, may be judged on the basis of the following table, which shows the deposits, current accounts, etc., and the loans, investments, etc., of the various groups at the end of 1929 and 1932.

	Deposits, etc.				Loans, etc.			
	1929	1932	1929	1932	1929	1932	1929	1932
	Leva (000,000's)		*Percentage of total*		Leva (000,000's)		*Percentage of total*	
Joint-stock banks	6,959	3,944	*52*	*31*	6,994	4,472	*48*	*33*
Whereof :								
Big banks	(5,030)	(2,804)	*(38)*	*(22)*	(4,827)	(2,625)	*(33)*	*(19)*
Other banks	(1,929)	(1,140)	*(14)*	*(9)*	(2,167)	(1,847)	*(15)*	*(14)*
Agricultural Bank of Bulgaria . .	3,962	5,374	*30*	*43*	4,517	5,238	*31*	*39*
Agricultural co-operatives	365	495	*3*	*4*	754	845	*5*	*6*
Central Co-operative Bank of Bulgaria	609	659	*4*	*5*	459	894	*3*	*7*
People's banks	1,458	2,073	*11*	*17*	1,974	2,092	*13*	*15*
Total	13,353	12,545	*100*	*100*	14,698	13,541	*100*	*100*

The grand total of deposits and loans did not vary considerably over this period, deposits declining by only 800 million leva, or 6 per cent, and loans by 1,150 million, of 7 per cent. The various groups of banks were, however, subject to widely different experience. Deposits in the private banks fell by 3,000 millions, or about 43 per cent; the drain on " big " banks and smaller joint-stock institutions was of similar proportions. On the other hand, deposits in all other groups rose, the increase being particularly marked in the case of the Agricultural Bank of Bulgaria. The share of the joint-stock banks in total deposits fell from 52 per cent at the end of 1929 to 31 per cent at the end of 1933, while that of the Agricultural Bank increased from 30 to 43 per cent. In the first six months of 1933, deposits in the private banks fell by a further 350 million leva, and those in the Agricultural Bank also dropped by 250 millions. Loans show much the same development as deposits. Credit extended by the private banks fell by 2,500 million leva, or from about one-half to one-third of the total, while the credit extended by the other banks increased both relatively and absolutely.

The transfer of deposits from the private banks to the Agricultural Bank reflects chiefly the desire on the part of depositors to enjoy the guarantee of a public institution. The withdrawal of deposits from private banks would appear to have been encouraged by a section of the Law for the Protection of Deposits of 1931, which suggests that, in case of bankruptcy, the depositor is fully secured only to the extent of 10 per cent of his deposit. Depositors naturally preferred a State institution with full guarantee. To a considerable extent, transfers were first made to the Postal Savings Bank, which re-deposited with the Agricultural Bank. The latter pays interest at the rate of 7½ per cent per annum on the time deposits of the Postal Savings Office.

The joint-stock banks of Bulgaria were not subject to any uniform legal regulation until the beginning of 1931, when a Law for the Protection of Deposits laid down certain conditions under which they are permitted to operate. The authorisation of the Minister of Finance is now required for the establishment of a bank or a branch office; and the paid-up capital must not be less than 30 million leva for a bank operating in Sofia, 20 millions in other important cities and 10 millions in country districts. A special authorisation is required to accept deposits, and, in the case of newly established banks, this will not be given until one year after the bank has commenced operations The banks may not accept deposits at sight or payable within one month in excess of their unimpaired paid-up capital and reserve funds. The banks are required to keep with the National Bank a guarantee fund amounting to 10 per cent

BULGARIA. COMMERCIAL BANKS **Table 3 *(a)***

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :						
	1926	1927	1928	1929	1930	1931	1932
Number of Banks, Branches and Sub-branches. . .	110	116	128	135	138	131	129
ASSETS.	Leva (000,000's omitted)						
1. Cash.						708	721
(a) Gold, silver and small coins.	597	602	782	714	870	—	—
(b) Inland notes and balances with Central Bank						--	---
2. Other Items of a Cash Nature						260	163
3. Bills discounted and bought.						1,400	1,117
(a) Treasury bills.						—	—
(b) Commercial bills, Inland.						—	—
(c) Commercial bills, Foreign.	1,514	2,110	2,965	3,056	2,293	—	—
4. Investments and Securities.						207	205
(a) Government						46	17
(b) Other						161	188
5. Participations.						51	48
6. Due from Banks (Correspondents).						57	61
(a) At home.						—	—
(b) Abroad	2,793	2,880	3,483	3,938	3,489	—	—
7. Loans and Advances.						2,564	2,040
(a) On current account						--	—
(b) Other						—	—
8. Cover for Acceptances	—	—	—	—	—	29	36
9. Premises, etc..	158	180	203	223	215	275	297
10. Sundry Assets.	287	382	405	511	545	1,133	1,173
11. Total Assets	**5,349**	**6,154**	**7,838**	**8,442**	**7,412**	**6,684**	**5,861**
LIABILITIES.							
12. Capital paid up	726	791	858	1,002	1,085	1,129	1,107
13 Reserve Funds	114	128	149	155	162	174	182
14. Profit-and-Loss Account, Dividends Account, etc.	99	87	105	118	114	62	30
15. Cheques and Drafts, etc., in circulation . .	--	—	—	—	—	20	19
16. Due to Banks (Correspondents)						96	78
(a) At home						--	
(b) Abroad						—	—
17. Deposits, etc.						4,449	3,918
(a) Current account and sundry deposits .	4,198	4,983	6,563	6,959	5,887	-	
(b) Savings accounts						—	
(c) Time and fixed deposits						-	—
(d) Other deposits						—	—
18. Rediscounts and Other Borrowings.						29	36
19. Acceptances and Endorsements	—	—	—	—	—	725	491
20. Sundry Liabilities.	212	165	163	208	164		
21. Total Liabilities.	**5,349**	**6,154**	**7,838**	**8,442**	**7,412**	**6,684**	**5,861**
22. Rediscounts	—	—	—	—	—	400	277
23. Guarantees	—	—	—	—	—	408	361
24. Value of currency in cents of a U.S. dollar at the end of each year	0.73	0.72	0.72	0.72	0.72	0.71	0.72

of their savings deposits. By an amendment of May 1933, they are further required to keep with the National Bank a reserve of 5 per cent of all deposits, which may only be withdrawn for the payment of deposits and not for new investments. Half of the above 10 per cent reserve may be replaced by bills discountable at the National Bank. The same applies to the 5 per cent reserve, subject to the consent of the Bank Board. Amounts equal to two-thirds of savings deposits must be kept in the form of commercial paper not exceeding three months' maturity, merchandise warrants or State obligations. Investments in private securities are limited to one-quarter of the bank's own resources. Ten per cent of net profits must be set aside each year to constitute a reserve fund until the latter is equal to the authorised capital. At least one-half of the reserve fund must be invested in State obligations The law also provides for the setting-up of a Banking Council whose functions are to supervise the enforcement of the law, to draw up a model balance-sheet form on which the banks now submit periodic statements, to examine the latter, and to advise the Minister of Finance with regard to granting permits for new banks, etc. It also provides for the institution of special boards of administration for banks which, although not being in a position to meet all their engagements, are allowed at least in part to continue operations under public control instead of entering into immediate liquidation (deferred liquidation procedure).

Statements showing in considerable detail the situation of some 130 joint-stock banks at the end of each quarter since September 30th, 1931, have been published in the *Monthly Statistical Bulletin* of the National Bank of Bulgaria. Earlier figures for all these banks are not available in the same detail. The aggregates (calculated from published annual reports) which are given for preceding years in the attached summary table, however, allow of at least rough comparisons for the principal items back to 1926 Detailed profit-and-loss accounts are not available.

Balance-sheet Summary.

1 and 2. *Cash and Other Cash Items.*

The "other cash" items, representing sight claims on banks other than the National Bank, which are given under group 2 since 1931, were not shown separately from coins, notes and balances with the Central Bank prior to the adoption of the standard balance-sheet form.

3. *Bills discounted and bought.*

This item includes loans against promissory notes representing almost half of the amounts shown; since 1931, it excludes rediscounts (see note to group 18 below).

4. *Investments and Securities.*

Government securities include treasury bills.

6. *Due from Banks (Correspondents).*

No distinction is made in the official statistics between amounts due from banks at home and abroad. In the years prior to 1931, correspondents are not shown separately from loans and advances.

7. *Loans and Advances.*

Detailed figures available since 1931 show that about 20 per cent of the loans are made against merchandise and the remainder on other security. See note to preceding group.

9. *Sundry Assets.*

This item includes credits in litigation *(i.e.*, doubtful loans), protested bills and losses, in addition to sundry accounts not specified At the end of 1931 and 1932, the first two sub-items (which were not shown separately in preceding years) amounted to the following sums :

	Leva (000,000's)	
	1931	1932
Credits in litigation	391	448
Protested bills.	134	160
Total	525	617

The total of the more liquid portions of the bill portfolio (excluding rediscounts) and the loans shown under groups 3 and 7 of the summary table amounted to 3,964 and 3,157 million leva respectively in the two years considered. Thus, in 1931, over 11 per cent and, in 1932, over 16 per cent of total credits outstanding were shown as bad or doubtful assets.

14. *Profit-and-Loss Account, etc.*

The sums shown under this heading represent the aggregate net profits of the banks which made profits. The net losses incurred by other banks are

not deducted from the net profits as here shown, but are included under sundry assets, to the following aggregate amounts ·

Leva (000,000's)						
1926	1927	1928	1929	1930	1931	1932
1	20	2	8	15	54	31

It will be seen that, in 1932, for the banking system as a whole, the losses exceeded the profits.

16 *Correspondents.*

Sums due to banks at home and abroad are not shown separately in the statistics

17. *Deposits.*

The detailed composition of deposits is shown since 1931 as follows ·

	Leva (000,000's)	
	1931	1932
Savings deposits, up to one month.	1,640	1,436
Savings deposits, more than one month. . . .	226	165
Commercial deposits . .	2,001	1,929
Other creditors	582	388
Total deposits . . .	4,449	3,918
Whereof . in foreign currencies	863	392

18 *Rediscounts and Other Borrowings.*

Since 1931, rediscounts are shown as contingent liability outside the balance-sheet; see group 22 of summary table

CZECHOSLOVAKIA.

Introductory Note.

The credit system of Czechoslovakia is composed of a great variety of institutions, forming groups with more or less specialised functions. The main groups are enumerated below. Their relative importance may be judged from the figures showing their aggregate capital and reserves and their deposits or other liabilities to the public in 1930.

1930	Number of banks	Capital and reserves	Deposits and creditors	Bonds and debentures, etc
		Kč (000,000's)		
(a) Joint-stock banks	23	3,283	26,909	362
(b) Banks without share capital	9	182	4,676	4,725
(c) Joint-stock credit institutions in Slovakia and Ruthenia	79	587	4,211	—
(d) Limited liability partnerships (G. m. b. H.)	16	26	221	
(e) Savings banks	366	621	19,656	
(f) Co-operative credit associations (Schultze-Delitzsch)	1,835	742	13,122	
(g) Co-operative credit associations (Raiffeisen)	4,226	131	5,283	—
(h) Co-operative credit associations in Slovakia and Ruthenia	1,106	61	796	—
(i) Central co-operative associations	53	342	2,115	—
(j) Agricultural district banks	172	125	4,040	—
Total	7,885	6,100	81,029	5,087

Of the above groups of credit institutions, only *(a)* — *i e*, the joint-stock banks in Bohemia, Moravia and Silesia — represents commercial banking proper ; but the other groups compete in certain fields with the joint-stock banks, which, though disposing of more than one-half of the aggregate capital and reserves, held only one-third of total deposits at the end of 1930. It should be noticed, however, that the deposits with the other credit institutions are mainly of the character of savings deposits. For this and certain other reasons indicated in the last edition of this *Memorandum*, only the banks in the first group are taken into account in summary tables *(a)* and *(b)*. The reduction in their number since 1925 is mainly due to amalgamations.

In April 1932, a new banking law was passed in Czechoslovakia to supersede that of 1924. Under the new law, joint-stock banks may be established only with the permission of the Minister of the Interior, which is also required for the opening of branches, changing of capital, amalgamation and alteration of statutes. The public control over banking activities is extended. A department of the Ministry of Finance has full rights to inspect the books of any joint-stock bank or limited liability company, carrying on banking business, to put banks into liquidation, bring about amalgamations, etc.

CZECHOSLOVAKIA. COMMERCIAL BANKS **Table 4 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF · 1925	1929	1930	1931
Number of Banks	32	22	23	23
ASSETS.	Korony (000,000's omitted)			
1. Cash	1,645	2,010	1,836	
(a) Gold, silver and small coins	—	—	—	
(b) Inland notes and balances with Central Bank	—	—	—	1,933
2. Other Items of a Cash Nature	911	1,044	1,323	
3. Bills discounted and bought	2,429	2,728	2,818	2,157
(a) Treasury bills	-	—	—	—
(b) Commercial bills, Inland	2,429	2,728	2,818	2,157
(c) Commercial bills, Foreign	—	—	—	—
4. Investments and Securities	1,785	2,725	3,044	3,419
(a) Government	—	—	—	—
(b) Other	-	—	—	—
5. Participations	482	1,054	1,100	821
6. Due from Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
7. Loans and Advances	17,786	20,643	20,548	17,242
(a) On current account	-	—	—	—
(b) Other	-	—	—	—
8. Cover for Acceptances	11	-	-	—
9. Premises, etc.	343	385	415	531
10. Sundry Assets	637	756	868	853
11. Total Assets	**26,029**	**31,345**	**31,952**	**26,956**
LIABILITIES.				
12. Capital paid up	1,859	1,845	1,852	1,533
13. Reserve Funds	911	1,382	1,431	1,011
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	248	253	205	66
15. Cheques and Drafts, etc., in circulation	—	—	—	—
16. Due to Banks (Correspondents)	5,778	7,787	7,038	5,542
(a) At home	—	—	—	—
(b) Abroad	—	—	—	-
17. Deposits	16,036	18,630	19,871	17,382
(a) Current accounts and sight deposits	8,657	9,703	9,972	8,285
(b) Savings accounts	7,338	8,927	9,899	9,097
(c) Time or fixed deposits	—	—	—	—
(d) Other deposits	41	—	—	—
18. Rediscounts and other Borrowings	—	—	—	—
19. Acceptances and Endorsements	11	—	—	-
20. Sundry Liabilities	1,186	1,448	1,555	1,422
21. Total Liabilities	**26,029**	**31,345**	**31,952**	**26,956**
22. Value of currency in cents of a U.S. dollar at the end of each year	2.9638	2.9625	2.9625	2.9625

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFIT FOR THE YEARS :			
	1925	1929	1930	1931
Number of Banks	32	22	23	23
	Korony (000,000's omitted)			
Capital paid up	1,859	1,845	1,852	1,533
Reserves and Undivided Profits	922	1,405	1,453	1,039
1. Gross Profits	**961**	**884**	**826**	**639**
To be deducted:				
2. Expenses	680	630	620	550
(a) Salaries, etc.	426	479	477	445
(b) Other working expenses	104	86	81	68
(c) Taxes, etc.	150	65	62	37
3. Reserve for Pension Funds, etc.	16	13	15	2
4. Written off on (Depreciation Accounts for)	33	23	23	693
(a) Premises, etc.	11	12	14	12
(b) Investments and securities	22	11	9	676
(c) Other assets				5
5. Remaining Net Profit	**232**	**218**	**168**	**— 607**
6. Carried forward from preceding year	11	22	22	28
7. Taken from Reserves or Capital	-	—	—	642
8. Total Amount disposed of for Dividends, etc.	**243**	**240**	**190**	**64**
9. Carried to Reserves	86	52	24	8
10. Dividends	135	154	129	33
11. Directors' Fees, etc.	11	12	9	2
12. Carried forward to following year	11	22	28	21
13. Total as above	**243**	**240**	**190**	**64**
14. Value of currency in cents of a U.S. dollar at the end of each year	2.9638	2.9625	2.9625	2.9625

Balance-sheet Summary.

1. *Cash.*

The figures given are composed as follows :

	Kč. (000,000's)			
	1925	1929	1930	1931
Cash (Kassabarschaft)	897	1,039	967	1,175
Sight balances with the Central Bank and the Post-cheque Clearing Office	748	971	869	
Total	1,645	2,010	1,836	1,715

The figure shown for 1931 includes sight balances with other banks, part of which were previously shown separately under group (2) and foreign notes, also formerly shown in that group. No distinction is made among these items

2. *Other Items of a Cash Nature*

The figures given are composed as follows :

	Kč. (000,000's)			
	1925	1929	1930	1931
Money on call with domestic banks . .	618	530	725	—
Notes, bills and cheques, etc., in foreign currency	293	514	598	218
Total	911	1,044	1,323	218

See note to group (1) above.

3. *Discounts.*

The figures given represent exclusively domestic commercial bills The Czechoslovak Government does not, as a rule, raise short-term credits by issuing Treasury bills, but by means of short-term bonds. Holdings of these short-term bonds by the commercial banks are included under securities. The foreign bills held by the banks are included in group 2 above *(cf.* note 2).

5. *Participations.*

The figures given represent various forms of participation such as permanent participations in banks and bankings firms, etc It would appear that most of these participations are of an industrial character *(cf.* introductory note given in the last edition of this *Memorandum)*.

6 *Due from Banks.*

Not shown separately : included in " Debtors in current account " *(cf.* note 7 below).

7. *Loans and Advances.*

The sums in this group of the table are shown in the Czechoslovak banking statistics under the general heading " Debtors ", and are composed as follows :

Debtors	Kč. (000,000's)			
	1925	1929	1930	1931
Credits covered by securities . .	2,595	3,126	2,774	1,759
Other debtors from the banking business.	15,146	17,495	17,730	15,443
Debtors of the Commercial Departments.	45	22	43	40
Total . .	17,786	20,643	20,548	17,242

The first item above represents contango and other advances for operations on the Bourse, lombard loans, etc. The second item is composed of a variety of accounts which, though representing operations of different character, are not shown separately in the banking statistics.

It consists mainly of current account advances and more especially the credits granted, generally on very long term, to the undertakings directly or indirectly controlled by the banks. In addition, it includes the amounts due from banks and correspondents, excepting the money on call mentioned in note 2 above. As cover for acceptances is not shown separately, an amount equal to the acceptances given under liabilities has been deducted from the item " Other debtors " as shown in the official statistics and carried to group 8 of the table.

The third item above represents credits granted by the banks' commercial departments for goods sold but not yet paid for.

8. *Cover for Acceptances*

The sums shown in the table are included in the Czechoslovak statistics in the group " Debtors " (see note 7 above).

9 *Premises, etc.*

This item represents the aggregate book value of the real estate, furniture, etc., held by the banks for their own use. Certain other real estate held by some of the banks has been included in the summary table in the " Sundry Assets ".

10 *Sundry Assets.*

The composition of the sums shown in the table is given below :

	Kč. (000,000's)			
	1925	1929	1930	1931
Mortgage, municipal, land improvement and railway loans	192	272	368	485
Real estate not for the banks' own use	71	82	65	68
Temporary and sundry accounts	374	402	435	300
Total	637	756	868	853

The mortgage, municipal and railway loans are financed by the issue of bonds and debentures. As these operations do not enter into the normal field of activities of commercial banks, the loans have been included in sundry assets and the bonds and debentures in sundry liabilities.

The last item of the above statement consists mainly of internal administrative accounts of the banks.

11 and 21. *Total Assets and Liabilities.*

Not including the following amounts of *comptes d'ordre*:

	Kč. (000,000's)		
1925	4,500	1930	7,393
1929	7,286	1931	7,144

14. *Profit-and-Loss Accounts, etc.*

The sums given represent net profits of the year.

16. *Due to Banks (Correspondents).*

This item is shown in the Czechoslovak banking statistics under the general heading "Creditors : Financial Institutions". The amounts due to foreign banks are not separated from those due to domestic institutions.

17. *Deposits.*

The figures shown under *(a)* are given in the official statistics as "Creditors in current account" (other than financial institutions; *cf.* note 16 above). This item is composed mainly of sight deposits, but also includes deposits on longer terms.

The combined figures for *(b)* and *(c)* are composed of savings deposits and Kassenscheine, as shown below :

	Kč. (000,000's)			
	1925	1929	1930	1931
Deposits on savings account	6,815	7,865	8,396	7,877
Kassenscheine	523	1,062	1,503	1,220
Total	7,338	8,927	9,899	9,097

The figures shown under *(d)* represent creditors of the commercial departments of the banks.

20. *Sundry Liabilities.*

This item is composed of several accounts shown separately in the official statistics as follows :

	Kč. (000,000's)			
	1925	1929	1930	1931
Bonds and debentures issued	192	268	362	483
Other accounts of the mortgage departments	1	2	2	2
Pension funds	139	220	238	213
Other funds not serving as cover for losses	23	34	68	15
Temporary and sundry accounts	831	924	885	703
Total	1,186	1,448	1,555	1,422

With regard to the first two items representing the liabilities of the mortgage departments of the banks, see note to group 10 above. The last item is composed mainly of internal administrative accounts, which do not represent direct liabilities to the public.

Summary of Profit-and-Loss Accounts.

1. *Gross Profits.*

The figures given are composed as follows :

	Kč. (000,000's)			
	1925	1929	1930	1931
Interest and discounts	531	510	484	451
Provisions and commissions	310	287	270	236
Profits on securities, investments and participations	111	70	58	67
Sundry profits	9	17	14	19
Total gross profits	961	884	826	639

In conformity with the banking practice in most countries, net figures for interest earned are given above. These figures have been calculated by deducting interest paid on deposits and other outgoings on account of interest which are shown under the expenses in the official Czechoslovak banking statistics from the total of the interest receipts as given in these statistics The same method has been followed in calculating the sundry profits.

2. *Expenses.*

Not including interest paid and sundry expenses other than working expenses proper, taxes paid, etc. (see note 1 above).

3 *Reserved for Pension Funds, etc.*

The figures given include, in addition to amounts reserved for pension funds, sums set aside for certain other purposes, as shown below :

	Kč. (000,000's)			
	1925	1929	1930	1931
Reserved for :				
Pension funds	9 0	8.9	8 4	0.4
Other funds not serving as cover for losses	2.1	2.1	0 2	—
Other purposes	4.7	2 4	5 9	1.6
Total	15 8	13 4	14 5	2.0

DENMARK.

Introductory Note.

The number of independent banking units operating in Denmark is comparatively large, but most of the banks are small and purely local in character, each serving the financial requirements of a very restricted area. There is, however, a considerable concentration of resources within the commercial banking system; thus, at the end of 1932, the seven most important banks, of which five are in Copenhagen, accounted for about sixty per cent of the commercial bank capital and reserves and of the deposits The three most important banks — namely, Den Danske Landmandsbank, Privatbanken i Kjøbenhavn and Kjøbenhavns Handelsbank — accounted at that time for almost half of all commercial bank deposits in Denmark

The importance of the commercial banks to the whole credit system of the country may be judged from the statement opposite, comparing the total of their deposits with those of the savings banks and with the "cash bonds" of the credit associations.

It will be noted that, in recent years, the savings bank deposits have exceeded the total of all forms of deposits with the commercial banks, and that the funds raised by the credit associations have been about equal to the aggregate of the deposits of the commercial and savings banks combined. This preponderance of institutions providing long-term credits, mainly of a mortgage character, reflects the importance of agriculture in the economic life of the country The commercial banks are primarily engaged in financing industry and trade. The tables of the present chapter are based on the detailed statistics published in the annual reports of the Government Bank Inspector (see introductory note given in last edition of this memorandum).

	Kroner (000,000's)			
	1929	1930	1931	1932
Commercial banks . .	1,992	2,110	1,960	1,889
Savings banks [1] . . .	2,120	2,202	2,153	2,145
	Bonds in circulation			
Credit associations [1] .	3,973	4,180	4,486	—

[1] March 31st following year.

Balance-sheet Summary.

1 *Cash.*

Item *(a)*, shown separately since 1921, consists almost exclusively of divisionary coins. The composition of item *(b)* is given below

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Notes of the National Bank . .	29 4	31.5	32 0	25 1	24 6
Sight balances with the National Bank	50.5	43.2	57.7	48 6	113 5
Total	79 9	74.7	89.7	73.7	138.1

3. *Discounts.*

Including rediscounts which are shown as a special item under liabilities in the official banking statistics and are given separately in group 18 of the summary table. Foreign notes and coins are included in the figures for foreign bills.

The Danish Government does not, as a rule, borrow in the market through the issue of Treasury bills, although it is authorised to do so within certain limits under a Law of December 20th, 1924.

4 and 5. *Investments and Securities; Participations.*

Details are shown below :

DENMARK. COMMERCIAL BANKS **Table 5 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF:				
	1925	1929	1930	1931	1932
Number of : Banks	186	180	180	179	175
Branches and Sub-Branches	514	550	575	582	590
ASSETS.	Kroner (000,000's omitted)				
1. Cash	82.3	77.2	92.4	76.6	140.7
(a) Gold, silver and small coins	2 4	2.5	2 7	2.9	2.6
(b) Inland notes and balances with Central Bank	79.9	74.7	89 7	73 7	138.1
2. Other Items of a Cash Nature	22 9	24.6	28.5	26.6	31.7
3. Bills discounted and bought	459.1	403.2	428.3	428.8	351.3
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	452.5	386.1	416 7	424 4	346.1
(c) Commercial bills, Foreign	6 6	17 1	11.6	4 4	5 2
4. Investments and Securities	588.5	583.0	655.4	577.3	577.3
(a) Government	98 5	102 8	99 2	79 2	89 2
(b) Other	490 0	480 2	556.2	498 1	488 1
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	197.8	216.9	194.9	120.1	147.3
(a) At home	113 0	79 3	77 3	77.6	90.5
(b) Abroad	84 8	137 6	117 6	42.5	56 8
7. Loans and Advances	1,573.2	1,454.6	1,446.8	1,423.0	1,281.7
(a) On current account	1,271 8	1,160 2	1,137 0	1,100.1	984 1
(b) Other	301 4	294.4	309.8	322 9	297.6
8. Cover for Acceptances	42.5	2.5	2.7	4.1	0.9
9. Premises, etc.	70.5	79.7	79.7	84.7	84.9
10. Sundry Assets	257.0	71.9	107.6	119.8	86.8
11. Total Assets	**3,293.8**	**2,913.6**	**3,036.3**	**2,861.0**	**2,702.6**
LIABILITIES.					
12. Capital paid up	251.9	279.4	282.3	280.3	281.4
13. Reserve Funds	127.2	138.9	143.2	126.2	141.6
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	31.4	38.6	34.2	23.3	20.9
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	533.8	383.4	354.9	353.5	297.8
(a) At home	235 9	265 1	234.2	285 7	219.9
(b) Abroad	297.9	118.3	120.7	67 8	77 9
17. Deposits	2,121.3	1,992.1	2,110.0	1,959.7	1,888.9
(a) Current accounts and sight deposits	588.8	550 6	614.2	544 9	533 2
(b) Savings accounts	578 1	543.3	575.7	535 8	476.2
(c) Time or fixed deposits	954.4	898.2	920.1	879 0	879 5
(d) Other deposits	—	—	—	—	—
18. Rediscounts and other Borrowings	9.9	19.9	21.6	20.8	27.7
19. Acceptances and Endorsements	42.5	2.5	2.7	4.1	0.9
20. Sundry Liabilities	175.8	58.8	87.3	93.1	43.4
21. Total Liabilities	**3,293.8**	**2,913.6**	**3,036.3**	**2,861.0**	**2,702.6**
22. Value of currency in cents of a U.S. dollar at the end of each year	24.75	26.80	26.80	18.59	17.01

DENMARK. COMMERCIAL BANKS **Table 5 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :				
	1925	1929	1930	1931	1932
Number of Banks	186	180	180	179	175
	Kroner (000,000's omitted)				
Capital paid up	251.9	279.4	282.3	280.3	281.4
Reserves and Undivided Profits	144.4	156.3	159.6	137.3	149.9
1. Gross Profits	**96.9**	**75.9**	**79.1**	**80.3**	**87.4**
To be deducted:					
2. Expenses	37.4	33 3	34.1	34 6	33 9
(a) Salaries, etc.	24.4	21 4	21 7	21 5	22 2
(b) Other working expenses	10 5	9.5	10.0	10 8	10 4
(c) Taxes, etc.	2.5	2 4	2.4	2.3	1 3
3. Reserved for Pension Funds, etc,	0.5	0 8	0.9	0 9	1 3
4. Written off on (Depreciation Accounts for)	203.4	13 8	17.7	52 9	18.9
(a) Premises, etc.	5.1	1 2	1 2	1 0	1 9
(b) Investments and securities	55.5	0 2	0 2	40 7	1 1
(c) Other assets	142 8	12 4	16.3	11 2	15 6
5. Remaining Net Profit (+) or Loss (—)	**—144.4**	**+28.0**	**+26.4**	**—8.1**	**+ 33.3**
6. Carried forward from Preceding Year	17.2	17.4	16.4	11.1	8.3
7. Taken from Reserves or Capital	123.4	6.9	3.4	24 3	2.5
8. Deficit left uncovered	43.7	—	—	0.4	0.4
9. Total Amount disposed of for Dividends, etc.	**39.9**	**52.3**	**46.2**	**27.7**	**44.5**
10. Carried to Reserves	7.5	12.7	11.0	3.2	9.4
11. Dividends	14.2	18.7	19.5	13.4	18.0
12. Director's Fees, etc	4.4	3.9	3.9	2.4	4.2
13. Other Purposes	0.2	0.3	0.6	0.4	2.7
14. Carried forward to Following Year	13.6	16.7	11.2	8.3	10.2
15. Total as above	**39.9**	**52.3**	**46.2**	**27.7**	**44.5**
16. Value of currency in cents of a U.S. dollar at the end of each year	24.75	26.80	26.80	18.59	17.01

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Government bonds	59.3	84.3	99.2	79 2	89.2
Municipal bonds	39.2	18.5	32.1	29.3	47.2
Bonds of credit associations, etc.	130 2	196 9	238.5	170 0	148.1
Mortgages bonds *(Panteobligationer)*	165.9	153 0	157.1	168 8	169.9
Other Danish bonds	92.4	54.1	47.9	53 4	47.9
Shares	93.7	71.0	72 2	71.7	70.7
Foreign bonds and shares	7.8	5.2	8.4	4.9	4.3
Total	588 5	583.0	655.4	577.3	577.3

The Government and Municipal bonds are shown under 4 *(a)* in the summary table. The sums given under 4 *(b)* represent the totals of the other items shown separately above. It will be noted that the banks invest a substantial portion of their funds in mortgage bonds and bonds of credit associations. The credit associations conduct mainly a mortgage business.

The reports of the Bank Inspector do not indicate the character of the shares held by the banks; but the industrial and commercial participations of the leading banks would appear to constitute the greater part of the share holdings shown above.

6. *Due from Banks (Correspondents).*

The sums due by foreign correspondents are composed of claims in foreign and in Danish currency as follows :

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Foreign currency	71.3	128.0	105.4	32.1	46.4
Danish currency	13.5	9.6	12.2	10.4	10 4
Total	84.8	137 6	117 6	42.5	56.8

7. *Loans and Advances.*

The current account advances of the Danish banks are granted mainly in the form of " cash credits ". The sums shown under *(b)* in this group of the summary table consist of loans against collateral or personal guarantee. The composition of these loans is not shown in the statistics or in the balance-sheets of the banks.

8. *Cover for Acceptances.*

As the Danish banking statistics do not show the cover for the acceptances separately, a sum equal to the acceptances (in the liabilities) has been deducted from the current accounts above and carried to this group in the summary table.

10. *Sundry Assets.*

The sums given in this group include the deficit on the profit and loss accounts of the Landmandsbank and certain other banks as shown below :

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Sundry debtors	120.8	39.1	77.4	87.4	56.7
Interest accounts	4.6	4.3	4.3	4.6	4.3
Deficit	131.6	28.5	25.9	27.8	25 8
Total	257.0	71.9	107.6	119.8	86.8

The item " Sundry debtors " includes the accounts of the mortgage department of the Landmandsbank. The item " Deficit " consists almost exclusively of the deficit of the Landmandsbank carried forward from year to year (see note to this group given in last edition).

16. *Due to Banks (Correspondents).*

The sums due to foreign correspondents are composed of liabilities in foreign and Danish currency as follows :

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Foreign currency	159 0	70 6	71.7	41.7	44.6
Danish currency	138 9	47 7	49.0	26.1	33.3
Total	297.9	118.3	120.7	67.8	77 9

17. *Deposits.*

The sight deposits shown as item *(a)* in this group constitute the total of the two items " Folio " (cheque) accounts and current accounts of the official statistics.

Deposits in savings banks since 1929 are shown below :

End of March :	Kroner (000,000's)
1929	2,041
1930	2,202
1931	2,179
1932	2,169

20. *Sundry Liabilities.*

The sums given in this group of the summary table are composed of sundry creditors including certain contingent liabilities (guarantees) the contra-accounts of which form part of the " sundry debtors " in group 10 of the summary table, mortgage debts, Staff pension funds and interest accounts, which are shown separately in the official statistics.

Summary of Profit-and-Loss Accounts.

As mentioned in the previous edition, the Landmandsbank in recent years has been working without any funds of its own. The annual additions to the deficit brought forward on the profit and loss accounts of the banks are shown as a separate item (8) of the summary table 5 *(b)*.

1. *Gross Profits.*

The composition of the gross profits of all the banks is shown below :

	Kroner (000,000's)				
	1925	1929	1930	1931	1932
Net interest from discounts and loans.	43.5	24.7	26.0	28 9	34 0
Interest on foreign assets	6 5	10.5	6.8	8.6	5 2
Profits from investments	26 2	22.8	28.0	23.9	31 4
Commissions	17.8	15.6	15.6	16.0	15 0
Recovered from assets previously written down	0 9	0 7	0.9	1 1	0.7
Sundry profits	2.0	1.6	1.8	1 8	1 1
Total gross profits	96 9	75 9	79 1	80 3	87 4

The first item represents the net balance of interest earned on discounts, loans and advances after deduction of all interest paid on the various deposit accounts. The third item represents the yield (including appreciation) of the bonds and shares in the possession of the banks.

ESTONIA.

Introductory Note.

The pre-war commercial banking system of Estonia consisted of one local joint-stock bank, four private banks, the Estonian branches of a few important Petrograd and Moscow banks and a large number of local co-operative credit institutions. The joint-stock and private banks were owned and managed in large part by foreigners, and their transactions were limited to financing urban industries and transit trade from Russia. The co-operative credit institutions, comprising some sixteen mutual credit societies and eighty-three loan and savings banks, served as commercial banks for the bulk of the Estonian population Their funds came mainly from small depositors, and their credit transactions consisted chiefly in granting loans to the agricultural classes.

The war, the Russian Revolution and the consequent rapid depreciation of the rouble almost completely destroyed this banking system Its subsequent reconstruction was delayed until 1920 when the Eesti mark was created and the bank of issue began operations.

The banking system consists to-day of State, commercial and co-operative banks The State institutions, apart from the Eesti Pank, comprise three long-term credit institutions and the Postal Savings Bank. In addition to issuing notes, the Eesti Pank performed an extensive commercial banking business until the banking and currency reform scheme came into effect on January 1st, 1928. The reforms, which were executed with the help of a loan raised under the auspices of the League of Nations, consisted chiefly in the legal stabilisation of the currency at the rate of 26 799 U S A cents to 1 Eesti kroon (the equivalent of 100 former Eesti marks), the transformation of the Eesti Pank into an independent central bank of note issue, and the transfer of its long-term business to a special mortgage institute. The three long-term credit institutions are the Land Bank, the Estonian Mortgage Bank, and the National Mortgage Bank. The most important of these banks, the National Mortgage Bank, which, on its creation in 1928, took over a part of those assets of the Eesti Pank which were considered unsuitable for a bank of issue, grants long-term loans against mortgages on any kind of immovable property. The deposits placed with the State Savings Bank, which started operations in January 1928, have increased year by year. By 1932, its total assets and liabilities equalled those of the fourth most important joint-stock bank.

The joint-stock banks and the larger co-operative banks together constitute the commercial banking system of Estonia, and it is with these that the present chapter is concerned. In 1932, the former were fifteen in number ; the five largest banks accounted for nearly 80 per cent of the combined balance-sheets of these fifteen institutions. The group of larger co-operative banks, whose business does not differ essentially in character from that of the joint-stock banks, numbered twenty-six out of a total of over 200 co-operative credit institutions ; the others are small and individually unimportant.

As may be seen from the following summary statement, which gives separate figures for the joint-stock and the larger co-operative banks, the latter have gained in importance in recent years. Their share in the joint balance-sheet of the two groups increased from 21 per cent in 1927 to 35 per cent in 1932 :

	Joint-stock banks		Co-operative banks	
	1927	1932	1927	1932
Number of banks. . .	21	15	20	26
	Ekr. (000,000's)			
ASSETS				
Cash and other reserve items	2 4	2 5	1 7	2 2
Discounts	20 7	18 9	7 2	13 4
Current account advances.	13.1	34 9	3.1	6 2
Other loans and credits . .	1 9	1 3	4 5	4 3
(Total discounts, loans and advances)	(55 7)	(55 1)	(14 8)	(23 9)
Due from banks . . .	5 3	1 8	0 9	0 8
Securities . . .	1 0	1 3	—	0 6
Premises	5 8	5 8	0 6	1 0
Sundry accounts . .	4 5	5.4	2 2	9 0
Total assets . . .	74 7	71 9	20 2	38 4
LIABILITIES.				
Capital and reserves . . .	10 4	7 6	1 4	3 0
Current accounts and sight deposits.	22 6	21 9	7 6	12 6
Time deposits	7 7	6 6	4 8	8 3
(Total deposits)	(32 4)	(29.7)	(12 7)	(21.1)
Due to banks	1 1 0	16 1	0 5	0 6
Rediscounts	7 0	6.1	0 3	1 3
Borrowings	5 1	5 2	1 8	2.6
(Total rediscounts and borrowings)	(12 1)	(11 3)	(2.1)	(3 9)
Sundry accounts	8.7	7.2	3.5	9 8
Total liabilities. . .	74 7	71.9	20.2	38 4

During the first years of the Republic, a considerable number of joint-stock banks was established, in part through re-organisation of the remnants of the credit institutions formerly operating in Estonian territory. As long as the post-war inflation continued and the currency depreciated, however, the real development of banking was slow. But, after the *de facto* stabilisation of the currency at the end of 1924, by which time joint-stock banks had reached twenty-five in number, an internal consolidation of the system took place, and the number of banks was gradually reduced through the elimination of the weaker institutions and through amalgamations.

Development of the Joint-stock Banks.

End of :	Ekr. (000,000's)			
	Number of banks	Capital and reserves	Deposits	Loans and discounts
1924 [1]	25	7.4	15	26
1925	21	9.9	19	33
1926 [2]	21	9.9	24	44
1927	21	10.4	32	56
1928	21	10.4	43	74
1929	19	8 6	44	76
1930	19	8 6	46	79
1931	16	7 2	37	62
1932	15	7.6	30	55
1933 (September)	15	7 8	29	50

After the currency and banking reform of 1926-27, to which reference has been made above, foreign capital flowed into Estonia in considerable amounts up to and including 1930. The imports of capital took the form of the sale abroad of Government securities, direct foreign investment in industrial and export enterprises and short-term foreign credits to the commercial banks

The rapid economic recovery, which was largely a result of this capital inflow, is reflected in the figures for deposits and loans shown above for the joint-stock banks and below for the larger co-operative banks.

Development of the Larger Co-operative Banks.

End of :	Ekr. (000,000's)			
	Number of banks	Capital and reserves	Deposits	Loans and discounts
1926 [1]	19	1 2	8	11
1927	20	1 4	13	15
1928	20	1 9	18	24
1929	21	2.2	19	25
1930	21	2.6	24	26
1931	25	2 8	24	28
1932	26	2.9	21	24
1933 (September)	26	2.9	21	23

The co-operative banks, like the joint-stock banks, are partly based on pre-war institutions (mutual credit societies and small savings banks) While the activity of the joint-stock banks is chiefly directed towards the financing of industry and trade — foreign trade in particular — that of the co-operative banks is mainly concerned with the financing of agricultural and other rural enterprise, including the trade in agricultural products. The development of the co-operative banks is, of course, closely bound up with the rapid advance of the agricultural co-operative movement in Estonia in the post-war period

Foreign credit institutions participate to a certain extent in the share capital of some of the joint-stock banks, which, in addition, have relied upon foreign credits in considerable degree throughout the post-war period. This dependence is illustrated by the following figures for the net foreign bank indebtedness of the joint-stock banks, in so far as it may be calculated from the details shown in the official statistics :

End of	Ekr. (000,000's)				
	Due to foreign correspondents	Foreign creditors	Total	Due from foreign correspondents	Net balance
1927	8.2	0.5	8 7	3.0	5.7
1928	10.5	0 2	10.7	1.3	9.4
1929	8.4	2.2	10.6	1.5	9.1
1930	11.7	2.0	13.7	1.4	12.3
1931	6.8	1.7	8.5	1.9	6.6
1932	7.2	0.1	7.3	0.8	6.5

[1] 1924-1925 : December 31st.
[2] 1926-1932 : December 1st.

It will be noted that the net indebtedness to foreign banks [1] increased up to 1930 *pari passu* with the expansion in the domestic business of the banks as measured by the figures for loans and deposits shown in the preceding statements. The commercial banks, and in particular the larger co-operative banks, were not very seriously affected by the depression, which was comparatively mild in Estonia until the last quarter of 1931. The more important joint-stock banks were, however, very sensitive to the foreign currency difficulties which began in that period, as they depended to a considerable extent on foreign credits.

A temporary lack of confidence, causing sudden withdrawals of deposits, had previously arisen after the failure of two medium-sized joint-stock banks in November 1930 and January 1931. But these failures were due to special reasons — mismanagement of certain industrial enterprises in which the two banks concerned were too heavily engaged — and had little to do with the international economic depression. Thanks to Government intervention through the National Mortgage Bank, confidence in the other banks was soon restored, and deposits with all classes of banks increased in the second quarter of 1931. The banking crisis in Germany in July of that year had no noticeable effect on the banks in Estonia.

Serious difficulties began with the abandonment of the gold standard by the United Kingdom in September 1931. The rapid depreciation of the pound affected adversely the banks using large sterling credits. Moreover, foreign balances and credits were called in; the net balance of foreign indebtedness of the banks declined by almost one-half, as shown above. This decline took place in the last two month of 1931. A run started on the second largest bank, which was known to enjoy important foreign credits, and two affiliated smaller provincial banks. The Government intervened by placing a temporary moratorium on the banks concerned. This moratorium was lifted as soon as it was known that the mother institution had been able to maintain a substantial part of its former credits and raise considerable fresh credits. Meanwhile it had called in a substantial part of its most liquid advances and discounts, causing particular embarrassment to the export industries.

These events, coupled with the belief that the Eesti kroon would follow Scandinavian currencies in depreciating, led to a general run on all banks. Deposits with the joint-stock banks declined from Ekr. 46 million in 1930 to 37 millions at the end of 1931 and in the course of 1932 continued to decline to 30 millions. The deposits with the larger co-operative banks, which had reached Ekr. 29 million in the third quarter of 1931, declined to 24 millions by the end of that year and to 21 millions in 1932. This reduction in deposits and foreign credits — the latter reflecting in part the depreciation of the sterling — led to a general cut in loans and discounts. By the end of 1932, the joint-stock banks had cut their volume of outstanding credits by roughly one-third, which largely contributed to the general paralysis of industry and trade in the country. The cuts effected by the co-operative banks were much less radical thanks to more extensive support from the various State banks. The largest joint-stock bank was only able to maintain its position owing to renewed Government intervention through the National Mortgage Bank. Temporary moratoria were allowed in the summer of 1932 to certain co-operative banks under the law of March 23rd, 1932, referred to below.

By means of severe exchange control and direct trade restrictions, the currency was officially maintained at par until the end of June 1933, when it was allowed to depreciate to the level of the Swedish krona. Since September 1933, the Estonian exchange has been pegged to sterling at par.

The old Russian "Credit Statutes" formed the banking law of Estonia until March 23rd, 1932, when a new law came into force. The new law is essentially an adaptation of the Russian law to the special conditions of Estonia. It provides, *inter alia*, for an increase in the powers of the Ministry of Economic Affairs in respect of supervision, and bankruptcy procedure; and it removes hindrances to amalgamation by no longer levying a transfer of property tax in case of amalgamations. The law limits the operations of the co-operative banks; the bigger ones are placed under the general banking law, and the activity of the smaller co-operative banks is restricted to deposit and loan operations.

The attached summary of the balance-sheet position is based on the official banking statistics published in the *Monthly Bulletin of Statistics* of Estonia *(Eesti Statistika)* and covers all the joint-stock and the principal co-operative banks. The summary table begins with 1926, as the *Statistical Bulletin* of Estonia does not cover the co-operative banks before that year. December 1st, instead of December 31st, has been chosen, as figures for that date are given consistently for all the years under review. The profit and loss summary relates to the joint-stock banks alone.

[1] The figures for the net balance as shown above are too low to the extent that direct rediscounts of bills payable abroad are effected with foreign institutions. As a rule, the whole of the bank's portfolio is shown as rediscounted, but no distinction is made in the statistics between the rediscounts effected at the Eesti Pank and those made with other institutions.

ACCOUNTS	SUMMARY OF POSITION ON DECEMBER 1st.						
	1926	1927	1928	1929	1930	1931	1932
Number of Banks	40	41	41	40	40	41	41
	Ekr. (000,000's omitted)						
ASSETS.							
1. Cash	2.4	1.9	2.0	3.0	2.9	2.7	2.0
(a) Gold, silver and small coins	--	—	—	—	—	—	—
(b) Bank notes, State notes and balances with Central Bank	—	—	—	—	—	—	—
2. Other Items of a Cash Nature	0.2	2.1	2.1	2.1	3.0	2.8	2.7
3. Bills discounted and bought	19.5	27.9	44.2	46.9	42.8	35.8	32.3
(a) Treasury bills	—	—	—	—	—	—	—
(b) Commercial bills, Inland	--	21 3	37 5	37 6	34.3	32.4	29 2
(c) Commercial bills, Foreign	—	6.6	6.7	9.3	8 5	3 4	3 1
4. Investments and Securities	1.0	1.0	1.2	1.4	2.0	1.7	1.9
(a) Government	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	3.9	6.2	4.8	5.2	4.8	4.0	2.6
(a) At home	2 2	3 1	3 5	3.7	3.4	2.1	1 8
(b) Abroad	1 7	3 1	1 3	1 5	1 4	1 9	0 8
7. Loans and Advances	35.6	42.6	53.3	54.4	62.5	53.4	46.7
(a) On current account	29.7	36.2	45.5	46.3	54.6	46.1	41 1
(b) Other	5.9	6.4	7 8	8.1	7.9	7 3	5.6
8. Cover for Acceptances	—	—	—	—	—	—	—
9. Premises, etc.	6.2	6.5	6.6	7.2	7.7	7.2	7.6
10. Sundry Assets	6.3	6.7	9.7	12.0	14.0	16.0	14.5
11. Total Assets	**75.1**	**94.9**	**123.9**	**132.2**	**139.7**	**123.6**	**110.3**
LIABILITIES.							
12. Capital paid up	8.2	8.8	9.2	8.6	8.7	7.5	7.9
13. Reserve Funds	2.9	3.0	3.1	2.2	2.5	2.5	2.7
14. Profit-and-Loss Accounts, Undivided Profits, etc.	0.2	0.4	0.6	1.0	1.4	1.1	0.8
15. Cheques and Drafts, etc., in Circulation	—	—	—	—	—	—	—
16. Due to Banks (Correspondents)	8.7	11.5	14.5	12.4	15.0	15.3	16.7
(a) At home	2 8	3 3	4 0	4.0	3.3	8 5	9.5
(b) Abroad	5.9	8.2	10.5	8.4	11.7	6.8	7.2
17. Deposits	31.6	45.1	61.2	63.0	69.1	60.7	50.8
(a) Current accounts	21.9	30 2	40.4	39.8	42.8	36 8	34 5
(b) Savings accounts	—	—	—	—	—	--	--
(c) Time or fixed deposits	8.2	12.5	18.0	20.4	23.0	21 3	14 9
(d) Other deposits	1 5	2.4	2 8	2 8	3.3	2 6	1.4
18. Rediscounts and Borrowings	12.9	14.2	20.2	27.2	24.2	16.8	15 1
19. Acceptances and Endorsements	0.2	0.2	0.2	0.2	0.2	0.4	0.1
20. Sundry Liabilities	10.4	11.7	14.9	17.6	18.6	19.3	16.2
21. Total Liabilities	**75.1**	**94.9**	**123.9**	**132.2**	**139.7**	**123.6**	**110.3**
22. Guarantees	9.8	9.8	12.6	16.7	13.5	6.6	5.3
23. Value of currency in cents of a U.S. dollar at the end of each year	26.9	26.8	26.8	26.8	26.7	26.8	26.7

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS OF THE JOINT-STOCK BANKS						
	1925	1926	1927	1928	1929	1930	1931
Number of Banks	21	21	20	20	19	16	16
	Ekr (000,000's omitted)						
Capital paid up	6.9	7.33	7.76	7.74	6.92	6 81	5 47
Reserves and Undivided Profits	2.0	2 61	2.66	2.68	1.72	1.83	1 70
1. Gross Profits	**3.8**	**3.6**	**3.7**	**3.8**	**4.3**	**3.5**	**3.2**
To be deducted :							
2. Expenses	2.1	2.1	2.0	2.2	2.4	1 9	1 8
(*a*) Salaries, etc.	1.2	1 3	1 3	1.4	1 4	1.2	1 2
(*b*) Other working expenses	0 5	0 6	0.6	0.6	0 7	0.6	0 5
(*c*) Taxes, etc.	0 3	0 3	0 2	0 2	0 3	0 2	0 2
3. Reserve for Pensions Fund, etc	—	—	—	—	—	—	—
4. Written off on (Depreciation Accounts)	0.6	0.7	0 6	3.3	1 2	1.2	1.1
(*a*) Premises, etc.	0 1	0.1	0 1	0 1	0 1	0 1	0.1
(*b*) Investments and securities	0 5	0.6	0 5	3 2	1 1	1 1	1 0
(*c*) Other assets							
5 Remaining Net Profit (+) or Loss (—)	**+1.1**	**+0.9**	**+1.0**	**−1.7**	**+0.7**	**+0.4**	**+0.3**
6. Carried forward from Preceding Year	—	—	—	—	—	—	—
7 Taken from Reserves or Capital	—		—	2 7	0.4	0.1	—
8. Total Amount disposed of for Dividends, etc	**1.1**	**0.9**	**1.0**	**1.0**	**1.1**	**0.5**	**0.3**
14. Value of Currency in Cents of a U.S. Dollar at the End of Each Year	26.9	26.9	26.8	26 8	26.8	26.7	26.8

Balance-sheet Summary.

1. *Cash.*

Coins and notes are not shown separately in the official statistics As from 1927, balances with the Central Bank are given separately for the joint-stock banks as follows :

	Ekr (000,000's)		
1927	0.6	1930	0 9
1928	0.7	1931	0.6
1929	0.8	1932	0 8

2. *Other Items of a Cash Nature*

Under this head are included foreign bank-notes and sight claims on credit institutions other than the Eesti Pank.

3 *Bills discounted and bought.*

Treasury bills do not play a rôle in the Estonian credit system, as the Government can borrow directly from the bank of issue within certain limits. The official statistics distinguish between total discounts and rediscounts of all the banks and discounts and rediscounts of bills payable at home of the joint-stock banks only As in practice the co-operative banks discount almost exclusively inland bills, the difference between the two sets of figures is taken to represent bills payable abroad as follows :

	Ekr (000,000's)					
	1927	1928	1929	1930	1931	1932
Inland bills:						
Discounted	21 3	37.4	37.6	34.3	32.4	29 2
Rediscounted	1 2	5 5	6.9	5.2	4.0	4.4
Net balance	20 1	31 9	30 7	29 1	28.4	24 8
Bills payable abroad:						
Discounted	6.6	6.8	9.3	8.5	3 4	3.1
Rediscounted	6 1	6.9	9.5	8.5	2.8	3.0
Net balance	0.5	— 0.1	— 0 2	0.0	0.6	0 1
All bills:						
Discounted	27.9	44 2	46.9	42 8	35.8	32.3
Rediscounted	7 3	12 4	16.4	13.7	6.8	7 4
Net balance	20.6	31 8	30.5	29.1	29 0	24.9

It will be noted that, as a rule, practically the whole portfolio of bills payable abroad is rediscounted. The statistics do not indicate to what extent, if any, these bills are rediscounted directly with foreign banks. Even before the institution of the exchange control in 1931, the bulk of this portfolio was presumably rediscounted with the Eesti Pank.

7 *Loans and Advances*

As can be seen from the table given in the introductory note showing the assets and liabilities of the joint-stock and co-operative banks for 1927 and 1932, the joint-stock banks lend mainly on current account and the co-operative banks on longer term The current account advances given in the summary table represent, therefore, almost entirely the current account advances of the joint-stock banks , and the sums given for " other loans and credits " represent in the main the longer term advances of the co-operative banks

10. *Sundry Assets*

The composition of the aggregates given in the summary table is shown below

	Ekr. (000,000's)					
	1927	1928	1929	1930	1931	1932
Protested bills	0 2	0.3	0 8	0 9	1 1	0 9
Current expenses, interest and commissions paid	4 0	5 0	6 3	6 5	5 6	4 1
Transitory accounts	0 8	1 5	1 1	1 2	1.2	0 9
Other accounts	1 7	2 9	3.6	5.4	8 1	8.6
Total	6.7	9 7	12.0	14 0	16 0	14 5

11 and 21 *Total Assets and Liabilities*

The totals given do not include guarantees which, though shown inside the balance-sheet proper in the Estonian statistics, are given outside the balance-sheet as item 22 of the summary table Inter-branch accounts are also shown separately under assets and liabilities in the official statistics , in the attached table, however, only the net balance of these accounts is included under sundry liabilities.

14. *Profit-and-Loss Accounts, etc*

The official balance-sheet does not show the net balance of profit and loss accounts, but current expenses, including interest and commissions paid, are given under sundry assets and interest and commissions received under sundry liabilities The sums given under the heading profit and loss in the summary table represent only undivided profits, etc , shown separately in the official statistics.

17. *Deposits.*

Separate figures for the joint-stock banks (J. B.) and the co-operative banks (C. B.) are given below to show the relative importance of the various kinds of deposits in the two groups of banks and their movement since 1926.

End of	Current accounts		Time deposits		Other deposits		Total deposits	
	J. B.	C. B	J. B	C. B	J. B.	C. B	J. B.	C B
	Ekr. (000,000's)							
1926	17.3	4 6	5.1	3.1	1.4	0.1	23 8	7.9
1927	22 6	7 6	7.6	4 8	2 1	0 3	32 4	12.8
1928	30.1	10.3	10 5	7.5	2.5	0 3	43 1	18.1
1929	29.6	10 2	11 7	8 7	2 5	0 3	43 8	19 2
1930	30 5	12.3	12.2	10.8	3 0	0 4	45 7	23 5
1931	24 3	12 5	10 5	10 9	2 2	0 4	36 9	23 8
1932	21 9	12 6	6.6	8.3	1.2	0.3	29 7	21 1

18. *Rediscounts and Borrowings.*

The official statistics distinguish between rediscounts and borrowings (For a comparison of discounts and rediscounts of inland bills and of bills payable abroad, see note to item 3 of the summary table.) The difference between total creditors and creditors at home of the joint-stock banks as shown in the official statistics has been taken to represent borrowings abroad by these banks The co-operative banks do not borrow abroad to any significant extent The detailed composition of the aggregates given in the summary table is shown below

	1927	1928	1929	1930	1931	19321
	Ekr (000,000's)					
Rediscounts.						
Inland bills.	1.3	5 5	6 9	5 2	4 0	4 4
Bills payable abroad.	6 0	6 9	9 5	8 6	2 8	3 0
Total	7 3	12.4	16 4	13 8	6 8	7.4
Borrowings						
At home	6 4	7.6	8 6	8 4	8 1	7 7
Abroad.	0 5	0.2	2 2	2 0	1 7	0 1
Total	6 9	7.8	10 8	10 4	9 8	7.8
Grand total	14 2	20 2	27 2	24 2	16 6	15 2

20 *Sundry Liabilities* — The composition of the sums given are detailed below .

	1927	1928	1929	1930	1931	1932
	Ekr (000,000's)					
Interest and commissions received	7 1	9 4	10 3	10.2	8 8	5 6
Transitory accounts	1.4	1 2	2.0	1 2	1.2	1 0
Other liabilities, including net balance of inter-branch accounts .	3.2	4 3	5 3	7 2	9 3	9.6
Total	11 7	14.9	17 6	18 6	19 3	16.2

Summary of Profit-and-Loss Accounts.

1. *Gross Profits*

The sums shown under this heading represent the difference between (A) total receipts from interest and commissions, foreign exchange, real estate and security transactions, etc., and (B) interest and commissions paid, which items are all given in detail in the official statistics.

2. *Expenses.*

The sums shown for salaries *(a)* include remuneration of directors, members of the board and of advisory committees, etc., in addition to salaries of the staff.

5 and 7. *Net Profit or Loss and taken from Reserves or Capital*

The figures relating to net profits represent the net balances of the joint-stock banks as a whole It will be noted that the recorded net losses incurred by certain banks (and covered from their capital and reserves) in 1928 exceeded the total amount of the net profits realised by all the other banks in the same year.

8. *Total Amount disposed of for Dividends, etc.*

The ultimate utilisation for dividends, reserves, carry-over, etc., of the sums given under this heading is not shown in detail in the official statistics.

FINLAND.

Introductory Note.

The Finnish banking system has the main characteristics of the deposit-bank type; but, though direct industrial participations are rare, most of the banks extend large credits to industry on long term The number of banks is not great, but there is a wide network of branches.

Since the post-war inflation, there has been a continuous process of concentration in Finnish banking. The number of independent commercial banks fell from 23 at the end of 1920 to 17 at the end of 1929 During the economic depression, the number of banks has been further reduced to 12 at the end of 1932 Thus, in 1930, the "Atlas Pankki", which had gone into liquidation under the guarantee of the "Helsingfors Aktiebank", was absorbed by that institution, which also took over the "Aktiebolaget Union-banken" in 1931; the "Maakuntain Pankki" was amalgamated with the "Kansallis Osake Pankki"; and two small banks went into liquidation.

Though the savings banks compete with the joint-stock banks for deposits — the total of their deposits at the end of 1932 being 4,223 million markkaa, as against 8,001 millions for all forms of deposits with the banks included in the summary table — they do not conduct commercial banking business. The remaining credit institutions, apart from the Bank of Finland, are mortgage banks, and the present tables therefore constitute a complete summary of commercial banking proper in Finland. They are based on official banking statistics.

Balance-sheet Summary.

1. *Cash* — The composition of the figures given under *(b)* is shown below.

	1925	1929	1930	1931	1932
	Markkaa (000,000's)				
Notes and small coins	182 8	219 4	204 1	180.1	165 8
Sight balances with Bank of Finland and other banks	55 3	19 0	19 0	51 7	47 6
Total	238 1	238.4	223.1	231 8	213 4

2 *Other Items of a Cash Nature.* — The figures given are made up as follows.

	1925	1929	1930	1931	1932
	Markkaa (000,000's)				
Foreign banknotes	4 9	9 1	9.0	7 2	6 1
Post bills of the Bank of Finland	2 0	0.7	0 9	0 5	0 4
Post bills of private banks	43 9	56 6	41 0	34.8	24 9
Miscellaneous	2 1	1 1	1 2	0 8	0 9
Total	52.9	67.5	52 1	43.3	32 3

4 and 5. *Investments and Securities; Participations.* — The composition of group 4 *(b)* is given below:

	1925	1929	1930	1931	1932
Bonds	Markkaa (000,000's)				
In foreign currency	—	33 2	48.8	54 0	56 6
Of municipalities	33 6	23.1	32.1	27.2	27 3
Of bank and mortgage institutions	24 0	16 6	35 8	35 3	45 0
Other	55 3	70.6	66.1	69.0	69 3
Total bonds	112.9	143.5	182 8	185 5	198.2
Shares					
In credit and insurance institutions	68.3	66.4	65 2	61.9	56 2
Other	63.2	24.5	36.5	53.3	120.7
Total shares	131.5	90.9	101 7	115 2	176.9
Total "Other securities"	244.4	234.4	284.5	300.7	375.1

FINLAND. COMMERCIAL BANKS **Table 7 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF: 1925	1929	1930	1931	1932
Number of: Banks	19	17	17	14	12
Branches and Sub-Branches	460	611	606	566	499
ASSETS.	Markkaa (000,000's omitted)				
1. Cash	238.2	238.4	223.1	231.8	213.4
(a) Gold, silver and small coins	0 1	—	—	—	—
(b) Inland notes and balances with Central Bank	238 1	238 4	223 1	231 8	213 4
2. Other Items of a Cash Nature	52.9	67 5	52.1	43.3	32.3
3. Bills discounted and bought	1,943.1	3,356.4	2,756.9	2,305.1	1,853.3
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	1,928 2	3,297.3	2,696 3	2,273 1	1,828 5
(c) Commercial bills, Foreign	14 9	59.1	60 6	122 0	24 8
4. Investments and Securities	256 1	266.1	318.6	339.9	415 7
(a) Government	11 7	31 7	34 1	39 2	40 6
(b) Other	244 4	234 4	284 5	300 7	375 1
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	163.4	236.0	210.2	192.7	137 4
(a) At home	37 4	61 2	46 8	16 8	32 4
(b) Abroad	126 0	174 8	163 4	175 9	105 0
7. Loans and Advances	4,552.2	6,222.8	6,471 2	6,422.9	6,366.8
(a) On current account	2,658 1	3,586.8	3,588 9	3,394 9	3,140 4
(b) Other	1,894 1	2,636 0	2,882 3	3,028 0	3,226 4
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc.	121.0	262.5	286.2	286 4	287 6
10. Sundry Assets	151.9	243.9	222.5	407.3	203.1
11. Total Assets	**7,478.8**	**10,893.6**	**10,540.8**	**10,319.4**	**9,509.6**
LIABILITIES.					
12. Capital paid up	756.0	1,115 0	1,115.0	1,115.5	928.5
13. Reserve Funds	307.2	568 1	596.3	584.0	546.2
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	148 6	240 4	198.4	186.8	141 1
15. Cheques and Drafts, etc., in circulation	192.3	169 1	160 8	151.3	116.2
16. Due to Banks (Correspondents)	334.5	482.4	358.2	196.2	132 3
(a) At home	—	—	—	—	—
(b) Abroad	334 5	482 4	358.2	196.2	132 3
17. Deposits	5,404 8	7,481.3	7,697.8	7,378.5	7,154.7
(a) Current accounts and sight deposits	1,296 4	1,486.1	1,555 5	1,635 0	1,607 2
(b) Savings accounts	484 0	766 7	828.8	793.0	786 4
(c) Time or fixed deposits	3,684 4	5,228.5	5,313 5	4,950.5	4,761 1
(d) Other deposits	—	—	—	—	—
18. Rediscounts and Other Borrowings	31.9	530.3	161.7	487.5	314.4
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	243.5	307.0	252.6	219.6	176.2
21. Total Liabilities	**7,478.8**	**10,893.6**	**10,540.8**	**10,319.4**	**9,509.6**
22. Contingent Liabilities	938.0	1,078.9	1,001.4	988.9	846 3
23. Value of Currency in Cents of a U.S. Dollar at the End of Each Year	2.52	2.52	2.52	1.69	1.42

FINLAND. COMMERCIAL BANKS **Table 7 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :				
	1925	1929	1930	1931	1932
Number of Banks	19	17	17	14	12
	Markkaa (000,000's omitted)				
Capital paid up	756.0	1,115.0	1,115.0	1,115.5	928.5
Reserves and Undivided Profits	320 9	606.0	639.5	633.9	589.0
1. Gross Profits	**354.1**	**498.1**	**463.1**	**406.5**	**355.2**
To be deducted					
2. Expenses	193.3	241.6	236.7	193.1	185 4
(a) Salaries, etc	95 5	123 6	121.3	105 4	99 8
(b) Other working expenses	32 1	48.0	46 6	40 1	48 6
(c) Taxes, etc	65 7	70 0	68 8	47 6	37 0
3. Reserved for Pension Funds, etc	0.6	1.2	1.1	2.1	—
4. Written off on (Depreciation Accounts for)	29.0	69.6	74.4	257.2	97.5
(a) Premises, etc	2.9	6 6	1 0	0 3	0 2
(b) Investments and securities	3.5	10.2	3.8	8.1	3 4
(c) Other assets	22 6	52.8	69.6	248 8	93 9
5. Remaining Net Profit or Loss (—)	**131.2**	**185.7**	**150.9**	**– 45.9**	**72.3**
6. Carried forward from Preceding Year	13.7	37.9	43.2	49.9	42.8
7. Taken from Reserves or Capital	1.2	14.8	1.9	169.0	22.3
8. Total Amount disposed of for Dividends, etc	**146.1**	**238.4**	**196.0**	**173.0**	**137.4**
9. Carried to Reserves	24.7	30.5	4.1	9.4	1.0
10. Dividends	100.6	159.2	141.2	119.7	94.8
11. Directors' Fees, etc	0.7	0.8	0.5	0.6	0.3
12. Other Purposes	2.0	4.7	0.8	0.6	0.4
13. Carried forward to Following Year	18.1	43.2	49.4	42.7	40.9
14. Total as above	**146.1**	**238.4**	**196.0**	**173.0**	**137.4**
15. Value of Currency in Cents of a U.S. Dollar at the End of Each Year	2.52	2.52	2.52	1.69	1.42

The fourth item under "Bonds" consists mainly of debentures of transport and industrial undertakings.

The balance-sheet model of the Finnish banking statistics does not contain any separate headings for participations, but the Finnish commercial banks do not engage in direct industrial participations to nearly the same extent as the banks in most continental European countries.

6. *Due from Banks (Correspondents).*

The balance-sheets, as summarised in the official banking statistics, contain an item, "Inland Correspondents", which, however, represents almost entirely ordinary current accounts of private clients of the bank. These accounts, which are shown separately in a special statement, have been included under "Loans and Advances" in the present summary table (see note 7 below). The sums shown in group 6 *(a)* of the table represent the remainder of the item "Inland Correspondents", plus a small item, "Deposit Certificates of Other Banks", shown separately in the official statistics.

7. *Loans and Advances.*

The sums given under *(a)* consist of "Cash Credits", other current accounts and "Personal Accounts", and represent amounts actually drawn. In the statement below, the unutilised balances and the total amount of credits opened are shown, in addition to the amounts drawn

	1925	1929	1930	1931	1932
I. Amounts drawn:	Markkaa (000,000's)				
Cash credit	932 6	1,411.5	1,307.9	1,149 0	1,032 7
Current and personal accounts	1,725.5	2,175.3	2,281 0	2,245.9	2,107.7
Total drawn	2,658 1	3,586 8	3,588 9	3,394 9	3,140.4
II. Balances:					
Cash credit	187 8	172 1	186 4	182.5	126 8
Current and personal accounts	750.2	906 8	815 0	806.4	719 5
Total unutilised	938 0	1,078 9	1,001 4	988 9	846 3
Total credits opened (I and II)	3,596 1	4,665 7	4,590.3	4,383 8	3,986 7

Cash credit is a special form of short-term current account. Both for cash credit and other current accounts the balance-sheet summary of the official banking statistics only includes the amounts actually drawn, the unutilised balances of the credits opened being excluded both from the assets and the liabilities. This practice has been adopted also in Summary Table 7 *(a)*. But as the unutilised balances may be drawn upon at any moment, they represent in point of fact a potential liability and are therefore shown under the heading "Contingent Liabilities" at the bottom of the summary table (see note 17 below).

The sums shown under 7 *(b)* in the summary table represent loans. The composition of total loans and advances according to the character of the cover for the credits opened and the loans granted is shown below:

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Loans and advances against:					
Mortgages	1,484.8	1 937 7	2 148 0	2,379 4	2,270 6
Bonds and bank deposit certificates	62.3	85 8	98 1	90 5	65 3
Shares	671 8	1,108.5	1,043.2	930.5	770.3
Goods	15 0	10.8	17.5	20 2	16.2
Guarantee	1,233.9	1,886.2	1,774.3	1,532 6	1,314.3
Single signature	2,022.4	2,272.6	2,391.5	2,458 6	2,776 4
Total	5,490 2	7,301.6	7,472 6	7,411 8	7,213 1

10. *Sundry Assets.* The figures given are made up as follows:

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Mortgage loans, etc	7.3	5.3	4.9	2 6	1.0
Interest receivable	62.5	92.9	94.9	95 9	77.1
Sundries	82.1	145.7	122.7	308.8	125.0
Total	151.9	243 9	222.5	407.3	203 1

12 and 13. *Capital and Reserves.*

The decrease in the aggregate capital in 1932 was due to the liquidation and amalgamation of certain banks (see introductory note above) whose capital was written off to meet losses.

15. *Cheques and Drafts in Circulation.*

The figures shown represent bank-post bills issued.

16. *Due to Banks (Correspondents).*

The figures given under *(b)* are shown in the

official statistics under the heading " Foreign correspondents " and represent in the main banks and bankers. The item " Inland correspondents " of the Finnish banking statistics, however, consists almost exclusively of current accounts of private clients of the banks. As the sums due to banks at home are not shown separately anywhere in these statistics, the whole of the item " Inland correspondents " has been included in the current accounts in the summary table (see note to group 17 below).

17. *Deposits.*

The current account deposits and the inland correspondents' accounts forming together item 17 *(a)* of the summary table are shown separately in the following statement, which includes, in addition, the unutilised balances of the " Cash credits " and other current account credits accorded to the clients.

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Deposits in current account	625.4	724.0	669 8	667.1	626.0
Inland correspondents	671.0	762 1	885.7	967.9	981 2
Total (item 17 *(a)*) . . .	1,296 4	1,486 1	1,555.5	1,635.0	1 607.2
Unutilised balances of credits opened .	938.0	1,078 9	1,001.4	988 9	846.3
Total (including credit balances).	2,234.4	2,565.0	2,556.9	2,623.9	2,453 5

As already stated above in the note to group 7 of the summary table, the unutilised balances of credits opened constitute a potential sight liability and are shown in the summary table itself under the heading " Contingent liabilities ". With respect to the item " Inland correspondents ", see note 16 above.

18. *Re-discounts and other Borrowings by the Banks.*

The sums shown under this heading in the summary table are composed as follows :

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Bills re-discounted . .	25 7	490.5	147.2	461.3	296 2
Borrowings against security of premises	3 4	4.2	4.1	3 5	3 3
Other borrowings . . .	2 8	35.6	10 4	22 7	14.9
Total	31.9	530.3	161.7	487.5	314 4

The bills re-discounted, mainly with the Bank of Finland, are included on the assets side of the balance-sheet in the " Bills discounted ".

20. *Sundry Liabilities.*

The figures given in the summary table are made up as follows :

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Pension funds	30.0	52.3	54.9	57.1	53.5
Unpaid dividends	1.5	2.2	2.2	2 2	2 6
Interest payable	69 8	84.3	68.4	56.4	44.7
Bills collected for third parties .	21 4	21.7	17.2	12.7	7.7
Sundry accounts	120.8	146.5	109.9	91.2	67.7
Total	243.5	307.0	252.6	219.6	176.2

It will be noticed that the third item, " Interest payable ", is largely counterbalanced by the interest receivable included in "Sundry assets " and shown separately in the note to group 10 of the summary table.

22. *Contingent Liabilities.*

The sums shown under this heading consist of unutilised balances of credits opened (see notes to groups 7 and 17 above).

Summary of Profit-and-Loss Accounts.

1. *Gross Profits.*

The figures given in the summary table are composed as follows :

	Markkaa (000,000's)				
	1925	1929	1930	1931	1932
Net interest and commissions from discounts, loans and advances .	292 9	424.2	395 6	310 4	269 8
Profit on securities and exchange .	31.8	46 5	42.0	64 1	62.1
Recovered from assets written off .	2.1	1 8	3 0	3 7	2 3
Sundry profits	27 3	25 6	22 5	28 3	21 0
Total	354 1	498 1	463.1	406 5	355 2

In conformity with the banking practice in most countries, net figures for interest earned are given above. These figures have been calculated by deducting interest paid shown under expenses in the official Finnish banking statistics from the total of the interest earned as given in these statistics

4. *Depreciation Accounts.*

The amounts included under *(c)* in this group of the summary table were written down as follows .

	Markka (000,000's)				
	1925	1929	1930	1931	1932
Written off on :					
Discounts, loans and advances .	18.4	51.9	68 3	237.1	90.2
Foreign exchange	2.2	—	—	—	—
Assets not specified . . .	2.0	0.9	1.3	11 7	3.7
Total	22.6	52 8	69.6	248 8	93.9

5 *Net Profit or Loss.*

It will be noticed that, in 1931, the Finnish banks as a whole had a net loss. This was almost entirely due to the " Maakuntain Pankki ", which had a net loss of 154 6 million markkaa, which was covered out of its capital and reserves , as mentioned in the introductory note, this bank was amalgamated with the " Kansallis Osake Pankki " in 1932. The " Svenska Finlands Lantmannabank " also had a small loss in 1931, which was covered by its carry-forward for the preceding year In 1932, the " Åbolands Bank " and the " Luotti Pankki " had net losses of 15.4 and 4 5 million markkaa respectively, which were covered out of capital and reserves.

6. *Carried forward from Preceding Year.*

The sums shown under this heading in the summary table are also included as " Undivided Profits " in the second item of the table

7. *Taken from Reserves or Capital.*

For explanation of the figures given, see note to group 5 of the table.

12. *Other Purposes.*

The sums shown were all allocated to benevolent and similar purposes.

FRANCE.

Introductory Note.

Before entering upon an analysis of banking developments in France in recent years, it is important to mention certain aspects of the organisation of the French money-market. [1] This market has at no time attained a very wide development ; a comparatively small part of the resources of the commercial banks has been devoted to the financing of foreign transactions, and the volume of bankers' acceptances is small. The Bank of France does not, as a rule, play an active rôle in the money-market. It is limited by its statutes from engaging freely in open-market transactions. Moreover, as it discounts commercial paper at its provincial branches, and is therefore to some extent a competitor of the commercial banks, the latter are generally reluctant to effect rediscounts with the central institution.

There is a market for contangos which operates in connection with the Bourse, but the total amount of carry-over money is small in relation to the volume of liquid resources which the commercial banks deem it advisable to maintain. The funds for carry-over transactions originate in part from private individuals and business corporations. The call-money market has also been developed to only a limited extent. It is partly as a result of these factors that the French commercial banks habitually keep a large proportion of their excess cash reserves in the form of deposits in foreign banks and loans to foreign money-markets. This tradition was established before the war and, as is well known, foreign short-term balances accumulated rapidly during the post-war currency depreciation. During the past few years, as will be shown below, a large proportion of these balances have been repatriated in order to meet an increased demand for cash at home.

The years 1929-1933 witnessed a sharp contraction in the activity and profitability of French banking and the elimination of several important institutions, through failure or amalgamation. In several cases, the State was forced to come to the assistance of threatened institutions, and, in others, recourse was had to the Bank of France and other institutions. The first important breach in the French banking organisation came with the failure in November 1930 of a regional deposit bank operating in Boulogne — the Banque Adam, which had made large advances to its principal shareholder for speculation on the Paris Stock Exchange. Through the speedy intervention of the Government and the large banks, the depositors were protected against loss, but the difficulties of this institution caused runs on other provincial banks and within a short time the Crédit du Rhône and an Angoulême bank had closed their doors. The fall in raw-material prices brought certain colonial banks into difficulties, most of which were only able to continue with Government assistance.

At the beginning of 1931, the Crédit Industriel et Commercial extended its network of branches and agencies by taking over the Banque d'Alsace et de Lorraine, whose difficulties came to a head as a result of advances made to Bauer, Marchal & Cie , who failed at the end of 1930. Later, the Crédit Industriel absorbed the Banque Privée and bought a substantial interest in Comptoir d'Escompte de la Sarthe and in the Banque de la Vallée du Rhône.

Even more important in scope was the reorganisation of the Banque Nationale de Crédit in October 1931 This institution, which was organised in 1913, developed very rapidly after the war until it reached the position of fourth largest deposit bank in France. With capital and reserves amounting to 500 million francs, deposits of 5 milliards, commercial portfolio of 3 milliards and with 1,000 branches and agencies, the Banque Nationale de Crédit played an important rôle in the economy of the country It made very large advances to the Comptoir Lyon-Alemand, a firm which held a considerable part of its capital stock. When that firm got into difficulties in September 1931, a run on the bank began. The State intervened, announced the creation of a guarantee fund, and itself advanced 2 milliards ; a short time later, the Banque Nationale de Crédit went into liquidation and its assets and liabilities were taken over by a new organisation, the Banque Nationale pour le Commerce et l'Industrie, which was constituted with a paid-up capital of 100 million francs.

The difficulties of the Banque Nationale de Crédit were followed by runs on other banks and within a few days the Comptoir d'Escompte de Reims, the Banque Syndicale de Paris, the Banque Courvoisier and the Banque Commerciale Africaine had closed their doors. The beginning of November 1931 was marked by the failure of several old-established provincial banks, among which may be mentioned the Banque Veuve Guérin et Fils at Lyons, the Banque Ramel, Tardif et Cie. at Saitn-Etienne and the Banque Charpenay at Grenoble.

[1] A brief description of the banking system itself and of the main functions of its chief component parts was given in the last edition of this publication.

During the year 1932, banking failures and reorganisations were much less frequent. The most important was the amalgamation of two large "banques d'affaires" in May 1932. The Banque de l'Union Parisienne, second only in importance to the Banque de Paris et Pays-Bas, was supposed to have suffered heavy losses on some of its investments in central Europe, and, in the course of a few weeks, had to pay out 600 million francs in deposits It was assisted by a syndicate including its large shareholder, the Société Générale de Belgique, and, in May 1932, it was amalgamated with the Crédit Mobilier Français, the third largest investment bank in France.

At the end of 1932 and beginning of 1933, a few provincial banks, including the Banque Renauld and the Société Centrale des Banques de Province also failed. These failures, however, were mainly of local importance, and they did not give rise to general runs on banks as in the previous years.

Many banks which continued to carry on business during these years closed down branches and agencies, the number of which was, as shown below, considerably reduced in the course of 1932 :

Year	Number of permanent branches and agencies[1]	Number of all branches and agencies, including periodic and seasonal[1]
1925	1,803	3,120
1929	2,069	4,026
1930	2,166	4,283
1931	2,202	4,355
1932	1,857	3,716

The development of French commercial banking accounts during the depression may first be studied in the following figures relating to the four largest deposit banks Monthly figures showing the principal accounts of these banks are compiled regularly by the Services d'Études Economiques of the Banque de France. The classification of items is not identical with that adopted in the attached summary tables.

End of	1929	1930	1931	1932	September 1933
			Francs (000,000's)		
1. Cash in hand and with banks, etc.	2,827	3,957	12,599	9,945	8,568
2 Commercial portfolio and national defence bonds	21,064	20,224	18,269	21,932	19,738
3 Correspondents and debtors on current account	12,589	14,761	9,803	8,011	8,730
4 Advances	1,935	1,577	1,100	1,044	1,254
5. Deposit accounts	14,628	16,234	15,894	16,581	15,374
6. Current accounts.	19,437	20,447	22,351	21,178	18,807
7 Acceptances	1,275	921	576	295	253

The most striking feature in the above table is the increase in the importance of the cash item. Cash in hand and with banks, which at the end of 1929 amounted to little more than 8 per cent of total deposits (which are practically all sight liabilities), rose to about 11 per cent in 1930 and 33 per cent at the end of 1931. The explanation of this movement would appear to be twofold -- in the first place, the runs on banks characteristic of the period made it incumbent on them to keep abnormally large cash reserves in order to be prepared to meet abnormally large withdrawals. In the absence of any well-developed money market in Paris to which the banks could make short-term loans, they were forced to keep large sums in the unproductive form of cash holdings and balances with the Bank of France. This increase in cash reserves was largely (perhaps mainly) effected by repatriation, in the form of gold, of balances held abroad (as reflected particularly in the decline in item 3 between 1930 and 1932). In so far as this gold was subsequently sold to the Bank of France, the sight balances of the commercial banks with that institution increased. In the second place, the repayment of credits found the banks little disposed to make fresh advances in view of the uncertain prospects of industry, and most of them preferred to maintain an abnormally high ratio of non-interest-bearing assets rather than assume the risk of immobilisation of capital. Cash holdings were, however, reduced by 2,650 million francs during 1932 and by a further 1,400 million during the first nine months of 1933. At the end of 1932, they amounted to 26 per cent of total deposits and at the end of September 1933 to the same proportion The decline in cash holdings during 1932 was partly due to an increase in public confidence in the stability of the banks. In part, it was due to the fact that the deposit banks took up large quantities of Treasury bills which were issued to finance budget deficits during this period.

It is chiefly through commercial discounts that

[1] Refers to branches, etc., of six deposit banks on which summary tables 8 *(a)*, I and 8*(b)*, I are based.

the deposit banks extend credit to industry and the reduction in their portfolio, shown in the second line above, between 1929 and 1931 is not surprising in view of the fall in prices and the sharp decline in the volume of commercial transactions. No distinction is made in the published statistics between National Defence (Treasury) Bonds and commercial paper, but it is estimated [1] that Treasury bonds accounted for about 8,000 million francs of the total bill portfolio of the four deposit banks at the end of 1931 and 13,000 million at the end of 1932. On the basis of these figures, it would appear that, during the course of 1932, the commercial bill portfolio of the deposit banks dropped from over 10,000 million francs to under 9,000 millions. The increased holdings of Treasury bills should be considered in relation to the decline in the banks' cash assets, to which reference has been made in the preceding paragraph. The total bill portfolio declined by over 2,000 million francs in the first nine months of 1933. Maturing Treasury bills were not renewed, and deposits were withdrawn from the banks and invested in new issues of public and semi-public bodies. Total deposits fell by 3,600 million francs in the first nine months of 1933.

The decline in " Correspondents and debtors on current account " shown in line 3 is largely explained by the repatriation of foreign short-term balances, to which reference has already been made. During the years 1924-1926, the French banks kept the greater proportion of their capital and reserve funds in foreign currencies In 1927-1929 they also kept abroad large parts of their liquid resources in order to take advantage of the higher interest rates prevailing abroad. During 1930, the total of correspondents and debtors on current account rose by over one milliard francs. This was in part due to an increase in current account loans to domestic debtors, reflecting the accumulation of stocks of goods, which cannot be financed through discounts. In part, it would appear to result from the fact that private holders of foreign currencies, alarmed by the course of the depression abroad, sold their holdings to the French banks. This resulted in an increase in the latter's correspondent accounts, until the holdings were repatriated in the form of gold. Repatriation of foreign short-term assets took place on a very large scale in 1931, the most important withdrawals being made from England and the United States. Private capitalists also converted their foreign currency holdings during this period of financial panic. Apart from acceptances, the extent of this repatriation of capital is unknown ; but it is unofficially estimated [2] that, during 1931, French banks, industrialists, merchants and capitalists repatriated some 10 milliard francs of short-term investments abroad. In addition, foreigners transferred funds to France in large amounts, seeking safety there. The extent of these transfers is not known exactly ; they are estimated [3] at 5 milliard francs in 1931 and 1 milliard in 1932. It is not possible to say to what extent these funds were left on deposit with French banks, and to what extent they were used to purchase gold or for other purposes.

It will be seen from the above statement that the decline in advances has been relatively greater than in other credit items in the course of the past few years, amounting to over 45 per cent between the end of 1929 and the end of 1932 This item, which has always been of small relative importance, consists partly of credit granted on the security of stocks and merchandise ; the decline in prices and the anxiety of the banks to maintain a liquid position explains the heavy fall. Contango loans to the stock market are also included in this item, and the amount of such loans outstanding naturally fell with the decline in quotations and the reduced volume of trading. With the slightly increased activity on the Bourse in the course of 1933, the total of advances and report loans showed a moderate upward movement.

The four large deposit banks whose accounts are summarised above were known to be less closely associated with industry than most other credit institutions, and they suffered withdrawals of deposits to a much smaller extent than the other banks. Their deposits, indeed, rose almost continuously up to the end of 1932, when they were 3½ milliards higher than at the end of 1929. The decline which took place in connection with large public issues made during 1933 has already been referred to above At the end of September 1933, deposits were again at the 1929 level.

Acceptances of the four large deposit banks fell by 1 milliard, or almost 80 per cent, between the end of 1929 and the end of 1932 , there was a further decline in the first nine months of 1933. In part, this fall was due to the decline in international trade ; for the greater part, however, it was doubtless due to a reluctance on the part of the French banks to hold resources in foreign currencies.

The *banques d'affaires* suffered more during the depression than the deposit banks, both on account of their closer connection with industry and on account of the fact that a larger part of their resources was devoted to foreign investment. From the beginning of the depression, their activity was largely limited to current transactions. In 1930, the *banques d'affaires* brought out foreign capital issues for the first time since the war. The most important of these was the Young Loan.

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[1] P. DIETERLEN, in *Revue d'Économie Politique*, May-June 1933, page 736.
[2] P. MEYNIAL : " La Balance des Comptes " in *Revue d'Économie Politique*, May-June, 1932, page 585.
[3] *Ibid.*, and same review, May-June 1933, page 665.

A summarised statement of the accounts of the *banques d'affaires* at the end of each year since 1929 is given below :

	Francs (000,000's)			
	1929	1930	1931	1932
1 Cash in hand and with Bank of France	1,074	1,410	963	966
2. Correspondents, commercial portfolio, etc	1,678	1,624	1,383	1,611
3. Investments and participations	898	982	1,062	1,031
4. Loans and advances	2,855	2,217	1,310	947
5. Acceptances	217	217	207	92
6. Deposits	4,917	4,813	3,442	3,472
Whereof Current accounts	2,823	3,079	2,228	2,448
Time deposits	2,029	1,661	1,164	976

The investment banks suffered a much more severe contraction of deposits than the deposit banks. During the year 1931, they lost almost 1,400 millions, or 30 per cent, of their deposits. Unlike the deposit banks, they did not increase their holdings of cash and cash assets over the period as a whole ; the apparent rise during 1930 was due to one bank and is to be ascribed to a change in the method of accounting. The total declined by 450 million francs in 1931 and remained practically stationary in 1932 Loans and advances of the investment banks, which normally constitute their largest credit item, declined by 1,900 millions, or two-thirds, between the end of 1929 and the end of 1932. Investments and participations increased somewhat over this period, and the commercial portfolio, which includes Treasury bonds, etc , after undergoing considerable decline in 1930, almost regained the pre-crisis level by the end of 1932. The recent increase in the commercial portfolio reflects the tendency on the part of the investment banks to devote a larger part of their resources to the purchase of Treasury bills and the financing of current transactions. It will be seen from the above table that there was no appreciable reduction in acceptances before 1932

The destination of the sums withdrawn from French banks during the depression cannot, of course, be traced with any exactitude, but it is known that a large proportion of the withdrawals did not find their way back to other credit institutions in which the public felt greater confidence, but remained in private hoards, in the form of gold or bank-notes. It is not at present possible to estimate accurately the amount of the former, but the latter is reflected in the increased circulation of Bank of France notes of large denominations. Between the end of 1928 and the end of 1931, the note circulation of the Bank of France increased by about 16,000 million francs. Of this increase, no less than 13,000 million was accounted for by notes of 1,000 francs, which are not commonly used in business transactions ; this demand was clearly for hoarding. In 1932, the tendency was reversed, total note circulation falling by 826 million francs and circulation of 1,000 franc notes by 140 millions A certain amount of the sums withdrawn from the joint-stock banks were undoubtedly redeposited in the Bank of France, which accepts deposits from private individuals at its branches. Private current and deposit accounts in the Bank of France rose from 7,138 million francs at the end of 1929 to 23,595 millions at the end of 1931, and dropped to 21,562 millions at the end of 1932. It is not possible to say how much of the increase between 1929 and 1931 was due to other banks and how much to private individuals, but some indication of the influence of the latter is shown in the fact that the Bank of France opened 26,614 new accounts in 1931 and 8,220 in 1932, as compared with 7,800 in 1930. Finally, the *Caisse des dépôts et consignations* and the savings banks also attracted a large volume of new deposits The sums entrusted to the Caisse nationale d'épargne rose from 11,650 to 23,000 million francs between the end of 1929 and the end of 1932 Total deposits in all savings banks increased from 32 milliards at the end of 1929 to over 50 milliards at the end of 1931. In addition to the greater security felt by many depositors in savings banks, and particularly in the Caisse nationale, they were offered the attraction of higher interest rates and other services, such as the transfer of savings into Government bonds without commission.

The policy of converting as large a proportion of assets as possible into liquid form could not fail to lower the earnings of the French banks, and the summary table shows that both gross and net profits have fallen steadily since 1929. The reduced commercial and financial turnover meant a reduction in their commissions ; interest rates were low ; and the banks were forced to make large allowances for depreciation of investments, this being particularly true of the *banques d'affaires*. On the other hand, in 1932, all the banks made a rigorous attempt to curtail expenses, and the decline in normal earnings was compensated to some extent by substantial profits made by the banks through their participation in the Government's financial operations, particularly the conversion of rentes.

FRANCE. PRINCIPAL DEPOSIT BANKS **Table 8 *(a)* I.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of Banks	6	6	6	6	6
Branches and Sub-Branches	1,803	2,069	2,166	2,202	1,857
ASSETS.	Francs (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	4,443	6,422	7,900	13,343	11,193
2. Other Items of a Cash Nature.					
3. Bills discounted and bought	17,064	25,907	24,555	20,911	25,425
(a) Treasury bills.	—	—	—	—	—
(b) Commercial bills, Inland.	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities.	132	135	160	182	126
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations.	109	138	159	177	150
6. Due from Banks (Correspondents).	—	—	—	—	—
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances.	6,243	13,966	16,032	13,473	10,206
(a) On current account	4,725	10,833	13,065	11,811	8,664
(b) Other	1,518	3,133	2,967	1,662	1,542
8. Cover for Acceptances.	500	1,742	1,242	718	357
9. Premises, etc.	237	260	280	297	187
10. Sundry Assets	173	189	184	159	132
11. Total Assets	**28,901**	**48,759**	**50,512**	**49,260**	**47,776**
LIABILITIES.					
12. Capital paid up.	1,156	1,643	1,701	1,383	1,490
13. Reserve Funds	561	1,897	2,038	1,884	1,897
14. Profit-and-Loss Accounts, Undivided Profits, etc.	212	379	390	305	295
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	—	—	—	—	—
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—	—	—
17. Deposits	26,113	42,608	44,749	44,568	43,385
(a) Current accounts and sight deposits	25,263	39,502	41,279	41,800	40,886
(b) Savings accounts.	—	—	—	—	—
(c) Time or fixed deposits.	718	2,890	3,219	2,500	2,292
(d) Other deposits	132	216	251	268	207
18 Rediscounts and other Borrowings	—	—	—	—	—
19. Acceptances and Endorsements.	500	1,742	1,242	718	357
20. Sundry Liabilities.	359	490	392	402	352
21. Total Liabilities.	**28,901**	**48,759**	**50,512**	**49,260**	**47,776**
22. Value of currency in cents of a U.S. dollar at the end of each year.	3.74	3.94	3.93	3.92	3.90

FRANCE. PRINCIPAL INVESTMENT BANKS **Table 8 *(a)* II.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of Banks	3	3	3	3	2
ASSETS.	Francs (000,000's omitted)				
1. Cash.	420	414	425	543	602
(a) Gold, silver and small coins	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—
2. Other Items of a Cash Nature	690	660	985	420	364
3. Bills discounted and bought	1,346	1,678	1,624	1,383	1,611
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	372	601	697	793	761
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	119	297	285	269	270
6. Due from Banks (Correspondents)	—	—	—	—	—
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances	1,854	2,855	2,217	1,310	947
(a) On current account	1,664	2,683	2,050	1,291	939
(b) Other	190	172	167	19	8
8. Cover for Acceptances	25	217	217	207	92
9. Premises, etc.	69	67	73	72	79
10. Sundry Assets	46	75	80	92	105
11. Total Assets	**4,941**	**6,864**	**6,603**	**5,089**	**4,831**
LIABILITIES.					
12. Capital paid up	450	600	600	600	600
13. Reserve Funds	246	421	428	433	418
14. Profit-and-Loss Accounts, Undivided Profits, etc.	98	158	158	110	50
15. Cheques and Drafts, etc., in circulation	116	397	264	206	100
16. Due to Banks (Correspondents)	—	—	—	—	—
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
17. Deposits	3,860	4,917	4,813	3,442	3,472
(a) Current accounts and sight deposits	2,612	2,823	3,079	2,228	2,448
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	1,172	2,029	1,661	1,164	976
(d) Other deposits	76	65	73	50	48
18. Rediscounts and other Borrowings	—	—	—	—	—
19. Acceptances and Endorsements	24	217	217	207	92
20. Sundry Liabilities	147	154	123	91	99
21. Total Liabilities	**4,941**	**6,864**	**6,603**	**5,089**	**4,831**
22. Value of currency in cents of a U.S. dollar at the end of each year	3.74	3.94	3.93	3.92	3.90

FRANCE. PRINCIPAL COMMERCIAL BANKS **Table 8 *(a)* III.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of : Banks	9	9	9	9	8
Branches and Sub-Branches	1,803	2,069	2,166	2,202	1,857
ASSETS.	Francs (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	5,553	7,496	9,310	14,306	12,159
2. Other Items of a Cash Nature					
3. Bills discounted and bought	18,410	27,585	26,179	22,294	27,036
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	504	736	857	975	887
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	228	435	444	446	420
6. Due from Banks (Correspondents)	—	—	—	—	—
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances	8,097	16,821	18,249	14,783	11,153
(a) On current account	6,389	13,516	15,115	13,102	9,603
(b) Other	1,708	3,305	3,134	1,681	1,550
8. Cover for Acceptances	525	1,959	1,459	925	449
9. Premises, etc.	306	327	353	369	266
10. Sundry Assets	219	264	264	251	237
11. Total Assets	**33,842**	**55,623**	**57,115**	**54,349**	**52,607**
LIABILITIES.					
12. Capital paid up	1,606	2,243	2,301	1,983	2,090
13. Reserve Funds	807	2,318	2,466	2,317	2,315
14. Profit-and-Loss Accounts, Undivided Profits, etc.	310	537	548	415	345
15. Cheques and Drafts, etc., in circulation	116	397	264	206	100
16. Due to Banks (Correspondents)	—	—	—	—	—
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
17. Deposits	29,973	47,525	49,562	48,010	46,857
(a) Current accounts and sight deposits	27,875	42,325	44,358	44,028	43,334
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	1,890	4,919	4,880	3,664	3,268
(d) Other deposits	208	281	324	318	255
18. Rediscounts and other Borrowings	—	—	—	—	—
19. Acceptances and Endorsements	524	1,959	1,459	925	449
20. Sundry Liabilities	506	644	515	493	451
21. Total Liabilities	**33,842**	**55,623**	**57,115**	**54,349**	**52,607**
22. Value of currency in cents of a U.S. dollar at the end of each year	3.74	3.94	3.93	3.92	3.90

FRANCE. PRINCIPAL DEPOSIT BANKS **Table 8 *(b)* I.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:				
	1925	1929	1930	1931	1932
Number of Banks	6	6	6	6	5
	Francs (000,000's omitted)				
Capital paid up	1,156	1,643	1,701	1,702	1,490
Reserves and Undivided Profits	596	1,949	2,099	2,113	1,969
1. Gross Profits					
To be deducted:					
2. Expenses					
(a) Salaries, etc.					
(b) Other working expenses					
(c) Taxes, etc.					
3. Reserved for Pension Funds, etc.					
4. Written off on (Depreciation Accounts for)					
(a) Premises, etc.					
(b) Investments and securities					
(c) Other assets					
5. Remaining Net Profit or Loss	**176.8**	**316.4**	**320.7**	**— 266.7**	**216.9**
6. Carried forward from preceding year	34.9	51.6	61.1	69.2	69.9
7. Taken from Reserves or Capital	—	—	—	494 7	—
8. Total Amount disposed of for Dividends, etc.	**211.7**	**368.0**	**381.8**	**297.2**	**286.8**
9. Carried to Reserves	17.0	22.1	21.8	13.8	9.4
10. Dividends	140.1	271.6	277.5	206.0	204.8
11. Directors' Fees, etc	7.2	13.2	13.3	7.5	6.3
12. Carried forward to following year	47.4	61.1	69.2	69.9	66.3
13. Total as above	**211.7**	**368.0**	**381.8**	**297.2**	**286.8**
14. Value of currency in cents of a U.S. dollar at the end of each year	3.74	3 94	3.93	3.92	3.90

Balance-sheet Summary.

The number of deposit banks included in Summary Table 8 *(a)* I has remained unchanged throughout the period covered. As stated in the introductory note, the Banque nationale de Crédit went into liquidation in 1932 and its assets and liabilities were taken over by the newly-organised Banque nationale pour le Commerce et l'Industrie According to its statutes, the first balance-sheet of the new bank will be published at the end of 1933. It has, however, published a statement of accounts as at the end of 1932, which has been used in the summary table.

No figures are available for the number of branches of the Banque nationale de Crédit in existence at the end of 1931 ; the 1930 figure for this bank has been used in the summary table. The figure shown by the Banque nationale pour le Commerce et l'Industrie for number of branches at the end of 1932 is provisional, and is probably too low.

The number of investment banks (Summary Table 8 *(a)* II) fell from three to two in May 1932, as a result of the fusion of the Crédit Mobilier Français with the Banque de l'Union parisienne. As the former bank published its balance-sheet as at June 30th each year, it was necessary that the figures for June 30th, 1931, which had already been used for the 1930 column, should be used again for the 1931 column in the summary table.

1 and 2. *Cash Assets, etc.*

In the common summary table, as well as in that for the deposit banks alone, joint figures are given for the first two asset groups, as one of the most important banks (the Crédit Lyonnais) did not show its sight balances with other banks separately from cash in hand and with the Bank of France before 1931. The balance-sheets of the other five deposit banks allow a somewhat more detailed classification of the cash assets as shown below :

	Francs (000,000's omitted)				
	1925	1929	1930	1931	1932
Five (since 1931, six) deposit banks :					
Cash in hand, with Bank of France and Public Treasury . .	2,106	2,042	3,022	11,759	9,666
Sight balances with other banks	1,216	3,002	3,190	1,314	1,334
Coupons due for payment, etc. .	165	342	373	270	193
Total (2)	1,381	3,344	3,563	1,584	1,527
Crédit Lyonnais :					
Cash in hand, with Treasury and banks	956	1,037	1,315	—	—
Total six dep. banks	4,443	6,422	7,900	13,343	11,193

It will be noted that the banks, as a rule, hold part of their cash reserve in the form of sight balances with the Treasury, which raises part of its ways-and-means funds by receiving money on current and deposit account. These balances are not shown separately by any of the banks, nor does any bank give separate figures for notes and coins.

The figures in group (1) of the summary table for the investment banks likewise represent cash in hand, with the Bank of France and with the Treasury. The figures in group (2) of the same table are composed as follows :

	1925	1929	1930	1931	1932
	Francs (000,000's omitted)				
Investment banks					
Balances with banks and correspondents in France and abroad .	670	624	930	385	344
Coupons due for payment.	20	36	55	35	20
Total (2).	690	660	985	420	364

3. *Bills discounted and bought.*

The sums in this group of the summary tables include Treasury bills *(bons de la défense nationale)*, which are seldom shown separately by any of the banks under review, and also a small amount of bills for collection and foreign bills.

4 and 5. *Investments : Participations.*

The security holdings of both the deposit and the

FRANCE. PRINCIPAL INVESTMENT BANKS **Table 8 *(b)* II.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS ·				
	1925	1929	1930	1931	1932
Number of Banks	3	3	3	(1)	2
	Francs (000,000's omitted)				
Capital paid up	450	600	600	.	600
Reserves and Undivided Profits	282	465	477	.	437
1. Gross Profits	**136.2**	**246.0**	**251.2**	.	**146.6**
To be deducted:					
2. Expenses	67.0	117.0	125.0	.	102.1
(a) Salaries, etc	53 9	92 2	94 4	.	85 2
(b) Other working expenses					
(c) Taxes, etc	13 1	24.8	28 6	.	16.9
3. Reserved for Pension Funds, etc.	1.7	2.6	4.8	.	4.9
4. Written off on (Depreciation Accounts for)	5.7	10.5	11.3	.	8.1
(a) Premises, etc	—	—	—	.	—
(b) Investments and securities	—	—	—	.	—
(c) Other assets	—	—	—	.	—
5. Remaining Net Profit or Loss	**61.8**	**115.9**	**110.1**	.	**31.5**
6. Carried forward from preceding year	35.5	44.1	49.1	.	18.5
7. Taken from Reserves or Capital	—	—	—	.	—
8. Total Amount disposed of for Dividends, etc.	**97.3**	**160.0**	**159.2**	.	**50.0**
9. Carried to Reserves	4.8	8.1	8.3	.	1.6
10 Dividends	53.1	96.0	95.0	.	30.0
11 Directors' Fees, etc.	3.7	6.8	6.3	.	—
12. Carried forward to following year	35.7	49.1	49.6	.	18.4
13. Total as above	**97.3**	**160.0**	**159.2**	.	**50.0**
14. Value of currency in cents of a U.S. dollar at the end of each year	3.74	3.94	3.93	3.92	3.90

[1] Profit-and-loss account for Crédit Mobilier Français not available.

investment banks include shares and bonds of private undertakings in addition to *rentes* and other Government securities ; as a rule, the banks do not show the composition of their investment portfolios in detail.

6. *Due from Banks (Correspondents).*

The correspondent accounts, apart from the sight claims (mainly bank cheques and clearing balances) included in the cash reserve, are not, as a rule, shown separately, but are included in the ordinary current accounts (group loans and advances).

7. *Loans and Advances.*

As mentioned in the preceding note, current accounts include correspondents. In the case of banks which do not show cover for acceptances as a separate item, an amount equivalent to their acceptances has been deducted from current accounts and carried to group 8 of the summary table.

The other loans and advances (*7b*) consist of contangos *(reports)* and guaranteed advances *(avances sur garanties)*. These are given separately by all the banks except the Crédit Lyonnais and, since 1931, the Crédit Industriel et Commercial :

FRANCE. PRINCIPAL COMMERCIAL BANKS **Table 8 *(b)* III.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:				
	1925	1929	1930	1931	1932
Number of Banks	9	9	9	9	7
	Francs (000,000's omitted)				
Capital paid up	1,606	2,244	2,301	2,302	2,090
Reserves and Undivided Profits	878	2,414	2,576	2,592	2,406
1. Gross Profits					
To be deducted:					
2. Expenses					
(a) Salaries, etc.					
(b) Other working expenses					
(c) Taxes, etc.					
3. Reserved for Pension Funds, etc.					
4. Written off on (Depreciation Accounts for)					
(a) Premises, etc.					
(b) Investments and securities					
(c) Other assets					
5. Remaining Net Profit or Loss	**238.6**	**432.3**	**430.8**	**— 259.8**	**248.4**
6. Carried forward from preceding year	70.4	95.7	110.2	114.8	88 4
7. Taken from Reserves or Capital	—	—	—	562.9	—
8 Total Amount disposed of for Dividends, etc.	**309.0**	**528.0**	**541.0**	**417.9**	**336.8**
9. Carried to Reserves	21 8	30.2	30.1	80.0	11.0
10. Dividends	193.2	367.6	372.5	242.0	234.8
11. Directors' Fees, etc.	10 9	20.0	19.6	7.5	6.3
12. Carried forward to following year	83.1	110 2	118.8	88.4	84.7
13. Total as above	**309.0**	**528.0**	**541.0**	**417.9**	**336.8**
14. Value of currency in cents of a U.S. dollar at the end of each year	3.74	3 94	3.93	3.92	3.90

	1925	1929	1930	1931	1932
	Francs (000,000's omitted)				
Five (since 1931, four) deposits banks					
Contangos	187	335	131	15	27
Guaranteed advances	1,092	2,337	2,422	1,291	1,152
Total	1,279	2,672	2,553	1,306	1,179
Crédit Lyonnais (and, since 1931, Crédit Industriel et Commercial):					
Contangos and guaranteed advances	239	461	414	356	363
Total six deposit banks	1,518	3,133	2,967	1,662	1,542
Investment banks					
Contangos	131	168	164	16	8
Other advances	59	4	3	3	—
Total investments banks	190	172	167	19	8

8. *Cover for Acceptances* (see preceding note).

11 and 21. *Total Assets and Liabilities.*

The 1931 figures given in Summary Tables 8*(a)* I and 8*(a)* III do not include reported losses of the Banque nationale de Crédit, equal in amount (507 million francs) to the bank's total capital, reserves and profit balance, which are likewise excluded from items 12, 13 and 14.

12. *Capital paid up.*

The uncalled capital of the deposit banks is excluded from assets and liabilities. Throughout the period under review, the capital of the investment banks has been entirely paid up. See also note to previous group.

15. *Drafts and Cheques in Circulation.*

These items are not shown separately in the balance-sheets of the deposit banks. The figures shown in the summary table of the investment banks (and in the combined summary table) represent "bills and cheques payable".

16. *Due to Banks (Correspondents).*

As a rule, the correspondent accounts are not shown separately in the balance-sheets of the banks, but are included in ordinary current accounts.

17. *Deposits.*

Current and cheque accounts (17*a*) also include correspondent accounts. The sums given under "other deposits" (17*d*) represent "accounts payable after collection", etc., where shown separately.

18. *Rediscounts, etc.*

Not shown separately in the balance-sheets of the banks.

Summary of Profit-and-Loss Accounts.

No profit-and-loss account will be published for the Banque nationale pour le Commerce et l'Industrie until the end of 1933. Summary Table 8*(b)* I therefore covers only five deposit banks for 1932 Most of the deposit banks show their net profits only after deduction of working expenses, depreciation, provision for doubtful claims, allocations to staff funds, and sometimes even directors' fees This policy obviously allows the directors to make whatever statement of net profits they wish and facilitates the setting aside of hidden reserves.

The investment banks publish more or less detailed profit-and-loss accounts. No statement was published relating to the Crédit Mobilier Français in 1931. Figures are accordingly not given in Summary Table 8*(b)* II for that year.

1 and 2. *Gross Profits and Expenditure*

The figures for salaries and other working expenditure shown in the table of investment banks include a large proportion of the fees and remunerations of directors.

3. *Reserved for Pension Funds, etc.*

The sums given in the investment bank table refer solely to the Banque de Paris et des Pays-Bas.

4. *Depreciation.*

Including sums used in or reserved for building and construction purposes.

5. *Net Profit or Loss.*

The figures in tables 8*(b)* I and III for 1931 are chiefly affected by inclusion of the net disclosed loss of the Banque nationale de Crédit, amounting to 500 million francs. This loss was covered out of capital, reserves and undivided profits, which are included in the figures given at the top of those tables for 1931.

The capital and reserves (114 million francs) of the Crédit Mobilier Français are also included in the figures shown at the top of 8*(b)* III in 1931, although no profit-and-loss accounts of the bank were published for that year.

10. *Dividends.*

The banks do not follow a common practice with regard to the dividend tax ; some include it in their dividend figures, while others do not.

11. *Directors' Fees, etc.*

The sums shown in this group of the summary tables include a small sum representing dividends or "Founders' shares". Some banks do not disclose directors' fees, but include them wholly or in part in the expenses which they deduct before showing profits

GERMANY.

Introductory Note.

The characteristic features of the commercial banking system of Germany were set out in some detail in the last issue of this *Memorandum*, and an account was given of its development up to 1929. The banking developments which have taken place in Germany since then have been largely influenced by the attempt on the part of foreign creditors to liquidate part of the large volume of credits previously extended to German banks and industry.

Some measure of the growing importance of foreign funds in German economic life during the few years preceding the depression is afforded in Table 1 below, which shows the total foreign indebtedness at various dates since 1926 divided according to the class of indebtedness.

Table 1. — Estimated Total Foreign Indebtedness of Germany (exclusive of Reparations).[1]

End of :	RM. (000,000,000's)					
	1926	1927	1928	1929	1930	July 1931
I. Short-term debts	4 1	6 6	9 0	11 7	10.3	8 0
II. Long-term debts	4 1	5 4	7.0	7 3	9 2	9 0
III Other investments. . .	3 5	4.5	5 5	6 0	6 0	6 0
Total	11 7	16 5	21 5	25 0	25 5	23 0

It will be seen that, from the end of 1926 to the end of 1929, the total foreign indebtedness of Germany increased by some 13 milliard RM. More than half this growth is accounted for by short-term debt, which increased much more rapidly (over 175 per cent) than either long-term debt (75 per cent) or other foreign investments (70 per cent) Detailed statistics available for 1932 show that the bulk of the long-term debts are owed by economic enterprises (47 per cent) and public authorities (33 per cent). The commercial banks account for only 15 per cent of the total ; it would appear that their long-term debts are largely due to foreign banks. The banks account, of course, for a much higher proportion (over 50 per cent) of the short-term debt. Industry accounts for almost 40 per cent and public authorities and other borrowers for the remainder. Practically the whole of the foreign short-term debt of German banks is due to commercial banks abroad Moreover, according to estimates for recent dates it would appear that more than half the short-term debts of industry and commerce are also due to foreign banks and financial establishments, either in the form of direct debts or of acceptance credits. It is not known what proportion of total long-term debts and other investments are held by foreign banks, but it is clear that foreign as well as German banking institutions were heavily involved in the increased German borrowing abroad during the reconstruction period.

Table 2 shows the form which the borrowings of the German banks took in the period 1926-1929 and enables a comparison to be made between the growth of their foreign liabilities and the increase in their foreign assets.

[1] Source : Report of the " Bankers' (Wiggin) Committee " on the Credit Situation in Germany.

Table 2. — FOREIGN SHORT-TERM LIABILITIES AND ASSETS OF ALL THE GERMAN BANKS. [1]

	End of			
	1926	1927	1928	1929
LIABILITIES	RM. (000,000's)			
1 Domestic bills discounted abroad	145	136	149	78
2 Interest-bearing current accounts				
(a) "Loro"	1,549	2,748	3,186	3,528
(b) "Nostro"	750	1,050	1,062	1,047
3 Non-interest-bearing current accounts				
(a) Drafts (*Tratten*)	491	1,106	2,019	2,812
(b) *Evidenzkonten*	432	537	1,046	989
Of which:				
1. Forward exchange	.	(528)	(1,039)	(985)
2. Security dealings		(9)	(7)	(4)
4. Other liabilities	105	133	156	151
Of which Participations	(72)	(87)	(97)	(81)
Total	3,472	5,710	7,018	8,605
ASSETS				
1. Foreign bills	635	441	765	881
2 Interest-bearing current accounts				
(a) "Loro"	25	429	533	715
(b) "Nostro"	1,322	1,151	1,207	1,599
3. Non-interest-bearing current accounts				
(a) Drafts (*Tratten*)	27	61	99	163
(b) *Evidenzkonten*	426	579	1,060	1,029
Of which.				
1 Forward exchange	.	(557)	(1,023)	(1,006)
2 Security dealings	.	(22)	(37)	(23)
4 Other assets	49	75	89	85
Of which. Participations	(35)	(60)	.	.
Total	2,734	2,736	3,753	4,472
Of which Reichsbank Devisen	959	472	529	812

The short-term liabilities of all banks increased from 3.5 milliard RM. at the end of 1926 to 8.6 milliard RM. at the end of 1929. They thus accounted for almost 70 per cent of the total increase in foreign short-term liabilities shown in Table 1 between the dates mentioned. The greater part of the increase is reflected in the deposit accounts of the German banks; interest-bearing deposits of foreign origin rose by 2 3 milliard RM., while non-interest-bearing current accounts increased by almost 3 milliards. "Loro" accounts, which represent German banks' borrowings abroad on behalf of clients (acceptance credits) constitute the most important item. Current accounts arising out of drafts, which include finance bills, come next in order of importance It is estimated [2] that foreign deposits constituted 44 per cent of the total deposits of the big Berlin banks in 1929, as compared with only 25 per cent in 1926.

The foreign short-term assets of the German banks also increased somewhat during the years before the crisis, but they never constituted a large proportion of the short-term liabilities. If the *devisen* holdings of the Reichsbank be subtracted from total assets, it will be seen that the short-term assets never constituted more than 40 per cent of the total liabilities during 1926-1929.

A complete geographical classification of Germany's short-term debt according to country of origin is not available. An enquiry undertaken by the Reichsbank, however, into the short-term foreign indebtedness of twenty-eight German banks and bankers (which comprised about 85 per cent of the total short-term foreign indebtedness of all German banks for the dates covered) showed the distribution portrayed in Table 3 of short-term indebtedness to foreigners as at the end of March and the middle of July 1931.

The most important creditor to German banks on short-term account was the United States; the great bulk of their advances took the form of foreign trade acceptance liabilities This was also

Table 3. — GEOGRAPHICAL CLASSIFICATION OF FOREIGN SHORT-TERM INDEBTEDNESS OF TWENTY-EIGHT GERMAN BANKS.

Creditor country	March 31st, 1931		About middle July 1931		Decrease	
	RM. (000,000's)	Percentage of total	RM. (000,000's)	Percentage of total	RM. (000,000's)	Percentage
United States	2,093	37 1	1,629	37.1	464	22 2
England	1,153	20 4	1,051	23.9	102	8 8
Switzerland	785	13 9	581	13 2	204	26.0
Netherlands	546	9 7	336	7 6	210	38.5
France	369	6.5	297	6 8	72	19.5
Sweden	122	2 2	101	2 3	21	17.2
Other countries	571	10.2	398	9.1	173	30 3
Total	5,639	100.0	4,393	100 0	1,246	22 1

[1] Source: *Wirtschaft und Statistik*, No. 22, 1930.

[2] See P. Barret WHALE: "German Joint-Stock Banks", 1931, pages 265 ff., and *Wirtschaftskurve*, January 1933, page 337.

the case for the British banks, though a large proportion of their total credits consisted of direct advances (payable in sterling). Switzerland and the Netherlands held substantial Reichsmark balances with German banks.

Between the end of March and the middle of July, the foreign short-term liabilities of the banks covered by Table 3 fell by 1,250 million RM., or 22 per cent. The greatest proportionate withdrawals of capital were due to the Netherlands and Switzerland ; British credits were withdrawn at a much slower rate than those of any other country, and France and Sweden also lagged behind the average.

The withdrawal of foreign short-term funds from Germany began as early as September 1930. A glance at Table 1 will show that 1.4 milliard RM. was withdrawn or repaid in the course of that year. The magnitude of the movement was accelerated in 1931, particularly after the failure of the Creditanstalt in Austria in May.

According to estimates supplied by the Reichsbank to the Wiggin Committee on the Credit Situation in Germany, which issued its report in August 1931, the short-term foreign debts of German banks, other than the Reichsbank, were reduced by 2.1 milliard RM. between the end of 1930 and the middle of 1931. The short-term debt of public authorities was reduced by 0.3 milliard RM., and other short-term liabilities by 0 5 milliard. To this total of 2.9 milliard RM. of foreign short-term capital withdrawn in the first 6½ months of 1931 must be added the sums involved in the sale by foreigners of German investments and the purchase by Germans of foreign investments. It is estimated that this brings the total withdrawal of capital from Germany during this period up to roughly 3.5 milliard RM.

The German public was very sensitive to the attitude of Germany's creditors towards the banks and the currency, and the withdrawal of the foreign short-term credits to German banks was accompanied by domestic runs. In part, the sums withdrawn were converted into foreign currencies and, in part, they were kept in hoards. The effect of these withdrawals on the domestic credit situation is examined in detail below ; here it need only be noted that the demand for foreign currencies was increased by German capital seeking refuge abroad.

The cumulative effect of the withdrawal of capital from German banks and industry, the payment of interest and normal amortisation on her long-term foreign debt, and the transfer of reparations payments (up to June 1931) was, of course, both to put a very heavy pressure on the German exchange and to impair the liquidity of the German banks. The financial crisis reached its culmination in June and July 1931. The difficulties of the Northern German Wool-Combing Company, whose indebtedness to creditors was estimated at 240 million RM., gave rise to damaging rumours regarding possible repercussions on at least one of the big Berlin banks. The flight of capital was accentuated and the Reichsbank steadily lost gold. On June 20th, President Hoover proposed a year's moratorium on all inter-governmental debts, interest and principal. A few days later, the Reichsbank secured a rediscount credit of $100 million with the Bank for International Settlements and certain central banks. So great, however, was the demand for foreign currencies that, by the end of June, three-quarters of this credit had been drawn upon to prevent the Reichbank's reserve ratio from falling below the legal minimum of 40 per cent. In the month of June 1931 alone, the Reichsbank lost over 1,000 million RM. in gold and foreign exchange. Early in July, the Golddiskontbank placed at its disposal a $50 million credit it had raised in New York, but the flight continued and by July 11th this entire sum had been exhausted. Taking the period from the beginning of 1931 to the middle of July as a whole, the 3.5 milliard RM. estimated to have been withdrawn from Germany were met as to 2 milliard RM. from the assets of the Reichsbank (including the 630 million RM. placed at its disposal by the Bank for International Settlements and central banks and by a New York syndicate through the Golddiskontbank), as to 1 milliard RM. from the foreign assets of private banks, and the remainder by the sale of German assets abroad. Discussions were proceeding in Basle regarding further credits to Germany when the Darmstädter und National Bank closed its doors. The following day (July 14th), all the banks were closed by Government decree

An emergency decree was then issued appointing the Reichsbank as a clearing-house for foreign exchange. Every holder of foreign exchange was obliged under this decree to offer such holdings or claims to the Reichsbank and, if required to do so, to sell them at the official rate. Foreign means of payment might be legally bought and sold only through the Reichsbank. This decree was the first of a series of exchange control measures issued for the purpose of maintaining the gold value of the currency by checking the outflow of capital, securing the repatriation of the proceeds of exports, and rationing such *devisen* as were available to ensure that they were used for " economically justified purposes ".

A seven-Power Conference which met in London in July 1931 recommended (1) a renewal of the $100 million rediscount credit to the Reichsbank, (2) that concerted measures should be taken by financial institutions to maintain present credits in Germany and (3) that the Bank for International Settlements should convoke a committee to enquire into Germany's further credit needs and to study the possibility of converting a portion of the short-term credits into long-term. As a result of discussions which took place in Basle in August

1931, Germany entered into the first of her "standstill" arrangements with foreign short-term creditors. Of the 5.1 milliard RM. taken by the Bankers' Committee as due by German banks (excluding the Reichsbank and the Golddiskontbank) to foreigners, [1] more than half consisted of acceptance liabilities, almost one-third of deposits and direct advances, and the remainder of Reichsbank balances due to foreign creditors.

Under the agreement, which ran for a period of six months as from September 1st, 1931, foreign banks undertook to prolong all acceptances, time deposits and cash advances granted to German banks and industries. Special loans to finance crops, call loans and loans against Stock-Exchange securities were excluded from the agreement. With regard to acceptance credits granted on account of German banks, the latter agreed to secure from their credit-taking customer either promissory notes in the same currency and of the same due date as the original acceptance, to be held in trust as collateral security for the foreign creditor, or a letter of guarantee from the client, backed by a lien on the original goods against which the acceptance was issued. Encashments received from clients should be either remitted to the creditor bank in foreign currency or, if that were found impracticable, deposited in Marks at the Reichsbank in the foreign creditor's name. After ninety days, the foreign creditor might dispose of such balances at the best exchange rate available. With regard to Reichsmark credits granted directly to German industries, the agreement provided that the foreign-bank creditor might require the Golddiskontbank to guarantee up to 15 per cent of his credits. It was further agreed that of the Reichsmark balances of foreign banks with German banks, 25 per cent should be released for transfer within Germany immediately, and the remainder at the rate of 15 per cent per month.

At the end of 1931, the report by the Advisory (Layton) Committee appointed under the Young Plan was published. This report was concerned with the political debts; its chief interest here lies in its estimate that the total amount of capital withdrawn from Germany during 1931 amounted to 4.9 milliard RM. (excluding reparations and normal interest and amortisation on long-term debt). It has been estimated that some 3.5 milliard RM. were withdrawn from the beginning of the year until the closing of the banks in the middle of July. It would therefore appear that 1.4 milliard RM. was withdrawn during the first 5½ months of exchange control and standstill agreement. The great bulk represented the repayment of credits: in particular, acceptance credits, Mark balances released under the standstill agreement, seasonal credits and credits against securities not covered by the agreement. The gold and foreign exchange reserve of the Reichsbank was reduced by 335 million RM. between July 15th, 1931, and the end of the year.

The original standstill agreement expired at the end of February 1932. It was renewed in its essentials for a period of twelve months. The chief changes from the original agreement were the following: Each foreign-bank creditor was given the right to require an initial permanent reduction of 10 per cent of the total amount of short-term credit lines held at the disposal of German debtors, to the extent that such reduction could be effected by cancellation of unused portions of credit lines. Thereafter, the determination of what could be repaid was to be left to an advisory committee representing the creditors who would, from time to time, consult with the German authorities. The German Government announced its intention to set up a Foreign Debts Committee to exercise a general control of all German foreign indebtedness, whether covered or not by the standstill agreements. It was agreed that the Golddiskontbank should repay the amounts originally guaranteed by it in three equal annual instalments, plus further instalments in respect of sums subsequently guaranteed. Machinery was provided whereby cash advances to German banks might, at the option of the creditors, be converted into ten-year notes bearing interest at 6 per cent. Similarly, unsecured cash advances might, under defined restrictions, be converted into "blocked" investments in Germany. The maintenance of the agreement was made conditional upon the renewal of the Bank for International Settlements and Central Bank credits to the Reichsbank; it might also be denounced by the creditors if future international developments endangered its execution.

A third standstill agreement covers the period from the end of February 1933 to the end of February 1934. The most important modification in this agreement is the extension of the possibility of converting cash advances into "blocked" investments in Germany (the so-called "Swiss" clause). Under the 1932 Agreement, creditors might, with the permission of the Reichsbank, demand yearly repayments in Reichsmarks at the official rate of 50 per cent of their unsecured cash advances to banks and 30 per cent of their cash advances to other debtors, such repayments to be used for capital investments in Germany and blocked for a period of five years. The new agreement applies this conversion privilege unconditionally to all credits, secured and unsecured. In the case of secured credits to non-banking debtors, repayment in Reichsmarks is

[1] A direct count of bank liabilities in excess of 5,000 RM. to foreigners subsequently made in Germany raised this total to almost 6 milliard RM. The short-term foreign liabilities of industrialists, communes, etc., were put at a corresponding figure. The amounts shown in Table 1 above for foreign short-term debts are therefore too low.

limited to 20 per cent annually; in the case of acceptance credits to banks, 30 per cent may be demanded each year; in the case of acceptance credits to non-bankers, 15 per cent is permitted. In addition to these limitations, foreign creditors may not convert into Reichsmarks more than an aggregate of 20 per cent of their total claims on all banks, 15 per cent of their total claims on non-bankers and 10 per cent of their acceptance credits to non-bankers annually. Investments are permitted as before in all types of long-term German Reichsmark securities and, in addition, short-term advances and deposits with a minimum duration of one month may be made under the new agreement. The interest on such investments may be transferred. The blocked or "registered" Marks secured through these arrangements may also be employed for tourist or travel expenditure within Germany. Subsequently, the Reichsbank also authorised the sale of "registered" Marks for "additional exports" and the acceptance by exporters of their own bonds in payment of "additional exports". "Registered" Marks and investments are to be completely free of control after five years. The remaining provisions of the 1933 agreement are of less importance. The 10 per cent reduction in credit lines incorporated in the 1932 agreement was reduced to 5 per cent. In the event of new credits being granted to German firms, 20 per cent of the "availment" of the new credit is to be released out of the creditor's "registered" marks. The creditors agreed to the repayment of the $100 million Central Bank credit to the Reichsbank and, by the end of April 1933, this credit had, in fact, been entirely repaid.

In the middle of June 1933, after the German Government had declared a transfer moratorium on most external indebtedness, an agreement was reached with the Foreign Bankers' Committee under which all capital repayments under the existing standstill agreement were postponed until the end of February 1934 and the rate of interest on outstanding credits reduced by one-half of 1%.

Table 4 shows the evolution of the various classes of foreign short-term indebtedness of German banks (excluding the Reichsbank) from the middle of July 1931 to the end of February 1933

It will be observed that, between the middle of July 1931 and the end of February 1933, the total foreign short-term liabilities of the German banks were reduced by more than 1.7 milliard RM., or over one-third. The greater part of this reduction appears to have fallen upon the first two items in the above table. [1]

Table 4. — FOREIGN SHORT-TERM INDEBTEDNESS OF GERMAN BANKS.

Type of indebtedness	Middle of July 1931	End of February 1932	End of September 1932	End of February 1933
	RM. (000,000's)			
Foreign trade acceptance liabilities		2,242	2,118	1,874
Acceptances and sold bills		256	12	11
Mortgages, real property and other debts falling due		131	41	34
Other debts		870	996	944
Cash advances		807	694	580
Total	5,100	4,306	3,861	3,443

***

The internal aspects of the German financial crisis and the development of commercial banking during the depression may be analysed on the basis of Table 5, which shows the fluctuations in the principal accounts of the big Berlin banks from November 1929 to October 1933.

The movements of the total balance-sheet of these banks provide a rough measure of the degree of credit contraction in Germany during the depression, between November 1929 and October 1933, their aggregate balance-sheets fell by 5,500 million RM, or 40 per cent. The contraction of credit has been a more continuous process in Germany than in many other countries; it is, however, necessary to distinguish in this analysis between the drastic liquidation which occurred during the financial crisis in the summer of 1931 and the more orderly contraction of the preceding and subsequent periods.

The character of the credit contraction which took place in Germany during the first eighteen months of the depression considerably impaired the liquidity of the German banks Even in 1929, the volume of the short-term realisable assets was small in relation to the volume of their short-term liabilities, particularly when account is taken of the high proportion of the latter payable abroad. From the end of 1929 to May 1931, the contraction in credit was almost exclusively confined to the most liquid part of the banks' portfolio — trade discounts, sight claims on other banks, advances on Stock-Exchange securities, contango and Lombard loans, reimbursement credits and other short-term advances. Security holdings, participations and current account loans to "affiliated" industries remained substantially unchanged. [2]

[1] See introduction, page 20.

[2] A detailed analysis of the changes in the cover behind current-account credits shows that, between November 1929 and May 1931, the total of such loans based on securities quoted on the Stock Exchange fell by 130 million RM., the total covered by other securities rose by over 300 million RM, and the total of uncovered loans fell by an almost equal amount. Although no unequivocal conclusions can be drawn from these figures, they strongly suggest that, during the first year and a-half of the depression, the big Berlin banks did not contract and may even have increased their credits to industries with which they maintained close connections. Such loans are characteristically granted against private unquoted securities, and practically amount to capital participations. They are difficult to contract, as the attempt to do so may affect the value of the firm as a going concern and consequently involve the banks in direct losses.

The position of the big Berlin banks at the end of May 1931 may be roughly summarised as follows: the total of their deposits and correspondent accounts (items 9, 10 and 11 of Table 5) amounted to 10,400 million RM. Of this amount, 1,700 million RM. (item 9) consisted of acceptance credits granted them by foreign banks and drawn against by customers; a corresponding amount, representing advances to customers on goods consigned or warehoused, is shown in item 7 *(b)*. Of the remainder of deposits, etc., 8,700 million RM., 3,600 million RM. were payable within seven days, 4,600 million RM. within seven days to three months, and the rest after three months. Against these short-term liabilities of 8,200 million RM. (of which a substantial part was due abroad), the

Table 5. — PRINCIPAL ACCOUNTS OF BIG BERLIN BANKS.

	RM. (000,000's)						
	November 1929	November 1930	May 1931	July 1931	November 1931	November 1932	October 1933
ASSETS.							
1. Cash and balances with Reichsbank, etc.	206	209	211	289	183	154	138
2. Bill portfolio:							
(a) Treasury bills	486	546	630	293	358	470	578
(b) Commercial bills.	2,398	1,907	1,918	987	1,073	1,161	1,106
3. Sight claims on other banks.	1,230	1,017	857	546	345	245	185
4 Securities:							
(a) Government.	16	18	23	19	317	462	377
(b) Other.	199	171	169	164	161	128	149
5. Participations							
(a) Syndicate.	183	177	177	189	199	206	173
(b) Bank.	119	116	117	126	130	142	146
6. Loans on current account							
(a) To banks	395	448	454	431	462	328	279
(b) Other	4,906	5,035	4,698	4,180	4,029	3,408	3,105
7 Other loans and advances.							
(a) Reimbursement credits, etc.	1,947	2,041	1,780	1,599	1,188	1,030	631
(b) Contangos and Lombard loans.	536	377	303	254	159	34	26
LIABILITIES.							
8. Capital and reserves	915	917	918	918	1,218	627	542
9. Deposits, etc	8,950	7,952	7,724	5,931	5,342	5,019	4,596
10 "Loro" correspondents	1,811	1,986	1,724	1,581	1,328	1,145	684
11. Due to German credit institutions	884	1,139	947	655	720	1,143	1,150
12 Acceptances.	487	670	582	873	910	770	749
13. Rediscounts, etc.	1,152	1,330	856	1,960	1,516	868	930
14. Guarantees	677	634	588	571	535	437	401
15. Total balance-sheet	13,315	12,905	12,128	11,252	9,731	8,856	7,891

banks held the following liquid assets: Cash, etc., 200 million RM.; unrediscounted commercial and Treasury bills, 2,550 million RM.; sight claims on other credit institutions, 860 million RM., contangos, 300 million RM.; making a total of less than 4,000 million RM. The rest of the earning assets represented current-account loans (partly covered by Stock-Exchange securities), direct investments and participations.

The sensitiveness of the German public has already been referred to above. It found expression in mass withdrawals of deposits from German credit institutions, particularly during the months of June and July 1931. In the month of June alone, the *Kreditoren* of the big Berlin banks (item 9 of Table 5) fell by 1,000 million RM., and by a further 800 million RM. in July. During these two months, the "Loro" correspondent accounts of the big Berlin banks were reduced by 140 million RM. and their debts to other German credit institutions by almost 300 million RM. They had, therefore, in six weeks (for the banks were closed or operating under severe limitations in the latter part of July) to meet withdrawals amounting to 2,250 million RM., or almost 25 per cent of their deposit and correspondent liabilities. The reduction in acceptance credits taken by German banks (item 10) was met by a roughly corresponding reduction (180 million RM.) in reimbursement credits granted to their customers. Of the remainder (over 2,000 million RM.), almost one-half was met by borrowing at the Reichsbank (chiefly reflected in a fall in item 2 *(b)* and rise in item 13 in Table 5, the portion of the commercial-bill portfolio held by the banks themselves fell by 930 million RM., or almost 50 per cent, in these two months); Treasury bills

were sold (or rediscounted) to the extent of 340 million RM. Contangos, etc., which had already fallen very heavily, were called in to the extent of 500 million RM., and loans on current account (representing chiefly industrial credits) were reduced by 500 million RM. (less than 5 per cent.). In addition, the banks increased their acceptance liabilities by 300 million RM.

Although all the big banks suffered severely during the crisis, the Darmstadter und Nationalbank was particularly exposed. It had made relatively greater use of foreign short-term funds than the other banks, its connection with industry was known to be particularly close; and it operated with an unusually small proportion of own funds to outside liabilities. It was seriously affected (to the extend of 35 million RM) by the failure of the North German Wool-Combing Company, to which reference has already been made. Between the end of May and July 13th, it suffered withdrawals of deposits, etc., amounting to over 600 million RM., or 30 per cent, as compared with an average loss of about 20 per cent for the other big banks Proposals for a joint-bank guarantee of all deposits fell through and, on the last date mentioned, the Darmstadter und Nationalbank closed its doors and the Government guaranteed its deposits. Runs took place on other banks, which limited withdrawals to 5 to 20 per cent of deposits. Finally, a Government decree was issued declaring all German banks closed on July 14th and 15th and prohibiting all banking transactions.

Between July 16th and August 5th, the majority of the restrictions on commercial banking were lifted. At first, withdrawals were allowed only for payments of wages, public relief, taxes, etc., the restrictions imposed on withdrawals from the savings banks were particularly severe, on account of the illiquid form in which the bulk of their assets were held. The easing of the restrictions was facilitated by the organisation of a new Clearing Association (*Uberweisungsverband*), with the object of avoiding the difficulties arising from lack of confidence in a particular bank leading to transfers to other banks. Forty-four of the most important credit institutions in the country adhered to the association. If a bank had an excess of outward transfers in the course of a day, it became indebted to the Clearing Association and was required to deposit security with the Bank des Berliner Kassenvereins. The value of the security deposited was to be determined by the Golddiskontbank. To cover eventual deficiencies, the members of the Association established a guarantee fund of 5 million RM. With the resumption of payments by the commercial banks on August 5th, the *Uberweisungsverband* was abolished and the clearing system again taken over by the Reichsbank.

As soon as the banks were closed, the Reichsbank raised its discount rate from 7 to 10 per cent and its Lombard rate to 15 per cent. At the end of July, it raised its discount rate to 15 and its Lombard rate to 20 per cent. It granted a Lombard credit of 100 million RM. to the Deutsche Girozentrale, the central clearing institution of the provincial banks. The most important of the latter (in Prussia) are communal credit institutions and clearing houses; the accounts of the communal savings banks are cleared through them. The accounts of the provincial banks are guaranteed by the *Länder;* their difficulties arose from the fact that the short-term foreign credits of the big savings banks associated with them had not been prolonged, so that the provincial banks were forced to draw on their entire liquid reserve and were unable to come to the assistance of the savings banks which were in need of cash.

During the period in which the banks remained subject to restrictions, two important new credit institutions were organised. The Berlin Lombard Bank, set up with a capital of 1 million RM. subscribed by the *Grossbanken* and leading Stock-Exchange firms, was established for the purpose of enabling medium-sized and small bankers, who were unable to sell their securities holdings on account of the closing of the Stock Exchange, to get liquid funds. The maximum credit which this institution was authorised to extend to one firm was set at 100,000 RM.; shares and bonds were taken as collateral security, the shares being valued at 50 per cent and bonds at 75 per cent of their last official quotation. In addition, the borrowing bank was itself required to give a note for 10 per cent of the amount borrowed, these notes to constitute a guarantee fund At the same time, measures were taken in other parts of Germany to provide bankers with Lombard credits, generally through banking consortiums and not special institutions.

The Acceptance and Guarantee Bank, established a few days before, started to function on August 1st. Of its capital of 200 million RM., 80 millions were subscribed by the Reich, 12 millions by the Prussian State and 66 millions by other credit institutions. It was originally intended to help the Danat and Dresdner Banks, but its purpose was extended to relieve the difficulties of all the banks due to the scarcity of liquid funds. The banks could take two-name paper, which would not be acceptable to the Reichsbank, to this institution and, if the bank in question could show a real lack of cash, the Acceptance Bank would endorse the paper (which would then be eligible for discount at the Reichsbank) for a commission of one-sixth per cent per month. The Reichsbank helped to investigate the solvency of the drawer and the acceptor of the bills, and the borrower engaged himself, if required, to redeem the bill in a period of ten days regardless of its currency.

The Darmstädter und Nationalbank resumed payments on August 5th in the same way as the other banks; the only distinction was that all its obligations, old and new, were guaranteed by the

State. A plan for the reorganisation of the bank was published, details of which are given below. At the same time, the Reich came to the assistance of the Dresdner Bank (which was, next to the Danat Bank, most heavily involved — to the extent of 25 million RM — in the Nordwolle concern) by buying its special 7 per cent preferred stock to the extent of 300 million RM. The Reich paid for this preferred stock in 7 per cent Treasury certificates convertible into cash through the Acceptance and Guarantee Bank. This transaction, which took place early in August, made the Reich the principal shareholder in the Dresdner Bank. It accounts for the increase shown in Table 5 for Government securities and capital and reserves in the column for November 1931. The State also intervened in bringing about the amalgamation of the Saxon State Bank and the Allgemeine Deutsche Kreditanstalt of Leipzig ("Adca") under joint guarantee of the State of Saxony, and in effecting the reorganisation of the Schroeder Bank in Bremen. This institution was involved in the Nordwolle failure and suffered heavy losses as a result of the depression in shipping; its total losses were estimated at 43 million RM., of which 30 millions were covered by capital and reserves and the remainder contributed by the State of Bremen. The capital of the new bank (called the Norddeutsche Vereinsbank A.G) was 12 million RM, of which 7 millions were provided by the State of Bremen, 3 millions by Bremen economic circles and 1 million each by the Reichs-Kredit-Gesellschaft and the Berliner Handels Gesellschaft. The Reich, however, advanced a large portion of the funds subscribed to the Bremen State and industrialists.

With the re-opening of the banks at the beginning of August, the banking situation gradually became more normal. The runs on the big Berlin banks ceased and credit liquidation proceeded in more orderly fashion. The most significant change in the character of the credit contraction after the financial crisis is to be found in the item "loans on current account" to non-banks. After displaying considerable stability during the first period of the depression, these loans declined by almost 1,600 million RM, or 33 per cent, between May 1931 and October 1933.

Stress has repeatedly been laid above on the fact that large sums advanced by the German banks to industrial customers were either lost or completely immobilised as a result of the economic depression. The capital and accumulated reserves of the banks were not sufficient to write these assets down to their actual value, and a complete reorganisation of the banks' capital structure was necessary before this could be done. The first steps in the banking reconstruction (viz., the purchase by the Reich of 300 million RM. of preferred stock in the Dresdner Bank, the amalgamation of the "Adca" Bank and the Saxon State Bank and the reconstruction of the Schroeder Bank) have already been described above. It was, however, not until the end of 1931 that general reorganisation and the writing-down of capital funds and assets were undertaken. It is this reorganisation which explains the sharp decline in the big Berlin banks' loans on current account.

An analysis of the reconstruction measures taken may begin with the amalgamation of the Darmstädter und Nationalbank and the Dresdner Bank in December 1931. The Reich had become involved in both these institutions in the summer of that year, in the first by guaranteeing its deposits, and in the second by exchanging 300 million RM. of Treasury certificates for preference stock of equal nominal value. Before the amalgamation, the combined share capital of these two banks (excluding the above-mentioned 300 million RM.) was 160 million RM., and their combined published reserves 94 million RM. The banks themselves held 90 million RM. of their own share capital, which they had purchased in 1930 and 1931. The reorganisation was effected as follows: Of the shares of the Dresdner Bank held by the bank itself (55 millions out of 100 millions issued) 22 millions were transferred to the Reich, which destroyed them. The total remaining outstanding issue (45 millions) was then written down to 12 5 million RM. The publicly-held share capital of the Danat Bank, amounting to 25 million RM. (60 millions *less* 35 millions held by the bank) was written down to 7 5 million RM., and the Reich bought and cancelled these shares, paying 7 5 million RM. to the Dresdner Bank. The combined reserves of the two banks were written down from 94 million RM. to 30 million RM. In return for the 300 million RM. of Treasury certificates originally given the Dresdner Bank against preferred stock, the Reich now took 200 million RM. of ordinary shares; it sold 48 millions of these to the Golddiskontbank and transferred the proceeds to the Dresdner Bank. The reconstructed Dresdner Bank was therefore constituted with a share capital of 220 million RM. (of which 20 are privately held, 152 by the Reich and 48 by the Golddiskontbank) and published reserves of 30 million RM. Through these operations, 282.5 million RM. became available for writing off losses (63 millions from the reduction of share capital, 64 millions from the reduction of reserves, 100 millions from the book-keeping profit arising from the exchange of 200 million RM. share capital for 300 million RM. Treasury certificates, 48 millions from the proceeds of the Reich's sale of 48 millions of share capital to the Golddiskontbank and 7½ millions from the sale of the capital stock of the Danat Bank to Government). Moreover, before the amalgamation, the Government gave the Danat Bank Treasury certificates to a value of 115 million RM., which was used for writing off losses. In addition, the banks' current profits in 1931 (20 million RM.) were devoted to this purpose. Through all these sources, a total of 417.5 million RM. became available, of

which 416 million RM. was used to write off losses. It will be seen that the total contribution of the Reich was 445½ million RM. (300+22+7½+115), in return for which it got shares of a nominal value of 152 million RM. ; the cash contribution of the Golddiskontbank was 48 millions, in return for which it got shares of an equal nominal value. In 1932, the Dresdner Bank further reduced its capital by 70 million RM. and its reserves by 15 million RM. and used these sums, along with current profits, to write off bad debts amounting to 95 million RM.

The Deutsche Bank und Diskontgesellschaft is the largest of the German banks. Before its reorganisation, its total share capital was 285 million RM and its published reserves 160 million RM. During 1930 and 1931, it purchased out of hidden reserves its own shares to a nominal amount by 105 millions and wrote off assets to a nominal value of 125 million RM. Under the reorganisation, its real share capital of 180 million RM. was written down to 72 millions and its reserves to 25 millions. New capital was raised to the extent of 72 million RM., of which 22 millions was privately subscribed, and 50 million RM. by the Golddiskontbank (with the option of repurchase by the bank). Through the reduction in publicly-held share capital and its reserves, 254 million RM. (108+146) became available, which was used along with the current profits for 1931 (21 million RM.) to write off losses. Of the off-writings, 240 million RM. were on account of loans on current account and 35 million RM. on account of investments and participations.

The fourth of the big Berlin banks, the Commerz- und Privat-Bank, was amalgamated with the Barmer Bank-Verein, an important institution operating in Düsseldorf. Before the reorganisation, the Commerz- und Privat-Bank had share capital amounting to 75 million RM. (of which half held by itself) and reserves of 40 million RM. The share capital held by the bank was transferred to the Reich at par and then repurchased by the bank and written down to 11.25 million RM., giving the bank a book profit of 26 million RM. Publicly-held shares were also written down to the same amount. The Barmer Bank-Verein had share capital of 36 million RM., of which 23.5 millions were held by itself, having been recently purchased , these shares were cancelled at the time of the reorganisation. The combined capital of the two banks, as written down, was thus 35 million RM., of which 11.25 million RM. were held by the Reich. New shares were issued to the Golddiskontbank to the extent of 45 million RM., so that the total capital of the reorganised Commerz- und Privat-Bank is 80 million RM. The combined reserve funds of the two banks, amounting to 58 million RM., were entirely written off and the Reich provided, gratis, a new reserve fund of 30 million RM. As a result of these reductions in capital, etc., it was possible to write off losses amounting to 107 million RM.

The other two big Berlin banks, the Reichs-Kredit-Gesellschaft and the Berliner Handels Gesellschaft did not take part in the amalgamation movement during the reconstruction period They have no branches and do not accept small deposits. Neither was subject to a heavy run in 1931, and the former was able to write off its losses without reducing its share capital or reserves. While none of the reconstructed banks paid dividends for 1931 and 1932, both the Berliner Handels Gesellschaft and Reichs-Kredit-Gesellschaft distributed a dividend of 4 per cent in 1931, which was increased to 5 per cent for 1932.

By the end of 1933, the paid-up capital of the big Berlin banks had been reduced to 442 million RM. and their published reserves to 100 million RM. In 1931, losses were written off to the extent of over 700 million RM. and, in 1932, to the extent of 130 million RM. The most striking feature of the reorganisation of the capital structure of the banks and the writing-off of losses was the participation of the Reich and the Golddiskontbank. As a result of their participation, the Reich secured control of the new Dresdner Bank and the new Commerz- und Privat-Bank ; it already controlled the Reichs-Kredit-Gesellschaft through its ownership of the Vereinigte Industrie Unternehmungen. The Golddiskontbank held a substantial block of stock in the Deutsche Bank . only the Berliner Handels Gesellschaft, the smallest of the big Berlin banks, was not directly or indirectly owned wholly or in part by the State or the Golddiskontbank.

The following table shows the amounts of capital stock in the five big Berlin banks held privately, by the Reich and by the Golddiskontbank in 1933.

Table 6 — DISTRIBUTION OF CAPITAL STOCK OF BIG BERLIN BANKS.

Capital stock held	RM. (000,000's)					
	Deutsche Bank und Diskonto-gesellschaft	Dresdner Bank	Commerz- und Privat-Bank	Reichs-Kredit-Gesellschaft	Berliner Handels Gesellschaft	Total
Privately	94	14	24	—	28	160
By Reich	—	103	11	40	—	154
By Golddiskontbank	50	33	45	—	—	128
Total	144	150	80	40	28	442

Table 7. — PRINCIPAL ACCOUNTS OF VARIOUS GROUPS OF GERMAN BANKS

	Big Berlin banks (a)		Provincial banks having branches (b)		Other commercial banks (c)		Special banks (d)		Total (a+b+c+d) (e)		Mortage banks (f)		Public banks (g)		Grand total (e+f+g) (h)	
End of	1929	1931	1929	1931	1929	1931	1929	1931	1929	1931	1929	1931	1929	1931	1929	1931
Number of banks	6	5	60	50	202	159	138	111	406	325	42	36	90	93	538	454
ASSETS	RM (000,000's)															
Cash, balances with Central Bank and other clearing balances	426	365	85	42	104	79	19	30	634	516	38	41	102	103	774	660
Bill portfolio	3,038	1,534	323	164	369	172	450	700	4,180	2,570	89	50	528	639	4,797	3,259
Securities and industrial participations	379	641	69	60	139	103	360	444	947	1,248	199	147	585	610	1,731	2,005
Due from banks and banking firms	1,763	706	178	67	253	158	512	519	2,706	1,450	221	193	3,367	2,592	6,294	4,235
Advances	7,832	5,884	1,230	670	1,339	858	1,005	908	11,406	8,320	408	342	2,851	2,506	14,687	11,168
Long-term loans, including mortgages	—	—	8	5	11	17	283	234	302	256	6,308	7,462	5,727	7,695	12,337	15,413
Premises, etc	213	215	57	49	59	62	60	63	389	389	38	46	58	81	485	516
Bank participations	111	133	15	10	34	26	13	30	173	199	32	32	73	87	278	318
Other accounts	3	12	5	8	17	33	85	83	110	136	84	96	105	237	359	469
Total assets	13,765	9,490	1,970	1,075	2,331	1,508	2,787	3,011	20,853	15,084	7,433	8,409	13,456	14,550	41,742	38,043
LIABILITIES.																
Capital and reserves	917	499	257	127	356	301	429	520	1,959	1,447	476	477	934	1,487	3,369	3,411
Profits	78	7	24	3	24	4	30	24	156	38	52	30	55	32	263	100
Due to banks	2,820	2,268	339	105	232	104	234	307	3,625	2,784	283	206	3,944	3,177	7,852	6,167
Deposits, etc	9,218	5,555	1,264	764	1,606	883	1,742	1,700	13,830	8,902	597	442	2,840	2,692	17,267	12,036
Acceptances	513	947	80	72	90	197	17	72	700	1,288	47	53	20	557	767	1,898
Long-term borrowings, including mortgage bonds	189	189	2	1	6	8	303	237	500	435	5,789	7,006	5,392	6,328	11,681	13,769
Other accounts	30	25	4	3	17	11	32	151	83	190	189	195	271	277	543	662
Total liabilities	13,765	9,490	1,970	1,075	2,331	1,508	2,787	3,011	20,853	15,084	7,433	8,409	13,456	14,550	41,742	38,043
Rediscounts	1,070	1,637	509	170	45	78	104	207	1,728	2,092	101	66	256	1,825	2,085	3,983
Guarantees	676	545	88	51	156	112	80	119	1,000	827	29	22	190	132	1,219	981

The participation of the Golddiskontbank in the reorganisation of the big banks was made possible by the Reichsbank increasing the capital of its subsidiary from 200 to 400 million RM. The Reich was authorised to issue Treasury certificates up to 400 million RM. to help in the reorganisation of the banks. The total outlay of the Reich was about 500 million RM., of which almost 300 million RM. were contributions *à fonds perdu* and the remainder contributions which are ultimately to be repaid out of the banks' profits.

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The analysis up to this point has been largely based upon the accounts of the big Berlin banks Table 7 summarises the principal assets and liabilities of all groups of banks (excluding note issuing, savings and co-operative banks) operating in Germany at the end of 1929 and 1931 and enables a comparison to be made between the development of their accounts and those of the big Berlin banks during this period.

It may first be observed that, with the exception of public banks, all groups were reduced in number between the end of 1929 and the end of 1931. The decline is particularly marked in the case of " other commercial banks " (column *c*) and special banks (column *d*). The latter group includes banks established to finance particular industries or economic groups — *e.g.*, banks for the building trade, labour banks, civil servants' banks, etc. The decline in these and other groups is chiefly due to amalgamations and in only few cases to failures. The increase in the number of public banks is chiefly to be attributed to the organisation of the Deutsche Gesellschaft für Offentliche Arbeiten and the Deutsche Siedlungsbank.

An examination of the figures given for total assets and liabilities will show that the chief shrinkage occurred in the case of the first three groups — namely, the big Berlin banks, the provincial and other commercial banks ; the total balance-sheet of the special banks, mortgage banks and public banks rose between 1929 and 1931. Like the Berlin banks, the provincial and other commercial banks experienced heavy withdrawals of deposits which they met by contracting their bill portfolio and advances. The combined capital, reserves and undivided profits of the first three groups were written down by some 700 million RM. in this period and, as shown above, the Reich made substantial contributions to enable them to write off losses.

Between 1929 and 1931, the mortgage banks issued new bonds, etc., to the extent of 1,200 million RM. and used the funds so acquired to increase their long-term loans, while at the same time reducing their other advances, bill portfolio and security holdings sufficient to compensate for the decline in their deposits The changes in the figures for public banks are, of course, largely explained by the operations of the new institutions mentioned above. New capital was raised to the extent of 550 million RM , long-term borrowings were increased by 930 million RM. and long-term loans were increased by twice that amount.

As a result of these divergent movements, the relative importance of the various groups of banks in the German credit structure underwent marked variations between the end of 1929 and the end of 1931. The share of the big Berlin banks in the total balance-sheet of the banks included in Table 7 fell from one-third to one-quarter, and that of the other joint-stock banks (excluding joint-stock mortgage banks) from 17 to 15 per cent. The share of all the institutions which may be regarded as commercial banks therefore fell from 50 to 40 per cent. The mortgage banks increased their share from 18 to 22 per cent ; and the public banks, rising from 32 to 38 per cent, became the largest single group of banks, and only slightly less important (as measured by total balance-sheet) than all the commercial banks combined.

Table 8 below, given in continuation of a similar table included in the first edition of this memorandum, shows the movements of deposits in savings banks and *Kreditgenossenschaften* (co-operative credit societies) in recent years.

Table 8. — TOTAL DEPOSITS IN SAVINGS BANKS AND CO-OPERATIVE CREDIT SOCIETIES.

End of	SAVINGS BANKS			KREDITGENOSSENSCHAFTEN			TOTAL		
	RM. (000,000's)								
	Savings accounts	Current cheque and deposit accounts	Total	Savings accounts[1]	Current cheque and deposit accounts	Total	Savings accounts	Current cheque and deposit accounts	Total
1929	9,314	1,401	10,715	3,024	766	3,790	12,338	2,167	14,505
1930	10,752	1,497	12,249	3,249	763	4,012	14,001	2,260	16,261
1931	10,123	1,293	11,416	2,868	594	3,462	12,991	1,887	14,878
1932	10,180[2]	1,140[2]	11,320[2]	.	.	.	.	.	.

[1] Including savings deposits with consumers' co-operatives.
[2] Provisional figure.

In the course of 1930, deposits in both savings banks and *Kreditgenossenschaften* increased ; the increase was almost entirely confined to savings accounts. There were considerable withdrawals during the financial crisis in 1931, and, on account of the illiquid nature of the savings banks' investments, the limitations placed on their depositors had to be more severe and maintained longer than in the case of the commercial banks. Their position was greatly relieved by the establishment of the Acceptance and Guarantee Bank which, as mentioned above, enabled them to secure liquid funds on the basis of paper ineligible for rediscount at the Reichsbank. In 1932, there was a slight net increase in savings accounts with savings banks

Finally, mention may be made of two new institutions established at the end of 1932. The Deutsche Industriefinanzierungsinstitut A.G. has a capital of 10 million preference shares subscribed by the Golddiskontbank and the Akzept und Kreditbank für Industrieobligationen, and 25 million ordinary shares subscribed by a large consortium of banks,including the Golddiskontbank, but later to be disposed of on the open market. All shares are 25 per cent paid. The object of this institution is to take over from the banks for gradual liquidation negotiable securities which, if disposed of too rapidly on the Stock Exchange, might lead to considerable losses.

The Tilgungskasse für gerwerbliche Kredite is to take over from small and medium-sized banks 150 million RM. of " debtors " which would otherwise have to be written off. The banks remain responsible for the recovery of the debts and are to hand over in cash to the Tilgungskasse for writing-off purposes 1½ per cent of the total debts taken over by it in each of the first four years and ½ per cent per year thereafter. Debts which are paid will be passed back to the banks according to the rate of redemption and all must be redeemed within twenty-five years, when the Tilgungskasse is to be liquidated. This institution enables the banks to maintain unrealisable assets at their book values ; in return for a pledge of part of their future earnings, they can substitute for such doubtful debts a holding at the Tilgungskasse. It is estimated [1] that proposals exceeding 100 million RM. have been submitted to the Tilgungskasse, and the 1932 report of the Deutsche Bank states that this bank has made use of the Tilgungskasse " for an amount small in relation to total ' debtors ', but sufficient to relieve the balance-sheet ".

***

A banking enquiry is being carried on with a view to a complete reorganisation of the whole credit system of Germany. It is expected that the report will be published in the first months of 1934.

Balance-sheet Summary.

As in the previous edition, three separate summary balance-sheets are given in the foregoing tables. Table 9 *(a)* I summarises (1) the statistics of the *Statistisches Jahrbuch* covering all the commercial banks of the country and (2) the interim reports of the *Kreditbanken*, as published in the *Reichsanzeiger*. The former include the big Berlin banks, provincial banks having branches, other commercial banks and special banks for building, etc. (see Table 7 of the introductory note). The *Kreditbanken* covered appear to account for about 95 per cent of the total balance-sheet of all commercial banks in 1931. Table 9 *(a)* II summarises the annual balance-sheets of the big Berlin banks.

For reasons of space, the following notes show the detailed composition of the statistics only of the *Kreditbanken* and the big Berlin banks, and not of all the commercial banks, as shown in the first part of Table 9 *(a)* I. A comparison of the details given in the last edition of this volume will show, however, that the *Kreditbanken* are fully representative of all the banks.

1 and 2. *Cash and Cash Assets.*

The detailed composition of this item is as follows :

	[1]RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Cash, foreign money and coupons.	133	126	101	92	166	170	128	111
Balances with banks of issue. . .	91	109	116	110	252	253	264	143
Balances with clearing institutions	34	28	20	14				
Not specified.	—	—	—	—	8	8	8	—
Total	258	263	237	216	426	431	400	254

[1] The London *Times*, Trade and Engineering Supplement, June 24th, 1933, page 22.

GERMANY. COMMERCIAL BANKS **Table 9 *(a)* I.**

ACCOUNTS	Source : " Official Statistics " *(Statistisches Reichsamt)*				Source : *Reichsanzeiger Bilanzübersichten.*			
	SUMMARY OF POSITION AT THE END OF :							
	1925	1929	1930	1931	Nov 1929	Nov 1930	Nov. 1931	Nov. 1932
Number of Banks	453	406	364	325	96	91	78	71
ASSETS.	RM. (000,000's omitted)							
1. Cash.								
(a) Gold, silver and small coins	489	634	643	516	258	263	237	216
(b) Inland notes and balances with Central Bank								
2. Other Items of a Cash Nature								
3. Bills discounted and bought	2,157	4,180	3,767	2,570	3,363	2,847	2,092	2,208
(a) Treasury bills	—	646	797	604	491	551	377	500
(b) Commercial bills, Inland	—	3,534	2,970	1,966	2,872	2,296	1,715	1,708
(c) Commercial bills, Foreign	—							
4. Investments and Securities	263	731	709	1,050	430	411	859	912
(a) Government	—	23	29	382	29	41	345	505
(b) Other	—	708	680	668	401	370	514	407
5. Participations	260	389	386	397	408	393	436	419
6. Due from Banks (Correspondents)	1,406	2,706	2,416	1,450	1,948	1,753	996	722
(a) At home	—	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—	—	—
7. Loans and Advances	4,937	11,014	10,690	7,287	10,252	10,413	8,126	6,815
(a) On current account	—	7,490	7,323	5,383	6,442	6,563	5,336	4,416
(b) Other	—	3,524	3,367	1,904	3,810	3,850	2,790	2,399
8. Cover for Acceptances	328	700	940	1,288	624	808	1,039	859
9. Premises, etc.	520	389	389	390	292	296	290	302
10. Sundry Assets		110	80	136	89	55	94	266
11. Total Assets	**10,360**	**20,853**	**20,020**	**15,084**	**17,664**	**17,239**	**14,169**	**12,719**
LIABILITIES.								
12. Capital paid up	1,128	1,408	1,422	1,124	982	980	1,450	1,183
13. Reserve Funds	295	551	568	323	450	453	514	27
14. Profit-and-Loss Accounts, Undivided Profits, etc.	118	156	118	38	—	—	—	—
15. Cheques and Drafts, etc., in circulation	8	—	—	—	—	—	—	—
16. Due to Banks (Correspondents)	1,238	3,600	3,813	2,770	3,270	3,691	2,546	2,635
(a) At home	—	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—	—	—
17. Deposits	7,103	13,831	12,653	8,902	10,965	9,814	7,041	6,357
(a) Current accounts and sight deposits	—	—	—	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—	—	—	—
(d) Other deposits	—	—	—	—	—	—	—	—
18. Borrowings	—	524	443	449	1,159	1,341	1,409	1,332
19. Acceptances and Endorsements	328	700	940	1,288	624	808	1,039	859
20. Sundry Liabilities	142	83	63	190	214	152	170	81
21. Total Liabilities	**10,360**	**20,853**	**20,020**	**15,084**	**17,664**	**17,239**	**14,169**	**12,719**
22. Guarantees, etc. *(Avale und Bürgschaften)*	406	1,000	858	827	828	776	703	837
23. Rediscounts	—	1,728	1,785	2,092	1,816	1,877	1,912	1,037
24. Value of the Currency in Cents of a U.S. Dollar at the End of Each Year	23.8	23.8	23.8	23.8	23.8	23.8	23.7	23.8

GERMANY. PRINCIPAL COMMERCIAL BANKS (BERLINER GROSSBANKEN) **Table 9 *(a)* II.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1925	1929	1930	1931	1932
Number of Banks	7	6	6	5	5
ASSETS.	RM (000,000's omitted)				
1. Cash					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	256	426	431	400	254
2. Other Items of a Cash Nature					
3. Bills discounted and bought	1,321	3,038	2,573	1,478	1,718
(a) Treasury bills	—	380	549	374	497
(b) Commercial bills, Inland	—	2,658	2,024	1,104	1,221
(c) Commercial bills, Foreign	—				
4. Investments and Securities	66	211	173	170	213
(a) Government	1	15	19	56	66
(b) Other	65	196	154	114	147
5. Participations	216	279	280	289	313
6. Due from Banks (Correspondents)	678	1,674	1,479	664	586
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances	2,735	7,407	7,128	4,788	4,270
(a) On current account	2,136	4,769	4,554	3,518	3,275
(b) Other	599	2,638	2,574	1,270	995
8. Cover for Acceptances	240	513	701	919	770
9. Premises, etc.	185	213	207	208	235
10. Sundry Assets	2	4	4	321	444
11. Total Assets	**5,699**	**13,765**	**12,976**	**9,237**	**8,803**
LIABILITIES.					
12. Capital paid up	474	588	553	429	442
13. Reserve Funds	186	330	330	115	100
14. Profit-and-Loss Accounts	57	79	51	7	7
15. Cheques and Draft in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	928	2,809	3,137	2,161	2,380
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
17. Deposits	3,802	9,228	7,993	5,398	4,946
(a) Current accounts and sight deposits	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—
(d) Other deposits	—	—	—	—	—
18. Rediscounts and Other Borrowings	—	189	189	189	128
19. Acceptances and Endorsements	240	513	701	919	770
20. Sundry Liabilities	12	30	22	19	30
21. Total Liabilities	**5,699**	**13,765**	**12,976**	**9,237**	**8,803**
22. Guarantees *(Avale und Bürgschaften)*	.	676	642	528	448
23. Value of the Currency in Cents of a U.S. Dollar at the End of Each Year	23.8	23.8	23.8	23.8	23.8

GERMANY. PRINCIPAL COMMERCIAL BANKS (BERLINER GROSSBANKEN) **Table 9 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:				
	1925	1929	1930	1931	1932
Number of Banks	7	6	6	5	5
	RM (000,000's omitted)				
Capital paid up	474	588	553	429	442
Reserves and Undivided Profits	190	338	340	125	104
1. Gross Profits	384	480	450	368	320
To be deducted					
2. Expenses	317	394	350	300	255
(a) Salaries, etc.	287	340	310	270	231
(b) Other working expenses	30	54	40	30	24
(c) Taxes, etc.	—	—	—	—	—
3. Reserved for Pensions Funds, etc.	11	19	17	16	16
4. Written off on (Depreciation Accounts for)	6	2	43	706	131
(a) Prémises, etc.	—	2	1	—	1
(b) Investments and securities	—	—	42	706	130
(c) Other assets					
5. Remaining Net Profit or Loss	+ 50	+ 65	+ 40	−654	− 82
6. Carried forward from Preceding Year	4	9	10	10	4
7. Taken from Reserves or Capital	—	—	—	651	85
8. Total Amount disposed of for Dividends, etc.	**54**	**74**	**50**	**7**	**7**
9. Carried to Reserves	2	—	—	—	—
10. Dividends	44	61	38	3	4
11. Directors' Fees, etc.	2	3	2	—	—
12 Other Purposes	—	—	—	—	—
13. Carried forward to Following Year	6	10	10	4	3
14. Total as above	**54**	**74**	**50**	**7**	**7**
15. Value of Currency in Cents of a U.S. Dollar at the End of Each Year	23.8	23.8	23.8	23.8	23.8

3. *Discounts.*

No distinction is made in the balance-sheets between domestic and foreign bills. The following details are available regarding the bill portfolio of the *Kreditbanken*:

	XI/1929	XI/1930	XI/1931	XI/1932
	RM. (000,000's)			
Treasury bills				
Rediscountable at Reichsbank	245	73	140	110
Other	246	478	237	390
Total 3 *(a)*	491	551	377	500

	XI/1929	XI/1930	XI/1931	XI/1932
	RM. (000,000's)			
Commercial bills				
Cheques and bills (ordinary discounts)	2,863	2,288	1,706	1,670
Own acceptances	5	2	2	15
Own drawings	3	1	3	3
Promissory notes drawn by customers to bank's order	1	5	4	20
Total 3 *(b)*	2,872	2,296	1,715	1,708
Grand total	3,363	2,847	2,092	2,208

Treasury bills are non-interest-bearing and are issued by the States as well as by the Reich. The

commercial bill portfolio as shown above excludes bills rediscounted, which are not included under liabilities, but are shown separately outside the balance-sheet.

4. *Investments and Securities.*

The sums shown under *(a)* consist of "Loans and interest-bearing bonds of the Reich and the States". The Treasury certificates given to the big Berlin banks by the Reich in 1931 and 1932 pending their reorganisation have not been included in the present group of the summary table, but are shown under "Sundry Assets" in group 10. Other securities *(b)* are classified in the official statistics as follows:

	RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Pledgeable at Reichsbank and other central banks. . . .	57	69	219	183	12	12	½	7
Other quoted securities . . .	273	226	230	161	152	120	80	99
Sundry securities. . . .	71	75	65	63	32	22	25	41
Total	401	370	514	407	196	154	114	147

5. *Participations.*

The sums given in the summary tables are composed of permanent participations in banks and banking firms and syndicate participations *(Konsortialbeteiligungen)* as follows

	RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Bank participations	187	181	205	198	111	114	127	144
Syndicate participations. . .	221	212	231	221	168	166	162	169
Total . . .	408	393	436	419	279	280	289	313

The increase in both bank and syndicate participations of the Berlin banks in recent years is a result of the mutual assistance that the banks were obliged to give under the three institutions created in 1931 and 1932 — namely, the Garantie und Akzept Bank, the Deutsche Finanzierungsinstitute and the Tilgungskasse für gewerbliche Kredite.

6. *Due from Banks (Correspondents).*

In the official statistics, the banks' "advances to banks, banking firms, savings banks and other credit institutions" are included with other advances on current account. In the summary tables, this item has been carried to group 6 and added to "nostro" balances, which represent balances accruing in the ordinary course of banking transactions. (They do not include sums due after more than three months.) This division is shown below:

	RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
"Nostro" balances.	1,507	1,290	485	354	1,305	1,011	373	249
Advances to credit institutions. .	441	463	511	368	369	468	291	337
Total	1,948	1,753	996	722	1,674	1,479	664	586

The bulk of the "nostro" balances are due within seven days. No distinction is made in the official statistics between such balances at home and abroad; the proportion held abroad was substantial in 1929, but it has probably declined in recent years.

7. *Loans and Advances.*

The sums given under *(a)* in the summary tables represent "debtors in current account", less cover for acceptances. The latter item is not shown separately by the banks, but amounts equal to the acceptance liabilities shown in the balance-sheets have been deducted from "debtors" and carried

	RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Debtors in current account:								
1. Covered by								
Stock-Exchange security.	1,587	1,536	989	744	1,363	1,298	721	618
Other security .	3,993	4,437	4,113	3,686	2,863	3,095	2,775	2,753
2 Uncovered	1,927	1,861	1,784	1,213	1,425	1,330	1,232	1,011
3 Total	7,507	7,834	6,886	5,643	5,651	5,723	4,728	4,382
Less:								
Advances to credit institutions	441	463	511	368	369	468	291	337
Cover for acceptances. .	624	808	1,039	859	313	701	919	770
4. Total 7 *(a)*.	*6,442*	*6,563*	*5,336*	*4,416*	*4,769*	*4,554*	*3,518*	*3,275*
Other loans and advances								
5. Advances on Stock-Exchange securities:								
Contangos	318	196	58	1	298	166	60	1
Lombards	284	227	131	40	264	187	69	31
Total	602	423	189	41	562	353	129	32
6 Reimbursement credits.								
Secured by shipping or warehouse warrants. .	238	182	99	130	211	189	75	89
Otherwise secured . .	859	967	679	543	791	955	568	486
Unsecured	966	1,000	540	407	799	821	427	326
Total	2,063	2,149	1,318	1,080	1,801	1,965	1,070	901
7 Other short-term credits on pledge of marketable goods	185	170	75	65	171	152	71	62
8 Total short-term loans (5+6+7)	2,850	2,742	1,582	1,186	2,534	2,470	1,270	995
9 Long-term loans . . .	960	1,108	1,208	1,213	104	104	—	—
10 Total 7 *(b)*.	*3,810*	*3,850*	*2,790*	*2,399*	*2,638*	*2,574*	*1,270*	*995*
Grand total (4+10).	*10,252*	*10,413*	*8,126*	*6,815*	*7,407*	*7,128*	*4,788*	*4,270*

to group 8 of the summary tables. Current-account debtors, as shown in the official statistics, include advances to credit institutions; these advances have been carried to group 6 of the summary tables.

The amounts shown under *(b)* represent contangos and other advances to the Stock Exchange, reimbursement credits and other loans. The detailed composition of loans and advances in the years under review is shown above.

8. *Cover for Acceptances.*

See note to previous group.

10. *Sundry Assets.*

The amounts shown under this heading for the Berlin banks in 1931 and 1932 include 300 and 410 million RM. respectively of Treasury certificates given by the Reich in connection with their reorganisation (see introductory note)

12, 13 and 14. *Capital, Reserves and Undivided Profits.*

The capital account involves double counting in respect of the bank participations included under assets. The decline in the capital resources in recent years is due to the writing-down of assets during the bank reorganisations described in the introductory note.

16. *Due to Banks (Correspondents).*

Sums due to foreign banks are not shown separately, but the bulk of the credits obtained with other banks for the account of customers

(seitens der Kundschaft bei Dritten benutzte Kredite) probably represents liabilities to foreign banks. The decline in this item in 1931 and 1932 has been commented on in the introductory note.

The detailed composition of the sums shown in the summary tables is given below :

	RM. (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Credits obtained with other banks for the account of customers	2,122	2,297	1,530	1,222	1,872	2,114	1,223	1,095
Due to German banks, banking firms, etc.	1,148	1,394	1,016	1,413	937	1,023	938	1,285
Total .	3,270	3,691	2,546	2,635	2,809	3,137	2,161	2,380

17. *Deposits.*

The official statistics include balances due to German credit institutions (which have been shown under group 16 of the summary table) along with other *Kreditoren* and show the time distribution of the whole as follows :

	RM (000,000's)							
	Kreditbanken				Big Berlin banks			
	November 1929	November 1930	November 1931	November 1932	1929	1930	1931	1932
Deposits	10,965	9,814	7,041	6,357	9,228	7,993	5,398	4,946
Due to German banks	1,148	1,394	1,016	1,413	937	1,023	938	1,285
Total	12,113	11,208	8,057	7,770	10,165	9,016	6,336	6,231
Thereof :								
Payable within seven days. .	4,490	4,565	4,051	3,627	4,247	4,128	3,316	3,002
Payable after seven days and up to three months. . . .	6,679	5,827	3,139	2,953	5,419	4,538	2,535	2,621
Payable after three months .	944	816	867	1,190	499	350	485	608
Total, as above	12,113	11,208	8,057	7,770	10,165	9,016	6,336	6,231

18. *Borrowings*

The sums shown in the summary table for *Kreditbanken* are composed as follows

	Kreditbanken			
	Nov. 1929	Nov 1930	Nov 1931	Nov 1932
	RM. (000,000's)			
Mortgage and municipal bond issues	861	1,045	1,141	1,086
Other long-term borrowings	298	296	268	246
Total	1,159	1,341	1,409	1,332

Rediscounts are shown by the German banks as contingent liabilities outside the balance-sheet. They are therefore excluded from the present group in the summary tables and given as an independent group (23) outside the balance-sheet proper.

22 and 23. *Guarantees and Rediscounts.*

These items are classified as contingent liabilities and excluded from the balance-sheet. Rediscount liabilities arise in respect of bank acceptances and other bills, shown separately by the *Kreditbanken* as follows .

	Kreditbanken			
	Nov 1929	Nov. 1930	Nov 1931	Nov 1932
	RM. (000,000's)			
Rediscount liabilities in respect of :				
Bank acceptances . .	974	1,135	1,009	348
Other bills.	842	742	903	689
Total	1,816	1,877	1,912	1,037
Thereof due within fifteen days	562	486	468	246

The interim reports on which the summary table is based also show under contingent liabilities small amounts of the banks' own drawings, both for their own account and for the account of customers.

Summary of Profit-and-Loss Accounts of the Principal Berlin Banks.

No official profit-and-loss statistics are published in Germany. Table 9*(b)* is based on the annual reports of the leading Berlin banks.

1. *Gross Profits.*

The composition of gross profits according to the sources from which they are derived is shown below:

	RM. (000,000's)			
	1929	1930	1931	1932
Net interest from discounts and loans	227	208	170	160
Commissions	244	237	193	157
Profits from investments and participations	9	5	5	3
Total	480	450	368	320

The first item represents the net balance of interest earned on discounts, loans and advances after deduction of interest paid on deposit accounts; some banks include this latter item under expenses. The sums for total gross profits as shown above may be incomplete in certain years in so far as the banks follow the practice of making allowance for depreciation of their investments, participations and outstanding credits before disclosing their profits.

2. *Expenses.*

The German banks do not distinguish in their published profit-and-loss accounts between salaries and other working expenses. The reports of the Berlin banks for 1932 show that considerable reductions have been effected in expenses and state that further substantial reductions are expected in 1933. The ratio of tax payments to gross profits fell from 11 per cent in 1929 to 8 per cent in 1931 and 1932.

4 and 7. *Depreciation Accounts* and *Taken from Reserves or Capital.*

It will be observed that, in the years 1930-1932, the big Berlin banks wrote off assets to the extent of 890 million RM. Item 7 of the summary table suggests that the greater part of this reduction was accomplished by reducing capital and drawing on reserves and accumulated profits. The figures given at the top of the table show, however, that these items were not reduced to the same extent as off-writings were effected. The difference lies, of course, in the contributions of the Reich and the Golddiskontbank, which have been set out in detail in the introductory note. In Summary Table 9 *(b)*, these contributions are included in item 7.

5. *Net Profit or Loss.*

In 1931 and 1932, the banks as a whole showed a net loss, after making provision for the depreciation of assets. In 1931, this was due to the Dresdner (and Danat) Bank, the Deutsche Bank and the Commerz- und Privat-Bank. In 1932, the Dresdner Bank made further provision for doubtful debts by drawing on its capital and reserves, and it is responsible for almost the whole of the net loss shown in that year. One million RM. is due to the Deutsche Bank, which wrote off assets to the extent of 27 million RM. The Commerz- und Privat-Bank used the whole of its operating profit (8 million RM.) to write off losses.

10. *Dividends.*

Only the Reichs-Kredit-Gesellschaft and the Berliner Handels Gesellschaft distributed dividends in 1931 and 1932.

11. *Directors' Fees, etc.*

This item consists only of the directors' share in profits *(Gewinnsanteil des Aufsichtrates)*. Their salaries *(Bezuge des Vorstandes)* are included under expenses in item 2 of the summary table.

GREECE.

Introductory Note.

A brief account of the structure and history of the Greek banking system was given in the last edition of this *Memorandum*. It may be recalled that the drachma was legally stabilised at about one-fifteenth of its pre-war parity in connection with the establishment of the new central bank in 1928. The new parity was maintained throughout the first years of depression, but difficulties arose as a result of the United Kingdom's abandonment of the gold standard in September 1931 A system of exchange control was then introduced in Greece, but it did not work successfully. The inflow of foreign capital (mainly through Government borrowing), which had hitherto helped to support the drachma exchange, dried up by the end of 1931 and a flight from the drachma seriously affected, not only the cover reserve of the Bank of Greece, but also the position of the commercial banks.

Even after the legal stabilisation of the drachma, the Greek public had largely maintained the practice of attaching a foreign gold currency clause to their drachma deposits with banks. This practice was officially recognised, and, in the bank returns, ordinary drachma deposits were distinguished from deposits in terms of foreign currencies, as is shown in the following summary statement (excluding mortgage and agricultural banks) :

End of	Drachmæ (000,000's)						
	Deposits in terms of foreign currency	Other deposits	Total deposits	Cash in hand and at the Bank of Greece	Bill portfolio	Loans and advances	Securities
December 1930.	5,598	8,963	14,561	1,316	2,414	10,276	1,906
September 1931	6,206	8,277	14,483	1,033	2,508	9,915	2,042
December 1931.	5,685	8,466	14,151	1,105	2,054	9,726	1,980
April 1932.	5,671	7,471	13,142	646	1,638	9,513	1,975
December 1932.	1,765	11,754	13,519	857	1,467	9,592	1,838
November 1933.	1,346	13,352	14,698	1,786	2,536	8,598	1,590

In the first three to four months of 1932, the flight from the drachma assumed alarming proportions ; the price of foreign exchange on the " black market " rose rapidly, the net cover reserve of the Bank of Greece was almost wiped out and apprehensions regarding the maintenance of the official parity led to heavy withdrawals of drachma deposits with the banks, while deposits in terms of foreign currency were well maintained. The banks were able to meet only part of the sudden withdrawals of drachma deposits by calling in credits — discount credits in particular — and, although recourse was had on a large scale to the central bank for supplementary cash, total cash reserves of the banks were heavily reduced. The attempt to maintain the official parity was ultimately given up at the end of April 1932 ; the exchange value of the drachma was allowed to depreciate rapidly to a level at which a balance between the supply of and the demand for foreign exchange could be more effectively secured, while, towards the same end, a system of direct restriction of imports was introduced.

The rapid rise in foreign exchange quotations, however, entailed a heavy increase in the liabilities devolving upon the banks from their obligation to repay depositors the drachma equivalent of the very large deposits previously contracted in terms of foreign currency. On July 29th, 1932, a decree-law was passed which stipulated that debts of all kinds, including bank deposits, contracted in terms of foreign currency before April 26th, 1932 (the date of the official abandonment of the stabilisation parity), were to be considered as having been converted into drachmæ at the rate of $1=100 drachmæ. It may be mentioned that the exchange rate of the dollar had risen to 125 drachmæ on April 27th and to 146.5 drachmæ on July 29th, as against the par rate of 77 drachmæ, at which most of the deposits in question had been contracted. The banks were partly covered, however, as they disposed of a minor reserve in *devisen* (about 15 per cent of their foreign currency deposits), and as some 2 milliard drachmæ [1] of their outstanding advances and discounts were likewise expressed in terms of foreign currency. On the other hand, certain *devisen* deposits, including those of foreign subjects permanently

[1] Excluding mortgage and agricultural banks

residing abroad, as well as those of the members of the diplomatic corps and foreign missions, were exempted from so-called "drachmification" under the above decree-law.

The effects of this legislation upon the position of the commercial banks are reflected in the figures given above for the end of 1932 and 1933 [1] respectively. The "drachmification" of deposits greatly relieved the internal banking position. Unlike the banks in most Central and Eastern European countries, those of Greece are purely commercial banks and are not tied up in loans to industry or agriculture to any great extent. Most of their credits are granted on short-term for financing commercial or similar transactions, and are thus, in principle, self-liquidating over comparatively short periods of time. The rise in internal prices which took place until the beginning of 1933 enabled certain debtors to repay bank advances which had previously been frozen. It will be observed that the total of outstanding loans and advances had been considerably reduced by the end of 1933, while the bill portfolio, which, in fact, continued to shrink until the end of February of that year (it then reached 1,366 million drachmæ), rose sharply (by 1,170 million drachmæ, or 85 per cent) during the next nine months. As a result, the total volume of loans and discounts at the end of November 1933 practically equalled that outstanding at the end of April 1932. Meanwhile, total deposits increased very considerably and the banks were soon able to repay the credits received from the central bank in the spring of 1932; in addition, they accumulated large surplus balances with that institution. The official bank rate, which stood as high as 12 per cent in the beginning of 1932, was gradually reduced to 7 per cent in the autumn of 1933, and the loan rate charged by the commercial banks on first-class risks had fallen to 6 per cent, an exceptionally low loan-rate in Greece.

As in the preceding edition of this *Memorandum*, the summary tables are based on the statistics published in the *Monthly Bulletin of the Bank of Greece*. They cover all commercial banks operating in the country [2] and exclude the mortgage and agricultural banks, which are given separately in the basic statistics. Since 1930, these statistics are confined to the banks' principal accounts only. Profit-and-loss accounts for 1930 are not available for all the banks.

Balance-sheet Summary.

1. *Cash.*

The composition of this item is as follows :

	1929	1930	1931	1932
	Drachmæ (000,000's)			
Notes and coins . . .	562	573	365	448
Balances with Bank of Greece	547	742	740	409
Total . . .	1,109	1,315	1,105	857

4 and 5. *Investments and Securities: Participations.*

The statistics of the Bank of Greece do not distinguish between Government and other securities, nor is the nature of the participations indicated.

6. *Due from Banks (Correspondents).*

As a rule, domestic correspondents' accounts are included in ordinary current accounts. The sums given under *(a)* are shown among cash reserves under the heading "balances with other banks" in the statistics published by the Bank of Greece. Such balances may constitute a cash reserve from the point of view of the individual banks, but not for the banking system as a whole.

The sums given under *(b)* are shown in the statistics of the Bank of Greece under the heading "gold, foreign banknotes and exchange" and appear to represent chiefly claims on banks abroad, though they may also include a considerable proportion of foreign bills which are ultimately transformed into such claims.

7. *Loans and Advances.*

The composition of loans and advances according to periods of maturity is shown below :

	1929	1930	1931	1932
		Drachmæ (000,000's)		
Short-term (up to 3 months). . . .	.	7,076	6,597	6,729
Long-term (over 3 months). . . .	.	3,201	3,129	2,963
Total . . .	6,857	10,277	9,726	9,692

12 and 13. *Capital and Reserves.*

These items are not shown in the statistics published by the Bank of Greece since 1930.

16. *Due to Banks (Correspondents).*

Inter-bank accounts are included in ordinary current accounts in the statistics published by the Bank of Greece.

17. *Deposits.*

All Greek banks accept deposits on savings-bank conditions, and there are no independent savings

[1] The figures for the end of November 1933 are the latest available at the time of writing.
[2] In the case of the foreign banks, only the accounts of Greek branches are taken into consideration.

GREECE. COMMERCIAL BANKS **Table 10 (a).**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :			
	1929	1930	1931	1932
Number of Banks	35	33	31	27
ASSETS.	Drachmæ (000,000's omitted)			
1. Cash	1,109	1,315	1,105	857
(a) Gold, silver and small coins	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—
2. Other Items of a Cash Nature	—	—	—	—
3. Bills discounted and bought	3,523	2,414	2,054	1,467
(a) Treasury bills	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—
4. Investments and Securities	1,906	1,906	1,980	1,838
(a) Government	—	—	—	—
(b) Other	—	—	—	—
5. Participations	410	939	879	719
6. Due from Banks (Correspondents)	1,627	1,344	809	918
(a) At home	240	231	68	45
(b) Abroad	1,387	1,113	741	873
7. Loans and Advances	6,857	10,277	9,726	9,692
(a) On current account	—	—	—	—
(b) Other	—	—	—	—
8. Cover for Acceptances	—	—	—	—
9. Premises, etc.	439	—	—	—
10. Sundry Assets	4,324	—	—	—
11. Total Assets	**20,195**	—	—	—
LIABILITIES.				
12. Capital paid up	688	—	—	—
13. Reserve Funds	2,099	—	—	—
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	—	—	—
15. Cheques and Drafts, etc., in Circulation	109	—	—	—
16. Due to Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
17. Deposits	13,235	15,287	14,151	13,519
(a) Current accounts and sight deposits	8,317	12,115	10,567	9,786
(b) Savings accounts	3,088			
(c) Time or fixed deposits	1,830			
(d) Other deposits	—	3,172	3,584	3,733
18. Rediscounts and Other Borrowings	345			
19. Acceptances and Endorsements	—	—	—	—
20. Sundry Liabilities	3,719	—	—	—
21. Total Liabilities	**20,195**	—	—	—
22. Value of currency in cents of a U.S. dollar at the end of each year	1.33	1.29	1.29	0.54

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :			
	1929	1930	1931	1932
Number of Banks	28	.	23	21
	Drachmæ (000,000's omitted)			
Capital paid up	662	.	525	622
Reserves and Undivided Profits	2,098	.	1,843	1,571
1. Gross Profits	**1,563**	.	**1,307**	**1,168**
To be deducted :				
2. Expenses	1,214	.	1,008	903
(a) Salaries, etc.	512	.	—	—
(b) Other working expenses	609	.	—	—
(c) Taxes, etc.	93	.	—	—
3. Reserved for Pension Funds, etc.	—	.	—	—
4 Written off on Depreciation Accounts for	141		169	167
(a) Premises, etc.	—	.	—	—
(b) Investments and securities	—	.	—	—
(c) Other assets	—	.	—	—
5. Remaining Net Profit or Loss (--)	**208**	.	**130**	**98**
6. Carried forward from preceding year	—	.	—	—
7. Taken from Reserves or Capital	—	.	—	—
8. Total Amount disposed of for Dividends, etc.	**208**	.	**130**	**98**
9. Carried to Reserves	20	.	7	4
10. Dividends	188	.	123	80
11. Directors' Fees, etc.	—	.	—	—
12. Carried forward to following year	—		—	14
13. Total as above	**208**	.	**130**	**98**
14. Value of currency in cents of a U.S. dollar at the end of each year	1.33	1.20	1.20	0.54

banks apart from the Post Office savings system. Since 1930, savings accounts are not shown separately from sight deposits in the statistics published by the Bank of Greece, which also include borrowings through bond issues (345 million drachmæ at the end of 1929) under time deposits.

Summary of Profit-and-Loss Accounts.

The foreign banks operating in Greece do not publish separate profit-and-loss accounts for their Greek branches, the profits of which are transferred to the headquarters abroad and are not disposed of in Greece. The summary table therefore relates to domestic banks only.

The profit-and-loss statements available do not contain any information regarding directors' fees, sums reserved for staff pension funds and undistributed profits carried forward. The amounts shown under 4 in the summary table include depreciation of premises, but appear to consist chiefly of sums written off loans, investments and participations.

HUNGARY.

Introductory Note.

The predominance of agriculture in the economic life of Hungary has largely determined the evolution and present organisation of the Hungarian banking system. The extension of long-term mortgage credit has always been one of the most important branches of the activity of many of the banks, but all banks enjoy full freedom to undertake any form of savings, current commercial or industrial banking business. So frequently are several or all branches of banking carried on conjointly by single institutions and so slight are often the differences in character between the operations of banks irrespective of their designation as savings, commercial or mortgage banks, that no true distinction can be made between these types of credit institutions. The relations between the banks and the industries created by them are closer in Hungary than in almost any other country. Although preference is normally given to industries closely connected with, or of immediate interest to, agriculture, nevertheless the banks extend their financial support to a whole range of other enterprises, whose products are destined both for domestic consumption and for export.

During the period of rapid recovery following the early post-war currency chaos, the principal banks in Hungary, as in Austria, obtained extensive foreign short-term credits [1] which were re-lent, directly or indirectly, to industry and agriculture and became part of the working capital of the country. The volume of bank credit increased without interruption from 1925 up to the end of 1930. During this period total current account loans were doubled, and the banks' bill portfolios increased more than threefold. Mortgage loans, which before the war constituted by far the most important branch of bank credit in Hungary, had been practically annihilated as a result of the post-war inflation and only amounted to 6 million pengö at the end of 1925. In subsequent years they were partly reconstituted and reached in 1929 a maximum of 668 millions; by the end of 1932 they had declined only fractionally to 639 millions. Foreign credits were available to the provincial institutions indirectly through the rediscount facilities offered to them by the Budapest banks. In the balance-sheets of the provincial banks rediscounts increased rapidly up to the end of 1931 and scarcely dropped in the following year; in 1932 they were by far the most important liability, exceeding the total of current and savings deposits and "Creditors".

The *crise de confiance* in the summer of 1931 found the Hungarian banks in a highly illiquid position which called for measures of support on the part of the Government. Following the Creditanstalt disclosures, a withdrawal of deposits from the Hungarian banks and considerable selling of pengö set in. The majority of the Budapest banks — in particular, the General Credit Bank — was forced, in order to meet the calls made on them, to rediscount heavily with the National Bank. The total rediscounts of these banks, which had been 63.4 million pengö at the end of 1930, had risen to 206.3 millions a year later. [2] The closing of the German banks in July precipitated the crisis. The Hungarian Government declared a three-day Bank holiday, strictly limited withdrawals of deposits and instituted a control of foreign exchange dealings by the National Bank.

In the following month, in order to obviate distrust in the currency and consequent domestic withdrawals of deposits and speculative borrowing, the Gold-Pengö Law [3] was passed, which attached a gold clause to bank deposits and certain other obligations expressed in pengö. At the same time, the *Hungarian Guarantee Bank* with a share capital of 50 million pengo, subscribed by the Government, the big banks and the principal industrialists, was established in order to support banks which might find themselves in difficulties. This institution, which was constituted on the model of the recently established German *Garantie- und Akzeptbank*, did

[1] In the autumn of 1931, the total medium- and short-term foreign liabilities of Hungarian commercial banks amounted to 823 million pengö and their corresponding foreign assets to approximately 120 millions. (League of Nations Report of the Financial Committee on the Financial Position of Hungary. Document C.749(1).M.348(1) 1931.) Comparable figures for earlier years are not available.

[2] The customary half-yearly balance-sheets were not published by the majority of the Budapest banks in the summer of 1931.

[3] The gold-pengo law (Emergency Decree No. 4560/1931. M.E.) provides that all old money debts are to be considered gold debts, notwithstanding the legal-tender quality of bank-notes, and that future private debts protected by a gold clause shall also be regarded as gold debts. All debts to the State, past and future, are to be regarded as gold debts. The value of the gold pengö is set at 0.26315789 gramme of fine gold; the law is to become operative only if the price of 1 kilogramme of gold rises above 3,840 pengö. A later Decree provided that the paper pengö is to be regarded as equal to the gold pengo until such time as the Government decides otherwise.

not begin operations until the autumn of 1932. In August 1931, the foreign exchange control was extended and a census taken of all assets and liabilities in foreign currencies, the declaration of which was made obligatory.

Upon the introduction of the gold-pengö law the limitation on the withdrawal of domestic deposits was raised, but foreign bank credits remained in large measure immobilised. Negotiations for standstill agreements with the principal creditor countries were opened in July. A three-month prolongation of existing acceptance and current account credits was soon arranged with the British creditors on condition that interest and commission should continue to be transferred; and on the basis of this agreement individual arrangements were made with other countries. The partial moratorium of December put an end to the transfer of interest and commission; negotiations were again opened, which resulted in general agreements with the British creditors at the end of March and with the American creditors in June 1932. According to these agreements the pengö equivalent of interest and commission were to be deposited by the debtor banks in a blocked account at the National Bank, the sums so accumulated to be at the disposal of the creditors for the purpose of certain forms of investment within Hungary. No capital repayment was provided for, and transfer of interest and commission might only be effected in so far as debtors had balances in the creditor countries or (October 1932) by means of the foreign balances obtained against "additional exports". These agreements were renewed in November. A supplementary agreement was negotiated in March 1933 with the American, British and Swiss creditors, providing for the compulsory repayment in pengo of 5 per cent of the outstanding principal, and further voluntary repayments, subject to the approval of the National Bank.

The Hungarian standstill arrangements have been far more complete than either the Austrian or the German. While in Austria the greater part of the short-term foreign debt of banks, other than the Creditanstalt, outstanding in May 1931 had been repaid in foreign currency by the end of that year, very little capital repayment, even in pengö, was effected by the Hungarian banks before the spring of 1933.

Although the number of banks in Hungary has declined steadily in the past few years,[1] there has been no important liquidation or merger among the Budapest banks.

Deposits have contracted considerably — by roughly 19 per cent in the course of 1931 and 10 per cent in 1932. This contraction is entirely due to domestic withdrawals, foreign loan moneys having been completely immobilised. It is stated [2] that, although part of the sums withdrawn has been hoarded, a large part has been used for current consumption.

The Security portfolio of the Budapest banks expanded greatly in 1932 owing to their purchases of Treasury Bonds and subscriptions to the share-capital of the *Guarantee Bank*. To this item alone, however, has any considerable measure of revaluation been applied. Securities quoted on the Budapest Stock-Exchange were entered at 10 per cent below their value quoted at the end of June 1931 in the 1931 annual balance-sheets and at 30 per cent, or in certain circumstances 20 per cent, below that value in the 1932 accounts.[3] From debtors and mortgage loans — both of which are of far greater importance in the balance-sheets of the banks than securities — no considerable losses have been written off.

Various measures have been passed, since the summer of 1931, to protect agricultural debtors — to prevent foreclosure for default, to reduce interest charges on mortgage loans and to establish a procedure for compulsory composition in certain cases. In the autumn of 1933, a law was passed under which any farmer whose registered debt exceeds fifteenfold the net cadastral income of his land may not be sold up for non-payment of debt. The maximum interest rate to be paid on any agricultural debt during the currency of the law (two years as from January 1st, 1934) is fixed at 5½ per cent, and farmers under protection are to pay interest at 4 per cent. Part of the principal of debts of farmers owning less than 10 *joch* of land is to be taken over by the State, which will pay off certain portions in cash to banking creditors having a first charge.

From the profit-and-loss accounts of the larger banks it would appear that expenses have been considerably reduced since 1930, and a Decree was passed in the summer of 1933 facilitating a further reduction of personnel costs. But the earning capacity of the banks, already seriously curtailed through the unprofitableness of investment, the insolvency of debtors, etc., has been further diminished by the reduction of interest margins resulting both from the legislation mentioned above and the rulings of the National Credit Council, a body set up in the latter part of 1931 for the purpose of "maintaining the proper functioning

[1] The number of autonomous institutions covered by the statistics of the Central Corporation of Banking Companies fell from 636 at the end of 1925 to 506 at the end of 1929 and to 450 three years later. The ten most important Budapest banks accounted at the end of 1932 for well over one-half of the total resources of Hungarian banks.

[2] Report of the National Bank of Hungary 1932.

[3] This procedure was adopted in view of the long closure of the Budapest Stock Exchange. See *Economic Bulletin* of the Central Corporation of Banking Companies, No. 1, 1932 and 1933.

HUNGARY. COMMERCIAL BANKS **Table 11 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of banks	636	529	506	474	450
ASSETS.	Pengo (000,000's omitted)				
1. Cash					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	70	301	277	234	208
2. Other Items of a Cash Nature					
3. Bills discounted and bought	651	1,836	2,010	1,804	1,714
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	105	123	121	118	262
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	.	.	.	.	.
6. Due from Banks (Correspondents)	.	.	.	.	.
(a) At home	.	.	.	.	.
(b) Abroad	.	.	.	.	.
7. Loans and Advances	735	1,974	2,066	1,793	1,531
(a) On current account	729	1,310	1,409	1,147	892
(b) Other	6	664	657	646	639
8. Cover for Acceptances	—	—	—	—	—
9 Premises, etc.	103	118	114	115	125
10. Sundry Assets	15	70	45	104	107
11 Total Assets	**1,688**	**4,422**	**4,633**	**4,258**	**4,037**
LIABILITIES.					
12. Capital paid up	237	394	386	386	383
13. Reserve Funds	157	219	225	249	231
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	25	62	59	35	27
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	.	.	.	.	.
(a) At home	.	.	.	.	.
(b) Abroad	.	.	.	.	.
17. Deposits	1,125	2,820	2,970	2,413	2,164
(a) Current accounts and sight deposits	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—
(d) Other deposits	—	—	—	—	—
18. Rediscounts and other Borrowings	126	818	895	1,071	1,077
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	18	109	98	104	155
21. Total Liabilities	**1,688**	**4,422**	**4,633**	**4,258**	**4,037**
22. Value of currency in cents of a U.S. dollar at the end of each year	17.49	17.49	17.49	17.49	17.49

of the credit system of the country". The Council has fixed maximum rates enforceable by law on loans and on discounts of various categories and payable for different classes of deposits. At the end of 1932 the maximum rates chargeable for loans and discounts respectively were fixed at 11.5% and 9.5-10.5 % (according to the category of the discounting institute), and those for time-deposits at 6 5-7.75 % and for sight deposits 5.75 -7 %. The discount rate of the National Bank stood at that date at 4.5 %.[1]

In pursuance of the programme contained in the Hungarian Government's declaration to the Financial Committee of the League of Nations, the Government introduced in June 1932 certain changes in banking legislation. Monthly balance-sheets were henceforth to be communicated regularly to the National Bank and the Central Corporation of Banking Companies. The National Bank may further require any information it may desire regarding the assets of the banks and their various transactions and audit their books either directly or through the Central Corporation.

The latter body comprises practically the whole banking system of the country apart from the co-operative credit system and the Post Office Savings Bank (see introductory note given in the last edition of this *Memorandum)*. Its statistics have been utilised for the attached summary table. It does not publish any detailed profit-and-loss figures.

As the character of the operations of the Budapest and the provincial banks differs markedly, separate figures for certain items of the balance-sheet are shown in the notes below.

Balance-sheet Summary.

3 *Bills discounted and bought.*

Agricultural bills, the average period of maturity of which considerably exceeds that of commercial bills proper, constitute a substantial proportion of the bill portfolios of the banks — more especially the provincial banks. Bills rediscounted are maintained under assets and are shown as a separate item under liabilities.

4. *Investments and Securities.*

The sharp rise in this item in 1932 is stated to have been due to purchases of Treasury bills and shares in the Hungarian Guarantee Bank.[2]

7. *Loans and Advances.*

The basic statistics give no details regarding the composition of the sums shown under *(a)* which include participations. The sums under *(b)* represent mortgage loans (including long-term loans to municipalities, etc.), the greater part of which is granted by means of issue of mortgage and "communal" bonds (included in group 18 of the summary table)

17 *Deposits.*

The following details are available:

	Pengo (000,000's)				
	31. XII 1929	31 XII 1930	31 XII 1931	31 XII 1932	30 VI 1933
Current accounts					
Budapest	845	828	765	722	723
Provinces	75	70	65	48	43
Total	920	898	830	770	766
Savings accounts :					
Budapest	635	641	536	499	493
Provinces	357	378	275	220	209
Total	992	1,019	811	719	702
"Creditors" :					
Budapest	799	885	694	600	619
Provinces	110	107	110	111	98
Total	909	992	804	711	717
Grand Total	2,821	2,909	2,445	2,200	2,185

[1] See *Economic Bulletin* of the Central Corporation of Banking Companies, No 4, 1931 and No 1, 1932.
[2] *Economic Bulletin* of the Central Corporation of Banking Companies, No. 1, 1933.

The discrepancy between these totals and the figures shown in the summary table is stated to be "due to reasons of a technical nature in constructing the balance-sheets of some institutes".[1]

The distinction between "Creditors" (Kreditoren) and other deposit accounts is somewhat obscure. Although applied differently by individual banks, in practice it appears to reflect the character of the clientele, "creditors" representing mainly the big customers, with whom the banks maintain close business relations, and foreign short-term creditors, while the deposits of other customers are shown under current and savings accounts.

The distinction between current and savings accounts would appear to be mainly formal in character, the latter being in practice current accounts (of small customers) subject to pass-books. As will be seen from the following statement, most of the deposits, even with institutions such as the Postal and Municipal Savings Banks and the Co-operative Credit Societies, which transact most of their business with customers of small means, are on current account.

End of year	Pengő (000,000's)									
	Savings deposits				Current accounts and cheque deposits			Total dep of P. O. and Municipal Savings Banks and Co-oper. Cred 'oc	Total deposits of commercial and ordinary savings banks	Grand Total
	P. O Savings Bank	Municipal Savings Banks	Co-oper, Credit Soc.	Total	P. O Savings Bank	Co-oper Crédit Soc	Total			
1925	10	3	10	23	164	156	320	343	1,125	1,468
1929	55	7	43	105	164	272	436	341	2,820	3,361
1930	73	7	48	128	135	296	431	559	2,970	3,529
1931	54	6	40	100	147	280	427	527	2,413	2,940
1932	61				153				2,104	

18 *Rediscounts and Borrowings*

The sums shown in this group of the summary table are composed as follows

	Pengő (000,000's)				
	End of				
	1925	1929	1930	1931	1932
1 Rediscounts:					
Budapest	24	83	63	206	169
Provinces	101	364	394	415	412
2 Own bond issues (Budapest banks)	1[2]	371	438	450	497
Total	126	818	805	1,071	1,077

The second item represents the mortgage and "communal" bonds issued in connection with the long-term loan operations of the banks.

[1] *Economic Bulletin* of the Central Corporation of Banking Companies, No. 3, 1933

[2] Of which provincial banks accounted for 0 2 million

ITALY.

Introductory Note.

The outstanding features in the development of commercial banking in Italy during the past few years, apart from the credit contraction common to most countries, have been a reduction in the number of institutions carrying on ordinary banking transactions and an increased specialisation of function, partly brought about by the creation of a few new institutions of a special character. Between the end of 1929 and the end of 1932, the number of credit institutions inscribed on the register of the Ministry of Finance fell from 4,079 to 3,547, or by 532 banks. The very large number of Italian credit institutions is accounted for by the inclusion of rural banks or credit associations in the above figures ; in 1932, these numbered 2,233. The following table summarises the principal accounts of the ordinary joint-stock banks for 1929-1931,[1] as published in the annual reports of the Bank of Italy

	1929	1930	1931
Number of banks. . .	404	396	347
	Lire (000,000's)		
PRINCIPAL ASSETS			
Cash	1,178	1,223	1,092
Sight balances with other banks	1,178	1,294	1,466
Bill portfolio.	14,722	15,311	15,050
Loans and advances .	5,931	5,315	3,149
Correspondents, etc .	9,379	9,584	8,047
Sundry debtors. . . .	1,031	821	833
Securities	4,417	4,579	3,444
Participations	1,068	1,085	649
Premises	500	478	458
Total of above assets	39,404	39,690	34,188
PRINCIPAL LIABILITIES			
Capital and reserves .	4,786	4,670	4,511
Deposits.	10,868	10,973	9,164
Correspondents, etc. .	19,936	20,006	17,649
Sundry creditors . . .	960	729	627
Cheques in circulation	791	718	587
Re-discounts.	1,814	2,180	2,081
Borrowings	1,467	1,312	632
Total of above liabilities	40,622	40,588	35,251

[1] Figures for 1932 not yet published.

The decline in the number of banks is partly due to bankruptcies and partly to amalgamations. The contraction in bank credit appears to have begun only in 1931, during which year the banks suffered large withdrawals of deposits, the ordinary deposit accounts falling by 1 8 milliard and correspondents and sundry creditors by 2.5 milliards. As explained in the previous edition of this memorandum, the item " correspondents " consists largely of the accounts of the industrial and commercial concerns which are (or have until recently been) financed directly by the banks. As the large enterprises were on the whole more severely affected by the economic depression than the smaller customers of the banks, it seems natural that the correspondent accounts should contract more sharply than the ordinary deposit accounts. The sharp decline in the former was also due in part to withdrawals on the part of foreign banks of credits in respect of which the Italian banks served as intermediaries between their customers and the foreign creditors. Under assets, this seems to be reflected in the greater decline in loans and advances than in correspondent debtors, the fall in the former being 2.2. milliard lire and in the latter 1.5 milliard lire between December 1930 and December 1931 Security holdings and participations also declined by an aggregate of 1.6 milliard lire. As a result, the total balance-sheet of the banks under review was reduced by over 5 milliard lire in 1931, a measure of the deflation of commercial bank credit which took place in that year. The bill portfolio was relatively little reduced, presumably on account of purchases of Treasury bills effected by the banks with a view to strengthening their liquidity. (Treasury bills are not shown separately in the statistics)

In the early stages of the economic crisis, the banks attempted to assist the industrial enterprises with which they had relatively close connections by granting them direct advances and by supporting their securities on the Stock Exchange The joint-stock banks' holdings of securities on own account increased by 100 million lire in the course of 1930 and their participations also rose. Direct loans to important customers are reflected by the increase in the item " correspondent debtors " during this year.

It is clear from the foregoing that the credit contraction which occurred in 1931 was largely a reflection of the European financial crisis of that year. In addition to the withdrawal of foreign funds, there were domestic withdrawals of deposits

seeking safety in non-commercial credit institutions or permanent investment in fixed interest bearing stock.

A more detailed examination of the development of bank credit during the period under review may be made on the basis of the following figures, published in the *Bollettino di Notizie Economiche*, which relate to the three largest banks operating in Italy — namely, the Banca Commerciale Italiana, the Credito Italiano and the Banco di Roma.

End of	Lire (000,000's)							
	Cash	Bill portfolio	Contango loans	Correspondent debtors	Investments	Participations	Deposit accounts	Correspondent creditors
December 1929	1,257	8,536	1,692	5,650	1,264	1,026	3 164	13,746
December 1930	1,307	9,029	1,483	6,410	1,292	901	3,219	14,746
April 1931	1,139	8,892	1,412	6,392	1,275	—	3,019	14,674
December 1931	1,160	10,292	866	4,915	950	511	2,796	13,539
June 1932	934	9,926	686	4,868	1,048	—	2,734	13,100
December 1932	1,197	9,605	603	5,447	1,119	473	2,893	13,116
August 1933	1,038	9,212	776	4,992	1,152	—	3,262	12,378

The contraction of credit was very moderate until the period of financial crisis which began in May 1931. Between the end of 1929 and the end of April 1931, the ordinary deposit accounts fell by only 150 million lire, while correspondent creditors rose by 900 millions. The only credit item to show any appreciable decline was contango loans, which fell by 280 million lire. The total of bills and investments was slightly higher, and that of correspondent debtors considerably higher, a reflection of the support given to industrial firms, which has been mentioned above The cash holdings of the three large banks fell somewhat ; on the other hand these banks (and, in particular, the Banca Commerciale Italiana) received considerable additional credits from foreign banks, as reflected in the large increase in correspondent creditors already referred to. The big three were able, during this period, to reduce their indebtedness at the Bank of Italy , the Italian bill portfolio of the latter fell from 4,319 million lire at the end of 1929 to 2,755 millions at the end of April 1931.

The financial crisis which broke out in Austria in May 1931 soon affected the Italian commercial banks. Between the end of April 1931 and the end of June 1932, the correspondent creditor accounts of the big three fell by over 1,500 million lire, and their deposit accounts by 285 millions The fall in correspondents represents largely the withdrawal of foreign short-term credits to Italian banks. To meet these internal and external drains, the Italian banks sharply reduced their credits to important industrial customers, as is shown by the reduction in the correspondent debtors item by over 1,500 million lire between April 1931 and June 1932. The greater part of this reduction occurred during 1931, and the banks were able to mobilise their industrial holdings and participations (which the fall in prices and decline in business activity had rendered non-liquid) without loss, only through the assistance of certain semi-public organisations set up especially for this purpose. These organisations are described below.

In the period mentioned, the banks also reduced their contango loans very sharply. Investments fell by 325 million lire in the last seven months of 1931, but increased by 100 millions in the next six months. Participations were half as high at the end of 1931 as two years earlier and continued to fall during 1932. On the other hand, the bill portfolio increased by 1,400 million lire from the end of April to the end of December 1931, and, though it has declined continuously since the latter date, it was substantially higher at the end of August 1933 than before the beginning of the financial crisis The increase in this item would appear to be largely due to increased holdings of Treasury bills or other non-commercial paper acquired by the Banca Commerciale Italiana in connection with the operation with " Sofindit " to which reference is made below. The bill portfolio of the Banca Commerciale jumped by 1,550 million lire in the last two months of 1931.

In meeting the extraordinary demands on them during the financial crisis, the commercial banks allowed some depletion of their cash reserves to take place (cash holdings of the three banks covered in the above table fell by 225 million lire in the first half of 1932) and, moreover, had recourse to the Central Bank for assistance. The bill portfolio of the Bank of Italy increased from 2,750 million lire at the end of April 1931 to 4,600 millions at the end of the year and 5,500 millions at the end of May 1932.

During the second half of 1932, there was some slight tendency towards an expansion of the volume of commercial bank credit outstanding Deposits and correspondent creditors both rose slightly, and an increase in correspondent debtors and investments more than counterbalanced the continued decline in the big banks' contango loans and the fall in the bill portfolio (since December 1931). There were, in the course of 1932, fewer

bank failures and fewer cases of loss of confidence on the part of the public than in the previous year. Consequently, the banks were not called upon to face any large internal drain on deposits In the first eight months of 1933, however, there was a fresh contraction of most credit items.

As in many other countries, the withdrawal of deposits from commercial banks in Italy during the period of economic depression, and particularly during the months of financial panic, was accompanied by an increase in deposits in postal and private savings banks and in other institutions of a similar character. The following table shows the amounts to the credit of depositors in various classes of institution at selected dates during the period covered by the present chapter :

	Lire (000,000's)								
	Commercial banks			Savings banks, etc.					Grand total[1]
	Big three[1] (1)	Regional banks (2)	Total (3)	Ordinary savings banks (4)	Postal savings banks (5)	Monti di Pieta (6)	People's banks (7)	Total (8)	(9)
December 1929	16,910	3,631	20,541	16,362	11,648	1,004	994	30,008	50,549
December 1930	17,965	3,243	21,208	17,229	12,919	1,090	1,105	32,343	53,551
April 1931	17,693	3,321	21,013	17,766	13,607	1,162	1,156	33,695	54,704
December 1931	16,335	3,159	19,494	17,801	14,552	1,395	1,121	34,869	54,363
June 1932	15,834	2,846	18,680	18,256	15,290	1,402	1,053	36,001	54,681
December 1932	16,009	2,647	18,636	18,428	16,288	.	1,062	.	.
June 1933	15,669	2,696	18,365	18,772	17,650	.	1,075	.	.

The first column in the above table refers to the three large banks on which the attached summary table is based, and includes correspondent creditors, as well as ordinary deposit accounts. It will be observed that deposits in the regional commercial banks declined particularly sharply during the depression, being almost 1,000 million lire (or more than 25 per cent) lower in June 1933 than at the end of 1929 Deposits in the big three (including correspondent creditors) were 1,200 million lire (or less than 10 per cent) lower. On the other hand, deposits in all the various groups of savings institutions were considerably higher. The rise was particularly marked in the case of the postal savings banks, whose deposits increased by 6,000 million lire, or over 50 per cent, between the end of 1929 and the end of June 1933. The increase in deposits in the ordinary savings banks, though somewhat less striking, was also substantial — 2,400 million lire, or some 15 per cent Deposits in the small *monti di pieta* increased by 400 million lire, or 40 per cent, between the end of 1929 and the middle of 1932 ; since the latter date comparable figures have not been available. Deposits in the ordinary and postal savings banks, which, in 1929, amounted to 57 per cent of the total deposits recorded in the above table (excluding the *monti di pieta)*, accounted for 65 per cent in June 1933

***

Reference has been made above to the growing specialisation of function in Italian commercial banking. During the past few years, there has been a tendency away from " universal " banking and towards deposit banking. The banks have attempted to divest themselves, to a considerable extent, of direct industrial participations. In several cases, the resources immobilised in these

[1] Including correspondent creditors.

[2] If all commercial banks covered by the statement on the first page of this chapter and in addition, five special credit institutions covered by the annual statistics of the Bank of Italy be included, the totals relating to the end of the years 1929-1931 would be as follows (figures for 1932 not yet available)

End of	Lire (000,000's)							
	Ordinary deposit accounts				Correspondent accounts and sundry creditors			Grand total
	Commercial banks	Special credit institutions	Savings banks etc.	Total	Commercial banks	Special credit institutions	Total	
1929	10,868	3,616	30,008	44,492	20,896	2,047	22,943	67,435
1930	10,973	3,611	32,343	46,927	20,735	1,566	22,301	67,228
1931	9,164	3,843	34 869	47,876	18,276	1,705	19,981	67,857

The group of " Special Credit Institutions" includes the Bank of Naples and the Bank of Sicily, which ceased to function as banks of note issue in 1926, and three semi-public banking institutions. It will be noted that the deposits with these institutions increased in 1931, the year of financial crisis

advances could be freed only through the assistance of institutions of a quasi-public nature.

The first steps in the increased specialisation of function within the Italian banking system were described in the first issue of this memorandum in connection with the amalgamation of the Credito Italiano with the Banco Nazionale di Credito. The Credito Italiano disposed of the greater part of its industrial investments and participations to a newly created investment trust which took over the name Banco Nazionale di Credito. In 1931, a somewhat similar transaction took place when the Banca Commerciale Italiana, the largest commercial bank in Italy, sold to the Societa Finanziaria Industriale Italiana ("Sofindit"), a private investment trust, all its industrial shares and those of holding companies entirely controlled by it for an aggregate sum of 4,000 million lire. The immediate reason for this sale, which did not entail any loss to the Banca Commerciale Italiana, was to place the bank in possession of a large amount of liquid capital and easily realisable assets, in order to enable it to meet withdrawals of deposits. About one-quarter of the purchase price was paid over to the bank in cash, and it was agreed that it could demand further payments in accordance with its cash requirements. The "Sofindit", which is a private organisation, obtained the funds required for this operation by borrowing from the Istituto Mobiliare Italiano (see below) with the guarantee of the State Treasury. At the same time, its own capital was raised from 100 to 300 million lire, the additional capital being subscribed by a group of Italian industrial firms and immobilised in a syndicate for a considerable number of years.

The Istituto Mobiliare Italiano is a semi-governmental credit institution, founded in November 1931. Its capital stock, on which the State guarantees an annual dividend of 5 per cent, is held by public bodies of various kinds, but by no private banks. Its object is to relieve the commercial banks of the necessity of immobilising their funds in long-term advances to industry by carrying out this function itself. Its capital is 550 million lire, and it is authorised to issue debentures up to ten times that amount. In special circumstances, these debentures may be guaranteed by the State. Issues are made as funds are required to make loans to industrial concerns. These loans are made on real or collateral security for a maximum period of ten years.

Towards the end of 1932, a new governmental credit institute, the Istituto per la Ricostruzione Industriale, was established. This organisation is divided into two sections, one of which is concerned with the financing of industry, and the other with the unfreezing of credit. The former provides credit for longer terms than the Istituto Mobiliare and raises its funds through the issue of bonds redeemable in fifteen to twenty years. The latter section has taken over the assets and liabilities of the Istituto di Liquidazioni, which was organised in 1926 to take over from the Bank of Italy the frozen assets which it had discounted for the Banco di Sconto and other financial institutes. The advances of the Bank of Italy to this institute, which had been reduced from 2,650 million lire at the end of 1926 to 625 millions in May 1931, rose to 1,500 millions lire at the end of 1931 and 1,900 millions at the end of 1932. With the organisation of the Istituto per la Ricostruzione Industriale, the Istituto di Liquidazioni was wound up. The unfreezing section of the Istituto di Liquidazioni has been given a Government grant of 85 million lire a year for twenty years. For the purpose of obtaining savings to be transferred to this section, the Institute has issued one milliard lire of special 4½% bonds in denominations of 1,000 lire through the Credit Consortium for Public Works, to which it has transferred part of the twenty-year Government grant.

ITALY. PRINCIPAL COMMERCIAL BANKS **Table 12 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of : Banks	4	4	3	3	3
Branches and Sub-Branches	317	350	360	370	399
ASSETS.	Lire (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins	1,296 7	1,814 3	1,528.7	1,392.8	1,431.3
(b) Inland notes and balances with Central Bank					
2. Other Items of a Cash Nature					
3. Bills discounted and bought	8,716.0	8,362.0	8,967.4	10,216 4	9,535.8
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	951.8	1,264.3	1,423.6	983.6	1,148.9
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	656.9	1,026.4	901.2	510.8	473 3
6. Due from Banks (Correspondents)	4,713.3	5,928.6	6,563.0	4,914.8	5,022.3
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances	1,547.5	1,999.6	1,682.5	1,085.5	842.7
(a) On current account	—	—	—	—	—
(b) Other	—	—	—	—	—
8. Cover for Acceptances	1,500.6	1,254.4	1,100.5	498.4	394.6
9. Premises, etc.	98.5	114.1	119.0	121.8	125.4
10. Sundry Assets	425.8	662.9	483.0	548.0	528.7
11. Total Assets	**19,907.1**	**22,426.6**	**22,768.9**	**20,272.1**	**19,503.0**
LIABILITIES.					
12. Capital paid up	1,383.4	1,554.9	1,400.0	1,400.0	1,400.0
13. Reserve Funds	640.0	880.0	935.0	939.0	942.0
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	239.2	253.7	190.6	154.2	132.8
15. Cheques and Drafts, etc., in circulation	781.9	604.1	545.7	469.6	421.6
16. Due to Banks (Correspondents)	12,405.5	14,163.9	14,999.1	13,539.2	12,805.6
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
17. Deposits	2,562.5	3,268.8	3,226.5	2,904.8	3,019.2
(a) Current accounts and sight deposits	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—
(d) Other deposits	—	—	—	—	—
18. Rediscounts and other Borrowings	—	—	—	—	—
19. Acceptances and Endorsements	1,500.6	1,254.4	1,100.5	498.4	394.6
20. Sundry Liabilities	394.0	446.8	371.5	366.9	387.2
21. Total Liabilities	**19,907.1**	**22,426.6**	**22,768.9**	**20,272.1**	**19,503.0**
22. Guarantees	764.3	1,252.1	1,327.2	1,479.3	1,251.5
23. Value of currency in cents of a U.S. dollar at the end of each year	4.03	5.24	5.24	5.11	5.11

ITALY. PRINCIPAL COMMERCIAL BANKS **Table 12 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS				
	1925	1929	1930	1931	1932
Number of Banks	4	4	3	3	3
	Lire (000,000's omitted)				
Capital paid up	1,383 4	1,554.9	1,400.0	1,400 0	1,400 0
Reserves and Undivided Profits	683.0	917.5	974.9	983 7	992.8
1. Gross Profits	**600.3**	**621.0**	**552.4**	**461.6**	**427.1**
To be deducted:					
2. Expenses	385 4	395.4	391.6	343.3	336.8
(a) Salaries, etc.	322 1	328 0	317.6	281 6	269 0
(b) Other working expenses					
(c) Taxes, etc.	63 3	67 4	74.0	61 7	67 8
3. Reserved for Pension Funds, etc.	10.7	3.7	4.1	2 8	2 7
4. Written off on (Depreciation Accounts for)	8.0	8.0	7.3	6.4	5.8
(a) Premises, etc.	—	—	—	—	—
(b) Investments and securities	—	—	—	—	—
(c) Other assets	—	—	—	—	—
5. Remaining Net Profit (+) or Loss (—)	**+196.2**	**+213.9**	**+149.4**	**+109.1**	**+81.8**
6. Carried forward from preceding year	43.0	37.5	39.9	44.7	50.8
7. Taken from Reserves or Capital	—	—	—	—	—
8. Deficit left uncovered	—	—	—	—	—
9. Total Amount disposed of for Dividends, etc.	**239.2**	**251.4**	**189.3**	**153.8**	**132.6**
10. Carried to Reserves	75 0	55.0	4.0	3.0	3.0
11. Dividends	122.2	149.4	136.0	96.0	70.0
12. Directors' Fees, etc.	7.6	7.0	4.6	2.4	0.9
13. Carried forward to following year	34.4	40.0	44.7	52.4	58.7
14. Total as above	**239.2**	**251.4**	**189.3**	**153.8**	**132.6**
15. Value of currency in cents of a U.S. dollar at the end of each year	4 03	5.24	5.24	5.11	5.11

Balance-sheet Summary.

1 and 2. *Cash Assets, etc*

The banks do not all draw a distinction between cash in hand and with the Central Bank and sight claims on other banks at home and abroad. For the purpose of uniformity, therefore, these claims have been included under cash even when they are indicated separately in the balance-sheets Since 1929 the position has been as follows .

	Lire (000,000's)				
	1925	1929	1930	1931	1932
Two banks:					
Cash in hand and with Central Bank . .	88 5	299 0	226 7	247 1	275 7
Sight claims on other banks . .	159 4	557 2	221 7	232 9	234.6
Total	247 9	856 2	448 4	480 0	510 3
Two banks					
Cash, including sight claims on other banks	1,048 8	958 2	1,080 3	912 8	921 0
Grand total *(four banks)* .	1,296 7	1,814 4	1,528 7	1,392 8	1,431 3

3. *Bills discounted.*

The Treasury bills held by the banks are not shown separately in the published balance-sheets, though they probably constitute the greater part of the sums given in the table. The foreign bills are likewise not shown separately

All the banks include in the end-of-year balance-sheets rebate on bills maturing in the following year. In order to arrive at the actual value of the portfolio this rebate, which the banks show separately under liabilities, has been excluded from the balance-sheets at the compilation of the summary table. The sums thus deducted from the discounts are given below :

Year	Lire (000,000's)
1925 . . .	81.0
1929 . . .	63.0
1930 . . .	61.7
1931 . . .	75.5
1932 . . .	69 5

The figures for the bill portfolio given in the table include considerable amounts of rediscounts, which are not shown separately in the balance-sheets of the banks, the liability for these bills being included in the correspondent creditor account.

4 *Investments and Securities.*

The banks do not show their holdings of Government securities separately and it is not possible to judge what proportion of the sums given in this group of the table represent industrial investments. The investments of Staff pension funds, where shown separately, are entered under " Sundry assets " in the table.

5. *Participations.*

The sums given in this group represent mainly participations in industrial enterprises controlled by the banks, but also include participations in banks and financial undertakings.

6. *Due from Correspondents.*

The term *corrispondente* is given a much wider sense by Italian banks than is generally applied to the word " correspondent " in other countries. The sums in this group of the summary table include the accounts of important customers, mainly industrial concerns, with which the banks maintain close relations. Thus, it is not unlikely that, in post-war years, a very considerable proportion of the sums given represents long-term industrial credits. As a result, no distinct line of demarcation exists between the sums shown in this group and those given in the following group of the summary table This item also includes bills for collection, which are rarely shown separately.

7. *Loans and Advances.*

The sums given in this group of the summary table are composed as follows :

	Lire (000,000's)				
	1925	1929	1930	1931	1932
Contango loans	1,351.8	1,692 1	1,483 5	865 6	602 7
Other loans and advances	195.7	202 8	199 0	219 9	240 0
Total	1,547.5	1,894.9	1,682.5	1,085.5	842.7

11 and 21. *Total Assets and Liabilities.*

Uncalled capital, amounting to 216.6 and 45 1 million lire in 1925 and 1929, respectively, has been excluded both from assets and liabilities

The guarantees (" Avalli ") likewise included in the balance-sheets proper of all the banks are shown in a separate group outside the balance-sheet at the bottom of the summary table (group 22)

All other forms of self-cancelling accounts representing purely nominal assets and liabilities and consisting mainly of safe deposit accounts, etc., which some of the banks include and the others show in separate statements outside the balance-sheets proper, have been entirely left out of account in the summary table.

12 and 13. *Capital paid up and Reserve Funds.*

When the Credito Italiano was amalgamated with the Banca Nazionale di Credito in 1930, 75 million lire of the capital of the old Banca Nazionale was transferred to reserves and the remaining joint capital of the two banks, 625 million lire (of which 45.1 million uncalled), was written down to 500 million lire.

16. *Due to Correspondents.*

As explained in the note to group (6), the sums entered under the heading " correspondents " largely consist of the current accounts of the industrial and commercial concerns, which are financed by the banks and deposit with them surplus funds in excess of their needs for the day. It also includes the creditors for bills surrendered for collection, shown separately only by some of the banks.

17. *Deposits.*

This item comprises current and savings accounts and time deposits. In post-war years the banks have not shown the time deposits separately ; but these deposits appear to constitute only a small proportion of the sums given in the table. In contrast to the current accounts included in the preceding group, which result mainly from the financing of big industrial and commercial undertakings, the sums shown under the heading " current and savings accounts " consist of the accounts of the numerous small depositors who constitute the greater part of the clientele of the ordinary banking business of the banks.

18. *Rediscounts and Other Borrowings by the Banks.*

As mentioned in the note to group (3) above, the banks do not show their rediscounts separately in their balance-sheets.

Summary of Profit-and-Loss Accounts.

1 *Gross Profits.*

The composition of the gross profits of the banks is shown below :

	Lire (000,000's)				
	1925	1929	1930	1931	1932
Net interest from discounts and loans.	394 0	411 1	368 0	292 3	309 3
Profits from securities and participations	115 9	149 9	123.0	115.9	74 0
Commissions and other profits . . .	90.4	60 0	61 4	53 4	43 8
Total	600 3	621 0	552 4	461 6	427.1

The first item represents *net* interest earned, calculated by deducting interest due and rebate on bills from total interest earned as shown in the profit and loss accounts of the banks.

2. *Expenses.*

The banks do not show salaries separately from other working expenses in their published reports. Moreover, some of the banks appear to include depreciation of assets and allocations to staff pension funds in their current expenses (" Spese d'Amministrazione ").

3 *Reserved for Pension Funds, etc.*

Some banks do not show allocations to staff pension funds separately in their profit-and-loss accounts. The figures given under this heading in the table, therefore, are not complete.

4. *Depreciation of Assets (Sums written off).*

The sums given in this group of the summary table refer almost exclusively to the " Banca Commerciale ", the only bank which always gives these details separately.

LATVIA.

Introductory Note.

At the time of the outbreak of the great war there existed in Latvia a fairly well-developed banking system comprising a considerable number of local commercial banks (some of which had been established as early as in the sixties and seventies of last century), municipal savings banks and mutual credit societies and, in addition, numerous branches of the big St. Petersburg banks and other important Russian credit institutions.

The pre-war system was, however, almost completely destroyed during the war and the early post-war years. The branches of the Russian banks were closed in connection with the nationalisation of banking by the Soviet Government, and the few local banking institutions which survived the war of independence suffered heavy losses on account of the rapid depreciation first of the Russian rouble, which remained the currency of the country up to March 1920, and subsequently of the Latvian rouble. It was only with the successful stabilisation of that currency towards the end of 1921, and the introduction of the Lat currency at the time of the establishment of the Bank of Latvia, the new central bank of note issue, in 1922, that conditions became favourable for the building-up of a new banking system.

The composition of the Latvian credit system (apart from the central bank, special mortgage credit institutions, the Post Office Savings Bank and the People's Bank) and its development since 1921 are shown below :

Number of Latvian Credit Institutions and their Total Assets (in millions of Lats) at the end of

		1921	1923	1925	1927	1929	1930	1931	1932
Joint stock banks	Number.	*4*	*17*	*21*	*20*	*19*	*19*	*18*	*17*
	Assets.	8.9	49.4	112.7	142.5	182.9	167.5	104.1	84.0
Riga Exchange Bank	Number.	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
	Assets.	2.5	4.3	8.4	11.0	16.8	16.9	8.0	9.0
Communal banks	Number.	*3*	*3*	*4*	*4*	*4*	*3*	*3*	*2*
	Assets.	1.4	3.2	7 4	8.4	12.5	14.2	9.2	7.4
Communal savings banks	Number.	*3*	*3*	*4*	*7*	*7*	*8*	*8*	*8*
	Assets.	0.4	0.7	2.5	3.2	5.7	6.5	5.8	5.4
Mutual credit societies	Number	*25*	*26*	*33*	*33*	*35*	*36*	*36*	*34*
	Assets.	3 4	12.1	21 7	28.3	40.4	45.6	35.7	33.6
Loan and savings bureaux	Number	*117*	*250*	*523*	*588*	*608*	*623*	*628*	.
	Assets.	1 7	12.8	59.3	82.1	101.8	112.9	101.8	.
Total	Number	*154*	*300*	*586*	*653*	*674*	*691*	*694*	.
	Assets.	18.3	82.5	212.0	275.5	360.1	363.6	264 6	.

The number of joint-stock banks increased rapidly until 1925 ; since that year, it has been somewhat reduced, while total assets continued to increase up to 1929. These private institutions, together with the Riga Exchange Bank — a public credit institution — constitute the real commercial banks of the country, but the various communal (town) banks and savings banks, the mutual credit societies, and the very numerous co-operative loan and savings bureaux all carry on certain forms of current commercial banking alongside the special activities for which they have been established. The co-operative banks, whose clientele consists chiefly of small agriculturalists, etc , have indeed developed very rapidly over the period considered. No distinct movement towards internal concentration can as yet be discerned in Latvian banking ; the credit system is still in the early stage of external expansion following upon its recent organisation on a national basis. The relative importance of the various groups of banks is shown in greater detail in the following summary statement of the balance-sheet position of each group and of the credit system as a whole at the end of 1925 and 1930.

	Lats (000,000's).									
	Joint-stock banks and Riga Exchange Bank		Communal banks and savings banks		Mutual credit societies		Loan and savings bureaux		Total	
	1925	1930	1925	1930	1925	1930	1925	1930	1925	1930
Assets:										
Cash and other reserve items	6.5	16.4	1.5	2.1	1.5	3.6	2.5	2.7	12 0	24 8
Securities	1.5	4 5	—	0 2	0.2	0 8	0.3	0.9	2 0	6 4
Discounts	25.8	44.6	3 2	8 4	13 3	26 6	16.6	29 4	58 9	109 0
Current account advances	42 0	78 0	1.1	3 9	1 9	6.7	0.3	3 6	45.3	92 2
Other loans and credits	8 0	3 0	1 4	4.4	1 9	1.3	35.0	60.7	46.3	69 4
(Total discounts, loans and advances)	(75.8)	(125 6)	(5.7)	(16 7)	(17 1)	(34 6)	(51 9)	(93.7)	(150.5)	(270 6)
Due from banks	17 2	14 2	2.0	0 6	0 6	0.5	0.2	4.1	20.0	19.4
Premises	7.6	13.0	0 2	0.5	1 8	4 7	2 3	5.2	11 9	23.4
Sundry accounts	12.5	10 7	0 5	0 6	0 5	1.4	2 1	8 0	15.6	20.7
Total assets	121.1	184.4	9 9	20 7	21 7	45 6	59 3	114 6	212 0	365 3
Liabilities:										
Capital and reserves	27.5	34.4	1 1	2 1	2 5	8 1	7.8	19 3	38 9	63.9
Current accounts and sight deposits	26 3	59 6	3 8	10 5	7 4	18 0	9 3	30.4	46 8	118 5
Time deposits	2 5	4 0	2.2	2 9	0.6	3 8	3 0	7 8	8.3	18 5
(Total deposits)	(28 8)	(63 6)	(6 0)	(13 4)	(8 0)	(21.8)	(12 3)	(38.2)	(55.1)	(137 0)
Rediscounts	10.3	23.2	1 5	2.0	6 2	8 6	16 3	15 4	34.3	49.2
Borrowings	5.2	11.5	0 2	1 8	2 6	3 1	19 4	31.3	27 4	47.7
(Total rediscounts and borrowings)	(15 5)	(34 7)	(1 7)	(3 8)	(8.8)	(11 7)	(35 7)	(46 7)	(61.7)	(96.9)
Due to banks	30.4	25 3	0.5	0.4	0 4	1 9	—	0 6	31 3	28 2
Sundry accounts	18.9	26 4	0 6	1 0	2 0	2 1	3 5	9 8	25.0	39.3
Total liabilities	121 1	184 4	9.9	20 7	21 7	45 6	59 3	114 6	212 0	365.3

A comparison of the balance-sheets of the mutual credit societies and of the communal credit institutions with those of the joint-stock banks will show few differences in the general character of their activities. These three groups all rely principally on deposits for their banking resources and extend credits mainly on short term, in the form of discounts or current account advances. The loan and savings bureaux, on the other hand, raise their working funds chiefly by means of rediscounts or borrowings with the central bank and other credit institutions. They use these funds, together with the relatively less important deposits, mainly for longer-term loans (presumably for agricultural purposes). None of the groups considered is involved in direct financing of industrial undertakings to any appreciable extent.

Although no true specialisation seems to be applied as between the different groups of credit institutions, it has been thought convenient for the purpose of international comparison to confine the main tables and the detailed analysis of the present chapter to the larger banks only — *i.e.*, the joint-stock banks and the Riga Exchange Bank. Almost all of these banks have their head offices in Riga. Branch banking is little developed ; but numerous smaller banks in the provinces act as local correspondents for the Riga institutions.

The greater part of the share capital (over 60 per cent in 1928) of the joint-stock banks is held abroad, mainly in Germany, the United States of America and the United Kingdom. Moreover, these institutions operate to a considerable extent by means of credits received from foreign banks The amount of domestic deposits and their share in the total liabilities of the banks, however, increased steadily until the outbreak of the financial crisis in Germany in July 1931. This crisis rapidly spread to Latvia owing to the close association of some Latvian banks with German credit institutions. A general run on bank deposits ensued and, as the central bank did not consider itself in a position to satisfy the demand of the private banks for

additional credits to replenish their depleted cash resources, the Government issued an emergency decree limiting weekly withdrawals at first to 5 and later to 2½ per cent of total deposits. The closing of the banks was thus avoided. When confidence had again been generally restored, the emergency regulations were revoked, and since the end of 1931 there have been no excess withdrawals, the total amount of commercial bank deposits having remained practically constant. Among the various groups of credit institutions, the larger banks here considered were most seriously exposed during the crisis. Their aggregate deposits were reduced between December 1930 and December 1931 by no less than 56 per cent and their borrowings by 41 per cent , the latter reduction resulted in part from credit restrictions imposed by the central bank, and in part from the re-calling of foreign credits enjoyed by the banks. Cash reserves shrunk by over one-third, but the banks were able to reduce the volume of their loans and discounts outstanding by 48 per cent. By the end of 1932, they had not yet been forced to offset losses to any appreciable extent by drawing on their own capital or reserves.

Apart from the laws concerning the central bank and the mortgage institutions, etc , there is no special banking legislation in force in Latvia. All credit institutions are, however, obliged to submit to the Ministry of Finance annual balance-sheets and profit-and-loss accounts on standard forms and also — except in the case of the co-operative loan and savings bureaux — monthly returns of their position. On the basis of this information, official banking statistics are prepared by the Central Bureau of Statistics and published in its *Statistical Year-Book* and its *Monthly Bulletin of Statistics*. These publications have been used as sources for the tables of the present chapter. The annual banking data referring to January 1st of each year are throughout this chapter shown for December 31st of the preceding year In 1929, the Central Bureau of Statistics issued a special publication on the credit institutions of Latvia covering the whole period 1919 to 1927.[1] The Bank of Latvia gives in its annual report each year a statistical review of the position and activities of the private credit institutions.

Balance-sheet Summary.

1. *Cash.*

Balances with the central bank are shown separately from notes and coins as follows

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Notes and coins . .	2.8	2.6	3.2	4.0	5.3	5.0	1.4	1.6
Balances with Bank of Latvia.	1.4	1.4	1.8	2.1	1.9	2.4	3.5	3.3
Total .	4.2	4.0	5.0	6.1	7.2	7.4	4 9	4.9

2. *Other Items of a Cash Nature.*

The sums shown represent sight claims on credit institutions other than the Bank of Latvia.

3. *Bills discounted and bought.*

The domestic bill portfolio *(b)* includes rediscounts, which are shown separately under liabilities (see note to group 18 below). The net balance of domestic discounts held at the end of each year is given below.

The foreign bill portfolio *(c)* includes foreign cheques and bank-notes not shown separately in the statistics.

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Inland Bills:								
Discounted	25.7	32.1	35.6	41.3	49.2	44.7	21.7	16.5
Rediscounted	10.3	11.8	10.9	13.4	14.2	14.4	9.4	8.7
Net balance	15.4	20.3	24.7	27.9	35.0	30.3	12.3	7.8

[1] Bureau de Statistique de l'État letton : Institutions de Crédit de 1919 à 1927, Riga, 1929, Gada.

LATVIA. COMMERCIAL BANKS **Table 13 (a).**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF:							
	1925	1926	1927	1928	1929	1930	1931	1932
Number of Banks	22	21	21	20	20	20	19	18
ASSETS.	Lats (000,000's omitted)							
1. Cash	4.2	4.0	5.0	6.1	7.2	7.4	4.9	4.9
(a) Gold, silver and small coins	—	—	—	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—	—	—	—
2. Other Items of a Cash Nature	0.9	0.9	1.2	1.4	1.3	1.5	0.4	0.3
3. Bills discounted and bought	27.1	34.2	40.3	47.3	57.3	52.2	23.3	16.9
(a) Treasury bills	—	—	—	—	—	—	—	—
(b) Commercial bills, Inland	25.7	32.1	35.6	41.3	49.2	44.7	21.7	16.5
(c) Commercial bills, Foreign	1.4	2.1	4.7	6.0	8.1	7.5	1.6	0.4
4. Investments and Securities	1.5	1.9	2.8	3.2	3.6	4.5	4.5	4.7
(a) Government	—	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	17.2	18.7	17.9	19.4	22.0	14.2	9.3	8.5
(a) At home	3.9	5.3	5.1	9.1	10.0	5.7	3.6	3.0
(b) Abroad	13.3	13.4	12.5	10.3	12.0	8.5	5.7	5.5
7. Loans and Advances	50.0	52.1	62.0	62.8	86.2	81.0	44.3	36.0
(a) On current account	15.1	48.5	58.0	60.8	82.5	78.7	42.2	33.8
(b) Other	4.6	3.6	4.0	2.0	3.7	2.3	2.1	2.2
8. Cover for Acceptances	—	—	—	—	—	—	—	—
9. Premises, etc.	7.6	9.2	11.9	12.5	12.4	13.0	14.0	13.6
10. Sundry Assets	12.6	12.3	12.4	9.9	9.7	10.6	11.3	8.1
11. Total Assets	**121.1**	**133.3**	**153.5**	**162.6**	**199.7**	**184.4**	**112.0**	**93.0**
LIABILITIES.								
12. Capital paid up	25.7	27.9	31.1	31.7	30.3	30.4	29.6	27.7
13. Reserve Funds	1.8	2.4	2.4	2.8	3.4	4.0	4.2	3.7
14. Profit-and-Loss Accounts, Undivided profits, etc	0.5	0.4	1.9	1.9	1.9	0.7	0.9	0.3
15. Cheques and drafts in Circulation	—	—	—	—	—	—	—	—
16. Due to Banks (Correspondents)	30.5	25.7	27.4	24.4	28.1	25.4	15.6	10.8
(a) At home	9.5	7.0	7.2	7.9	8.3	5.9	1.9	0.6
(b) Abroad	21.0	18.7	20.2	16.5	19.8	19.5	13.7	10.2
17. Deposits	28.8	37.9	45.7	50.9	61.6	63.6	27.4	27.3
(a) Current accounts and sight deposits	26.3	34.9	42.5	47.7	57.9	59.6	25.1	25.7
(b) Savings accounts	—	—	—	—	—	—	—	—
(c) Time and fixed deposits	2.5	3.0	3.2	3.2	3.7	4.0	2.3	1.6
(d) Other deposits	—	—	—	—	—	—	—	—
18. Rediscounts and Other Borrowings	15.5	20.4	31.2	36.9	57.8	48.2	26.4	16.4
19. Acceptances and Endorsements	—	—	—	—	—	—	—	—
20. Sundry Liabilities	18.3	18.6	13.8	14.0	16.6	12.1	7.9	6.8
21. Total Liabilities	**121.1**	**133.3**	**153.5**	**162.6**	**199.7**	**184.4**	**112.0**	**93.0**
22. Guarantees	27.9	31.1	21.5	31.8	42.3	27.7	14.4	10.1
23. Collection Accounts	33.4	28.2	33.0	37.4	39.5	43.6	22.6	15.1
24. Value of currency in cents of a U.S. dollar at the end of each year	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS							
	1925	1926	1927	1928	1929	1930	1931	1932
Number of Banks	22	21	21	20	20	20	19	18
	Lats (000,000's omitted).							
Capital paid up	25.7	27.0	31 1	31.7	30.3	30 4	20.6	27.7
Reserves and Undivided Profits	1 8	2 4	2.4	2.8	3 4	1 0	4 2	3.7
1. Gross Profits	**10.3**	**10.3**	**7.7**	**8.4**	**9.3**	**9.3**	**6.3**	**3.7**
To be deducted:								
2. Expenses	6 3	6.9	5 0	5.0	5 6	5.6	4.8	3 4
(a) Salaries, etc	(3 8)	(3 8)	(3 4)	(3 1)	(3 6)	(3 7)	(3.1)	(2.1)
(b) Other working expenses	(2 5)	(3 1)	(1 6)	(1 6)	(2 0)	(1 9)	(1 7)	(1 3)
(c) Taxes, etc.								
3. Reserved for Pensions Funds, etc.	—	—	—	—	—	—	—	—
4. Written off on (Depreciation Accounts)	1.4	3.6	2 3	1.4	1.6	3 8	4.0	1.8
(a) Premises, etc.	.	.	.	.	.	.	.	.
(b) Investments and securities	.	.	.	.	.	.	.	.
(c) Other assets								
5. Remaining Net Profit (+) or Loss (−)	**+2.6**	**−0.2**	**+0.4**	**+2.0**	**+2.1**	**−0.1**	**−3.4**	**−1.5**
6. Carried forward from preceding year	.	.	.	.	.	.	.	.
7 Taken from Reserves or Capital	.	.	.	.	.	.	.	.
8. Total Amount disposed of for Dividends, etc.	.	.	.	.	.	.	.	.
9. Carried to Reserves	.	.	.	.	.	.	.	.
10. Dividends	1 2	0.8	0.8	1.0	1 2	0 4	—	—
11. Directors' Fees, etc.	.	.	.	.	.	.	.	.
12. Carried forward to following year			.	.				
13. Total as above	.	.	.	.	.	.	.	.
14. Value of currency in cents of a U.S. dollar at the end of each year	19 3	19.3	19.3	19.3	19.3	19 3	19.3	19.3

4 and 5. *Investments and Securities. Participations.*

Government and other public securities are not shown separately in the statistics; nor are participations, if any, shown separately.

7 *Loans and Advances.*

The advances given under *(a)* consist of "special current accounts" and other credits, shown separately in the statistics as follows:

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Special current accounts	42 0	45.2	56.0	58.2	78.9	78 0	42.2	33.8
Other credits (Akreditivi)	3.4	3.3	2 0	2.6	3.6	0.7	—	—
Total	45.4	48.5	58.0	60.8	82.5	78.7	42.2	33.8

The sums given under *(b)* consist of long-term loans.

10. *Sundry Assets.*

The composition of the aggregates given in the summary table is shown below :

	Lats (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Branch accounts	6.3	5 6	4 7	4 3	4.6	4.8	3 1	2 8
Transitory items	2.6	3 8	4 8	4 3	3 1	2 9	3 4	2 7
Expenditure accounts	0.2	0 1	0 7	0 7	0 7	0 1	0 6	—
Protested bills	0.1	0 2	—	—	0.1	0 1	0 2	0.1
Other accounts	3 4	2 6	2 2	0 6	1 2	2 7	4 0	2 5
Total	12 6	12 3	12 4	0 9	0 7	10 6	11.3	8 1

11 and 12. *Total Assets and Liabilities*

The totals do not include collection and guarantee accounts, which, being of the nature of *comptes d'ordre*, are shown outside the balance-sheet proper in the Latvian statistics as well as in the present summary table (see items 22 and 23 of the table)

13. *Reserve Funds*

The official statistics make the following specification of the reserves :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Ordinary reserve funds	0 6	0 8	0.8	0 9	1 2	1.5	1 6	0 6
Special reserves	0.8	0 9	0.8	0.5	0 5	0 6	0 6	1 3
Other capital accounts	0 4	0 7	0.8	1 4	1 7	1.9	2 0	1 8
Total	1 8	2 4	2.4	2.8	3 4	4 0	4.2	3 7

14 *Profit and Loss, etc*

The sums shown in this group of the summary table are given in the official statistics under the heading " interest and commissions ". The total net balance of the profit-and-loss accounts of the banks is not shown in the official balance-sheet summaries, but the amount of this balance will be seen from the special profit-and-loss table.

16. *Due to Banks (Correspondents).*

From a comparison between the sums shown under *(b)* in this group and those shown under *(b)* in group 6 of the summary table, it will be seen that the net indebtedness to banks abroad has been relatively important in all the years considered, a reflection of the fact that certain Latvian banks largely rely upon working credits from the foreign institutions participating in their share capital. It is not stated in the statistics to what extent the rediscounts and borrowings with credit institutions other than the Bank of Latvia (see note to group 18 below) have been effected with banks abroad.

17. *Deposits.*

The sums shown under *(a)* are composed of current accounts and demand deposits as follows :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Current accounts	25 3	33 6	41 4	46 6	56.6	58.2	24 0	24 8
Demand deposits	1.0	1.3	1 1	1 1	1.3	1.4	1 1	0.9
Total	26.3	34 9	42.5	47 7	57 9	59.6	25.1	25.7

18. *Rediscounts and Borrowings.*

The detailed composition of the aggregates given in the summary table is shown below :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Bills rediscounted:								
With the Bank of Latvia. .	8 4	9.0	10.9	13.3	14.1	14.1	9.3	8.5
With other credit institutions	1.9	2.8	—	0.1	0.1	0 3	0.1	0.2
Total rediscounts. . . .	10 3	11.8	10.9	13.4	14.2	14.4	9.4	8.7
Borrowings on special current accounts:								
With the Bank of Latvia .	3.5	4 7	5.4	5.4	8.4	6.0	3.6	2.1
With other credit institutions	1.2	3.2	—	—	—	—	—	—
Total special current accounts.	4.7	7.9	5.4	5.4	8.4	6.0	3.6	2 1
Borrowings abroad	.	.	14.6	17.7	35 0	27.5	12.9	5.2
Other borrowings	0.5	0.7	0.3	0.4	0 2	0.3	0 5	0.4
Total rediscounts and borrowings	15.5	20.4	31.2	36.9	57.8	48 2	26.4	16 4
Thereof with :								
Bank of Latvia.	11.9	13.7	16 3	18 7	22.5	20.1	12.9	10.6
Other credit institutions. .	3.1	6.0	—	0.1	0.1	0.3	0.1	0.2

In 1925 and 1926, borrowings abroad are included partly under borrowings with " other credit institutions " and partly under sundry liabilities.

It will be noted that the total of correspondent creditor accounts (group 16 of the summary table) and of the rediscounts and borrowings with the Bank of Latvia and other credit institutions exceeded total deposits in all the years considered except 1932, when they were about equal in amount.

20. *Sundry Liabilities.*

The aggregates shown in the summary table are composed as follows :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Branch accounts	6.4	5.7	4.7	4.3	4.5	4 8	3.1	2.7
Transitory items	3.3	3.1	2.2	2.8	2.6	2.8	2.6	2.2
Other accounts.	8.6	9 8	6.9	6 9	9.5	4.5	2.2	1 9
Total	18 3	18.6	13.8	14.0	16.6	12.1	7 9	6.8

The detailed composition of the " other accounts " is not shown in the statistics.

Summary of Profit-and-Loss Accounts.

1. *Gross Profits.*

The composition of gross profits according to main sources of revenue is shown below :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Interest received	9.7	10 8	9.9	11.5	13.8	14 5	8.8	4.8
Less interest paid	4 6	5.9	5.6	6 3	8.1	8.5	5.3	3.2
Net interest from discounts and loans	5.1	4.9	4.3	5.2	5 7	6.0	3.5	1.6
Commissions	3.1	3.1	1.6	1.6	1.9	1.7	0.9	0.6
Profit on exchange	0.9	0.7	1.0	0.9	1 0	0.8	0.9	0.6
Profit from real estate	0.2	0.3	0.5	0.4	0.3	0.4	0.4	0.3
Profit from securities	—	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Sundry profits	1.0	1 2	0.2	0.2	0.3	0.3	0.4	0.4
Total	10.3	10.3	7.7	8 4	9.3	9.3	6.3	3.7

2. *Expenses.*

The sums shown for salaries *(a)* include special remunerations to directors, etc., which, if they had been shown separately in the statistics, would have been given in group 11 of the summary table and would thus have been deducted before calculating the net profit or loss.

The aggregates shown for other working expenses and taxation, particularly in 1925 and 1926, may include allocations for special purposes which are not of the nature of ordinary expenses.

5. *Net Profit or Loss.*

The figures represent the net balance of the banks considered as a whole. Even in years when there was a loss, certain banks actually made a net profit which, however, was exceeded by the loss of the others. In this respect, the official statistics furnish the following detail :

	Lats (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Aggregate net profits	2 6	1.8	1.6	2.0	2 2	1 2	0.1	0.2
Aggregate loss	—	2.0	1.2	—	0.1	1 3	3 5	1.7
Balance	+2 6	−0.2	+0.4	+2.0	+2.1	− 0.1	−3 4	1.5

6 to 13. *Profits carried forward from Previous Years — Sums drawn from Reserves or Capital — Profit Distribution Accounts.*

The losses shown in the preceding statement have been met in part from profits carried over from previous years and in part from the reserves or the capital of the banks concerned Neither of these two items (groups 6 and 7 of the summary table) are, however, given in the official statistics, nor are sums carried to reserves, directors' fees and "carry over" to following years shown. The dividends indicated do not include those of the Riga Exchange Bank.

LITHUANIA.

Introductory Note.

The local banking system existing in Lithuania before the world war was practically annihilated as a result of the social disturbances and currency inflation in Russia towards the end of the war An entirely new banking system had therefore to be created in the newly constituted State of Lithuania As early as 1919, attempts were made to revive the co-operative credit societies, several joint-stock commercial banks were also established at an early date It was not, however, until the monetary reform of 1922 had introduced a stable national currency in Lithuania that a sound basis was provided for the reconstitution of the credit system.

The Bank of Lithuania (Lietuvos Bankas), established in the autumn of 1922, is essentially a bank of note issue acting as banker to the Government, which holds the greater part of its share capital. In recent years, and particularly during the financial crisis of 1931, its central banking functions have assumed increasing importance It also grants credits directly to industry and commerce on a considerable scale ; but the funds used for this purpose are mainly derived from State deposits or from its own note issue, while private deposits with the bank are comparatively unimportant The Land Bank (Žemės Bankas), which was established in 1924, specialises chiefly in agricultural mortgage business. It also receives private deposits and grants short-term commercial credits on a limited scale. Practically the whole of its share capital is held by the State.

Some of the joint-stock commercial banks and most of the private banking houses established in the early years of Lithuania's independence were subsequently liquidated. At the end of 1925 there were sixteen joint-stock and five private banks, and, in addition, five co-operative banks engaged chiefly in commercial banking. After 1925, there was a further concentration within the commercial banking system. But the number of small credit associations and other institutions operating chiefly as savings banks continued to increase to the end of 1930,[1] as will be seen from the following statement (figures of deposit in millions of litas)

	Joint-stock banks		Co-operative banks		Private banks		Total commercial banks		Mutual credit societies		Co-operative credit associations		Savings banks		Total savings institutions		Grand total	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
" Great Lithuania "																		
1925	7	38 7	2	3 2	4	0 5	13	42 4	13	3 4	302	4.8	1[1]	0 5	316	8 7	329	51 1
1930	5	72 2	1	6 3	2	5 1	8	83 6	23	14.6	399	39 1	1[1]	5 1	423	58 8	431	142 4
1932	5	—	1	—	1	—	7	63 6	21	9 4	403	38 4	1[1]	20 0	425	67 8	432	131 4
Memel Territory [2]																		
1925	9	14 1[3]	3	1 6	1	[4]	13	15.7	—	—	39	4.3	4	8.1	43	12 4	56	28 1
1930	7	34 4	3	8 9	—	—	10	43 3	—	—	39	17 3	4	18 0	43	35 3	53	78 6
1932	5	31.6	2	6 7	—	—	7	38 3	—	—	39	18.7	4	21.6	43	40 3	50	78 6
Total:																		
1925	16	52 8	5	4.8	5	0 5	26	58 1	13	3 4	341	9 1	5	8 6	359	21.1	385	79.2
1930	12	106.6	4	15 2	2	5.1	18	126 9	23	14.6	438	56 4	5	23 1	466	94 1	484	221 0
1932	10	—	3	—	1	—	14	101 9	21	9.4	442	57 1	5	41 6	468	108 1	482	210.0

[1] Post Office Savings Bank , State deposits excluded.
[2] Excluding the deposits with a minor joint-stock bank, subsequently disappeared, which had not submitted its accounts.
[3] Accounts not submitted, but deposits insignificant.

The official banking statistics distinguish between credit institutions having their head office in " Great Lithuania " and those having their head office in the Memel (Klaipéda) Territory.[2] Somewhat different balance-sheet forms are used for the two regions and no joint statistics are given.

[1] Lithuania was almost unaffected by the world economic depression until the latter half of 1931.
[2] " Great Lithuania " comprises the whole country with the exception of the Memel (Klaipéda) Territory, which is also called " Little Lithuania ". Some of the banks of " Great Lithuania " have established branches in the Memel Territory, whereas the Memel banks have no branches in " Great Lithuania ".

Joint figures have, however, been calculated above and in the attached summary table for purposes of comparison

In 1932, the Memel institutions held between 37 and 38 per cent of the aggregate deposits of both commercial banks and savings institutions. The latter, whose clientele consists largely of the agricultural population and of craftsmen and small traders in the towns, have steadily gained in relative importance. At the end of 1932, their deposits in both regions exceeded those of the commercial banks. The savings institutions were only slightly affected by the financial crisis which arose in Lithuania during the autumn of 1931 as a result of the banking developments in certain Central and Eastern European countries in the summer of that year. The commercial banks, on the other hand, and particularly those in " Great Lithuania ", suffered heavy withdrawals of deposits Most of the funds withdrawn were, however, re-deposited with the Post Office Savings Bank, whose deposits enjoy a State guarantee Runs were particularly marked on commercial banks reputed to have close relations with foreign (especially German) banks [1] They did not, however, give rise to moratoria or legal restrictions on withdrawals, as in many other countries. The power of resistance shown by the commercial banking system during this difficult period is due to several factors As a rule, Lithuanian joint-stock banks do not grant long-term credits to industry and agriculture, but confine themselves to short-term commercial advances and discounts Further, Lithuania had, up to the time of the financial crisis, been relatively little affected by the economic depression, so that a large proportion of the loans outstanding could be successfully liquidated Finally, the Bank of Lithuania was able to grant the necessary rediscount facilities. Consequently, only one bank, a private banking firm, which had become largely involved in a particular industry, was forced to suspend payments at the time of the financial crisis of 1931.

The attached summary table, which is based on the official banking statistics published in the *Statistical Year-Book* of Lithuania [2] covers only the institutions classified above as commercial banks. Thus, it does not include the Bank of Lithuania and the Land Bank. At the end of June 1933, private deposits amounted to 11 million litas in each of these banks , these deposits represented only 7 and 9 per cent respectively of their total balance-sheet Prior to the financial crisis of 1931, hardly any private deposits were lodged with these institutions

The Lithuanian Co-operative Bank, which is included among the commercial banks of " Great Lithuania ", is the centre of the system of agricultural co-operative credit associations of the Raiffeisen type, numbering 292 in that region at the end of 1932. The Jewish Central Bank of Lithuania, a joint-stock institution, is the centre of the (Jewish) urban co-operative credit associations of the Schulze-Delitsch type, numbering 111 at the same date. The urban associations account for almost half of the joint deposits of the two systems in " Great Lithuania ". The co-operative credit associations in the Memel Territory are all of the Raiffeisen type

All credit institutions are required to submit periodic returns of their position to the Ministry of Finance The balance-sheet forms have been modified from time to time ; greater detail has been given since 1931, particularly as regards the banks in " Great Lithuania " The summary form applied to the Memel institutions is less detailed throughout the period considered. The official banking statistics do not contain any comprehensive summaries of profit - and - loss accounts.

[1] Foreign participation in the share capital of Lithuanian commercial banks is slight

[2] The Central Bureau of Statistics publishes, in addition, in its *Statistical Bulletin*, monthly statements showing the position of the banks in " Great Lithuania ".

Table 14 *(a)*. LITHUANIA: COMMERCIAL

ACCOUNTS	"GREAT SUMMARY					
	1925	1926	1927	1928	1929	1930
Number of Banks	13	10	9	9	9	8
ASSETS.						
1. Cash	5 7	3.9	5.1	6.4	6.5	8.8
(a) Gold, silver and small coins	—	—	—	—		
(b) Inland notes and balances with Central Bank	—	—	—	—		
2. Other Items of a Cash Nature	0.8	0.7	0.6	0.3		
3. Bills discounted or bought	12 0	13.3	17.6	20.9	21.7	37.2
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—
4. Investments and Securities	6.3	18.9	18.0	18.1	17.9	17.4
(a) Government	0 2	0.2	0.1	0 4	0.3	0.3
(b) Other	6.1	18 7	17 9	17.7	17 6	17 1
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	20.7	11.9	5.9	5.2	11.5	4.0
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
7. Loans and Advances	31.7	20 3	31.8	42.2	45 8	52.3
(a) On current account	—	—	—	—	—	—
(b) Other	-	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—		—
9. Premises, etc.	24.5	10.5	7.4	7.0	7.1	8.2
10. Sundry Assets	15.5	14.4	7.0	4.7	6.1	4.6
11. Total Assets	**117.2**	**102.9**	**93.4**	**104.8**	**116.6**	**132.5**
LIABILITIES						
12. Capital paid up	25.4	29.9	24.3	25.2	25.8	25.5
13. Reserve Funds	1.0	0.8	0.9	0.8	0.9	1.1
14. Profit-and-Loss Balances, etc.	–	0.6	0.3	0.8	0.8	1.0
15. Cheques and drafts in Circulation	1.3	0.4	0.4	—	—	—
16. Due to Banks (Correspondents)	20.7	19.2	9.1	12.1	10.5	10.6
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
17. Deposits	42.4	32.7	38.9	47.5	65.3	83.6
(a) Current accounts and sight deposits	—	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—	—
(d) Other deposits	—	—	—	—	—	—
18. Rediscounts and Other Borrowings	12.4	9.7	11.8	13.4	7.5	5.5
19. Acceptances and endorsements	—	—	—	—	—	—
20. Sundry Liabilities	14.0	9.6	7.7	5.0	5.8	5.2
21. Total Liabilities	**117.2**	**102.9**	**93.4**	**104.8**	**116.6**	**132.5**
22. Guarantees, etc.	—	—	—	9.4	13.8	12.1
23. Bills for Collection	—	—	—	22.1	31.0	36.3
24. Value of currency in cents of a U.S. dollar at the end of each year	10.0	10.0	10.0	10.0	10.0	10.0

BANKS

LITHUANIA: Table 14 *(a)*.

Lithuania "		Memel (Klaipéda) Territory								Lithuania, including Memel Territory		
OF POSITION AT THE END OF												
1931	1932	1925	1926	1927	1928	1929	1930	1931	1932	1925	1930	1932
8	7	11	11	11	11	11	10	9	7	24	18	14
Litais (000,000's omitted)												
5.7	3.9	0.6	0.8	0.7	0.9	1.1	1.1	1.2	1.5	6.3		5.4
—	—	—	—	—	—	—	—	—	—	—	9.9	—
—	—	—	—	—	—	—	—	—	—	—		—
1.1	1.6	—	—	—	—	—	—	—	—	0.8		1.6
24.9	21.3	3.2	3.6	6.4	6.0	8.5	12.2	12.2	7.7	15.2	49.4	29.0
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
16.8	16.8	0.1	0.4	0.3	0.4	0.5	0.4	1.0	0.5	6.4	17.8	17.3
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
2.5	5.6	1.6	2.0	2.2	3.8	2.4	2.6	1.6	2.3	22.3	6.6	7.9
1.0	3.0	—	—	—	—	—	—	—	—	—	—	—
1.5	2.6	—	—	—	—	—	—	—	—	—	—	—
48.5	41.4	16.7	21.9	26.7	33.1	32.6	36.2	39.6	33.9	48.4	88.5	75.3
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
8.3	8.6	1.9	1.9	2.1	2.2	2.2	2.1	2.1	3.0	26.4	10.3	11.6
13.4	10.2	2.9	3.5	5.5	6.9	7.2	8.0	4.7	3.3	18.4	12.6	13.5
121.2	**109.4**	**27.0**	**34.1**	**43.9**	**53.3**	**54.5**	**62.6**	**62.4**	**52.2**	**144.2**	**195.1**	**161.6**
25.8	25.0	3.7	3.8	3.9	4.6	4.9	5.0	4.8	4.3	29.1	30.5	29.3
1.9	2.0	0.7	0.7	0.8	0.9	1.1	1.3	1.5	1.4	1.7	2.4	3.4
—	—	0.2	0.3	0.3	0.4	0.5	0.5	0.5	0.4	—	1.5	—
—	—	1.3	0.6	2.4	0.6	1.3	0.1	2.2	0.6	2.6	—	—
4.4	3.7	3.2	4.5	4.7	9.5	3.0	4.4	2.6	0.9	23.9	15.0	4.6
3.3	3.3	—	—	—	—	—	—	—	—	—	—	—
1.1	0.4	—	—	—	—	—	—	—	—	—	—	—
64.2	63.6	15.7	21.4	28.9	30.5	35.8	43.3	41.2	38.3	58.1	126.9	101.9
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—	—
9.9	5.2	—	—	—	—	—	—	—	—	12.4	5.5	5.2
—	—	—	—	—	—	—	—	—	—	—	—	—
15.0	9.9	2.2	2.8	2.9	6.8	7.9	8.0	9.6	6.3	16.4	13.3	17.2
121.2	**109.4**	**27.0**	**34.1**	**43.9**	**53.3**	**54.5**	**62.6**	**62.4**	**52.2**	**144.2**	**195.1**	**161.6**
13.7	9.1	1.3	2.8	3.6	4.9	6.4	3.6	3.4	2.7	—	15.7	11.8
27.3	16.0	—	—	—	—	—	—	—	—	—	36.3	16.0
10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

Balance-sheet Summary.

1 and 2. *Cash and Other Items of a Cash Nature.*

The detailed composition of the cash assets of the Memel banks is not shown in the statistics. These banks would appear to hold very small balances, if any, with the Bank of Lithuania. The balances held with that institution by the banks in " Great Lithuania " are shown separately only since 1931.

" Great Lithuania "	Litais (000,000's)	
	1931	1932
Inland notes and coins	4.1	2 6
Balances with the Central Bank	1 6	1.3
Total	5 7	3 9

The sums given in the summary table under (2) consist of foreign bank notes and cheques. They are not shown separately in the statistics for 1929 and 1930.

3. *Bills Discounted.*

No details are given regarding the nature of the bills discounted. The bill portfolio includes rediscounts. The liability of the banks of " Great Lithuania " for bills rediscounted is given in group 18 of the summary table (see note to that group). The net portfolio of these banks is shown below.

" Great Lithuania "	Litais (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Bills discounted	12 0	13 3	17 6	20 9	21 7	37.2	24 9	21 3
Bills rediscounted	4 2	4 6	6 6	4 2	2 4	1 4	3 2	1 2
Net portfolio	7 8	8.7	11 0	16 7	19 3	35 8	21 7	20 1

Rediscounts are not shown separately in the statistics relating to the Memel banks. They do not, however, rediscount with the Bank of Lithuania to any appreciable extent.

4 and 5. *Securities and Investments. Participations.*

Participations are not shown separately. The greater part of the securities held by the banks would appear to consist of industrial shares.

7. *Loans and Advances.*

The composition of the loans and advances according to the nature of their cover is shown below:

" Great Lithuania "	Litais (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Current accounts and loans secured by							
Bills and securities	29 7	27 8	30 2	35 9	35 9	44 1	39 7
Merchandise	2 0	1.5	1.6	2 7	2 6	1 7	0 9
Real estate	—	—	—	3.6	7 3	6 5	7 9
Total	31 7	29 3	31 8	42 2	45 8	52 3	48.5

Corresponding details are not given in the statistics relating to the Memel banks, nor are they given for 1932 in the case of the banks of " Great Lithuania ". The bills serving as security for advances are generally of longer maturity than those discounted by the banks. When their maturity falls to five or six months, the advances granted against them are frequently changed to discounts.

10. *Sundry Assets.*

This item includes protested bills in the case of "Great Lithuanian" banks. Their amount rose from less than half a million litais in 1925 to over one million in 1931 and 1932. Protested bills are not shown separately in the statistics relating to the Memel banks.

11 and 21. *Total Assets and Liabilities.*

Excluding guarantees and collection accounts, shown as items 22 and 23 of the summary table.

14. *Profit-and-Loss Balances, etc.*

The sums given under this heading for the banks of "Great Lithuania" do not show the true profit position of the commercial banks as a whole. The figures given for the years 1926-1930 represent aggregates of the net profits made by individual banks in those years, while the net losses incurred by some of the banks are included under sundry assets, without being shown separately in the annual statistics. According to information published elsewhere, it would appear that, in certain years, the latter exceeded the former in amount. The basic statistics relating to the years 1925, 1931 and 1932 do not contain any separate heading for net profits

16. *Due to Banks (Correspondents).*

It will be observed that the inter-bank accounts of the banks of "Great Lithuania" have contracted very considerably in amount and relative importance in recent years as compared with 1925 and 1926 (see also group 6 of the summary table).

17 *Deposits.*

The sums shown consist of the following items given separately in the basic statistics .

	Litais (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
"Great Lithuania":								
Sight and time deposits								
National currency	—	—	—	—	—	—	22 8	20 8
Foreign currency	—	—	—	—	—	—	8 8	6 3
Total	25.2	16 4	17 6	23 0	31 9	38 5	31 6	27 1
Current accounts :								
National currency	—	—	—	—	—	—	29 0	33 1
Foreign currency	—	—	—	—	—	—	3 6	3 4
Total	17 2	16 3	21 3	24.5	33 4	45 1	32 6	36 5
Grand total	42 4	32 7	38 9	47 5	65 3	83 6	64 2	63.6
Thereof								
National currency	—	—	—	—	—	—	51 8	53 9
Foreign currency	—	—	—	—	—	—	12 4	9.7
Memel Territory								
Deposits	—	—	—	—	—	—	32 0	27.8
Creditors	—	—	—	—	—	—	9 2	10 5
Total	15 7	21.4	28 9	30 5	35 8	43 3	41 2	38 3

In the banking statistics relating to the Memel Territory, foreign currency deposits are not shown separately, nor are they shown in the annual statistics relating to "Great Lithuania" before 1931 In the *Bulletin* of the Bank of Lithuania, however, separate figures for deposits and other liabilities in foreign currency have been published periodically since the end of 1928. These figures, which cover the mutual credit societies (see introductory note above) in addition to the commercial banks proper, are reproduced below. The corresponding accounts in national currency are also given for purposes of comparison.

Commercial Banks and Mutual Credit Societies in "Great Lithuania".

	Litais (000,000's)								
	Deposits			Due to banks rediscounts and other borrowings			Grand total		
	Foreign currency	National currency	Total	Foreign currency	National currency	Total	Foreign currency	National currency	Total
End of :									
1928	21.1	35 7	56 8	12 2	15 1	27 3	33 3	50 8	84 1
1929	31 9	45 1	77 0	6 9	13 1	20 0	38 8	58 2	97 0
1930	25 6	72 6	98.2	5 9	14 6	20 5	31 5	87 2	118 7
June 1931	25 6	—	—	7 1	—	—	32 7	—	—
December 1931	14.4	58 6	73 0	1.3	15 6	16.9	15 7	74 2	89 9
June 1932	11 9	—	—	0.7	—	—	12 6	—	—
December 1932	11.1	61.9	73.0	0.5	10.6	11.1	11.6	72.5	84 1

It will be seen that, at the end of 1929, no less than 40 per cent of the banks' liabilities on deposit and correspondent accounts (including rediscounts and other borrowings) were incurred in terms of foreign currency. By the end of June 1931, when confidence in foreign currencies had not yet been shaken, only a minor part of the foreign currency deposits had been converted into national currency deposits The rapid increase in the latter reflects in the main a steady inflow of savings into the banks during this period of sustained prosperity. The run on banks which subsequently occurred in connection with the banking crisis in Germany was chiefly directed to the foreign currency accounts, which, by the end of December 1932, had shrunk by almost 60 per cent. The drop in national currency deposits did not exceed 15 per cent. Since the end of 1931, total deposits have remained constant ; the share of foreign currency deposits in the total has, however, gradually declined as a result of conversions into national currency deposits

Foreign currency deposits with the Memel banks only amounted to a few million litais at the middle of 1931.

18. *Rediscounts and Other Borrowings.*

The composition of this item is shown below :

"Great Lithuania"	Litais (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Rediscounts	4 2	4 6	6 6	4 2	2 4	1 4	3 2	1 2
Borrowings	8 2	5 1	5 2	9 2	5 1	4 1	6 7	4 0
Total	12 4	9 7	11 8	13 4	7 5	5 5	9 9	5 2

The above sums represent in part foreign credits, the amount of which, however, is not shown separately in the statistics.

NETHERLANDS.

Introductory Note.

The history, structure and main characteristics of the Dutch banking system were described in some detail in the introductory note given in the last edition of this publication It was there observed that, although the number of banking units is comparatively large, the movement towards concentration in evidence since a few years before the war had, by 1925, resulted in the centralisation of the greater part of the country's commercial banking power in the hands of some six or seven large banks. In the absence of any comprehensive banking statistics in the Netherlands, the attached summary tables have been prepared from the annual reports of these banks, which are enumerated in the statement opposite, showing the capital and reserves, deposits and total assets of each bank individually at the end of 1932.

1932	Capital and reserves	Current account and time deposits	Total assets
	Gulden (000,000's)		
1. Nederlansche Handel-Maatschappij	100	301	447
2. Rotterdamsche Bankvereeniging	70	204	293
3 Amsterdamsche Bank.	103	146	388
4. Twentsche Bank	55	184	286
5. Incasso-Bank . .	39	70	122
6 Bank-Associatie	9	11	35
Total. . .	376	916	1,571

A comparison with the corresponding figures for 1925 and 1929 given in the last edition shows a striking contraction in the banks' balance-sheets, a reflection of the severe deflation which has taken place in the Netherlands during the recent years of depression. The only bank whose balance-sheet was not considerably reduced between 1929 and 1932 is the Twentsche Bank (Amsterdam) which, however, absorbed a certain number of smaller provincial banks in 1930 and 1931. These had either been affiliated to it before or, while previously independent, were taken over in connection with liquidation on account of failure. The Nationale Bankvereeniging, which operated since 1925 as a formally autonomous affiliation of the Rotterdamsche Bankvereeniging, amalgamated with the latter in 1929

Balance-sheet Summary.

1 and 2. *Cash Assets, etc.*

Most of the banks under review do not separate cash and money on call, etc , in their balance-sheets. Joint figures for groups 1 and 2 are therefore given in the summary table. On the other hand, the banks generally regard balances with foreign banks and, in some cases, Treasury bills as cash items. In conformity with the principles applied throughout this *Memorandum*, when these items are shown separately, they have been included in groups 3 and 6 of the summary table.

3. *Bills discounted and bought.*

Treasury bills and foreign commercial bills are not shown separately by the majority of the banks under review. For those banks (Amsterdamsche Bank, Twentsche Bank and, since 1930, Bank Associatie) which do show their holdings of Treasury bills separately, the composition of the portfolio was as follows :

	1925	1929	1930	1931	1932
	Gulden (000,000's)				
Treasury bills	23 0	29 0	57 4	59 3	62 7
Commercial bills, inland and foreign .	117 1	109 4	69 2	68 2	34 6
Total	140 1	138 4	126 6	127 5	97·3
Total portfolio of all the banks	392 6	414 1	419 0	341 1	334·3

It is impossible to determine whether the composition of the portfolio of the banks showing Treasury bills separately from commercial bills is typical of that of the other banks.

4 and 5. *Investments and Securities , Participations.*

The banks make no distinction between Government and other securities in their balance-sheets The figures shown include securities borrowed (especially by the Twentsche Bank) from their shareholders for the banks' own use.

The figures for participation include the investments of the Nederlandsche Handel-Maatschappij in plantation enterprises The participations of the other banks are not only in

NETHERLANDS. LEADING COMMERCIAL BANKS **Table 15 (a)**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of banks	7	6	6	6	6
ASSETS.	Gulden (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank	101.5	93 0	105.8	120.6	211.7
2. Other Items of a Cash Nature					
3 Bills discounted and bought	392 6	414.1	419.0	341.1	334.3
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	
4. Investments and Securities	138.5	101.1	120.3	110.8	91.6
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	46.1	41.2	70.2	96 4	89.9
6 Due from Banks (Correspondents)	101.7	110.5	236.3	91.7	78.4
(a) At home	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Accounts	952.4	1,062.8	964.1	875.7	686.8
(a) On current account	565 2	582 9	646 9	593.3	476 8
(b) Other	387.2	479 9	317 2	282 4	210 0
8. Cover for Acceptances	105.3	128.8	106 3	65.2	40.2
9. Premises, etc.	36 7	29 1	31 5	35.5	36.1
10. Sundry Assets	7.2	2.1	1.5	1.7	1.4
11. Total Assets	**1,882.0**	**1,982.7**	**2,055.0**	**1,738.7**	**1,570.4**
LIABILITIES					
12. Capital paid up	262.4	258.3	262.8	262.8	262.4
13. Reserve Funds	149.4	139.7	135.5	116.8	113.8
14. Profit-and-Loss Accounts, Undivided Profits, etc.	20.9	27.5	21.4	7 1	10.2
15. Cheques and Drafts, etc., in circulation	32.0	45.2	40.1	25 0	14.5
16. Due to Banks (Correspondents)	45.3	19.2	5.9	10.1	6.0
(a) At home	—	—	—	—	—
(b) Abroad	45 3	19 2	5 9	10 1	6.0
17. Deposits	1,261.0	1,355.2	1,473.1	1,241.2	1,112.0
(a) Current accounts and sight deposits	681.2	634 4	711 9	584 0	605 8
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	351.2	458.1	510 5	381 9	311.1
(d) Other deposits	228 6	262 7	250 7	275.3	195 1
18. Rediscounts and other Borrowings	—	—	—	—	—
19. Acceptances and Endorsements	105.3	128.8	106.3	65.2	40.2
20. Sundry Liabilities	5.7	8.8	9.9	10.5	11.3
21. Total Liabilities	**1,882.0**	**1,982.7**	**2,055.0**	**1,738.7**	**1,570.4**
22. Guarantees	40.7	42.2	46.1	38.2	35.7
23. Value of currency in cents of a U.S. dollar at the end of each year	40.2	40.2	40.2	40.2	40.2

NETHERLANDS. LEADING COMMERCIAL BANKS **Table 15 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS ·				
	1925	1929	1930	1931	1932
Number of Banks	7	6	6	6	6
	Gulden (000,000's omitted)				
Capital paid up	262.4	258.3	262.8	262 8	262 4
Reserves and Undivided Profits	150 9	141 2	137.1	118.2	115.1
1. Gross Profits	**70.8**	**81.2**	**70.2**	**60.8**	**60.7**
To be deducted					
2. Expenses	34 9	37.4	34.2	33 3	31.3
(a) Salaries, etc.	—	—	—	—	—
(b) Other working expenses	—	—	—	—	—
(c) Taxes, etc	—	—	—	—	—
3. Reserved for Pension Staff Funds, etc	1 2	2.2	1.7	1.6	1 5
4 Written off on Depreciation Accounts for.	14.4	17 3	15.0	27.8	19.8
(a) Premises, etc.	2 5	4 8	4 0	2 2	3 1
(b) Investments and Securities	11 9	12 5	11 0	25 6	16 7
(c) Other assets					
5 Remaining Net Profit (+) or Loss (—)	**20.2**	**24.3**	**19.3**	**—1.9**	**8.1**
6. Carried forward from preceding year	1.5	1.5	1 6	1.4	1.3
7. Taken from Reserves or Capital	0 6	1.4	—	6 0	—
8. Total Amount disposed of for Dividends, etc.	**22.3**	**27.2**	**20.9**	**5.5**	**9.4**
9. Carried to Reserves	3 7	2.1	1.2	0.2	1.2
10. Dividends	14 6	20.5	16.5	4 0	6.8
11. Directors' Fees, etc	2.1	3.0	1.8	—	0.5
12. Carried forward to following year	1 0	1.6	1 4	1.3	0.9
13. Total as above	**22.3**	**27.2**	**20.9**	**5.5**	**9.4**
14. Value of currency in cents of a U.S. dollar at the end of each year	40.2	40.2	40.2	40.2	40.2

industrial and trading undertakings, but also in financial institutions, and thus include bank affiliations As a rule, a clear distinction between those two classes of participations is not made in the balance-sheets of the banks.

6. *Due from Banks (Correspondents).*

The sums shown in this group of the summary table are incomplete. They represent almost exclusively foreign accounts (mainly the balances with foreign banks to which reference is made in the note to groups 1 and 2 above) and deposits abroad for the account of third parties. Accounts with domestic banks are, as a rule, not separated from the ordinary current accounts, shown as item *7(a)* of the summary table.

7 and 8. *Loans and Advances; Cover for Acceptances.*

In the case of banks which do not distinguish cover for acceptances among their assets, a sum equivalent to the amount of their acceptance liabilities has been deducted from their loans and advances and carried to group 8 in the summary table

As stated in the preceding note, advances on

current account shown under *(a)* in this group of the summary table include accounts with other banks, mainly domestic. The sums under *(b)* include contango loans, which represent a very important branch of activity of the Dutch banks, other forms of loans against securities and unspecified debtor accounts. Contango liabilities are included under *(d)* in group 17 of the table. Guarantees *(Borgtochten)* are excluded altogether and are shown under a separate heading (Item 22) outside the balance-sheet summary proper

16. *Due to Banks (Correspondents).*

See note to group 6 above

17. *Deposits.*

Current accounts include sums due to domestic banks. Several of the banks under review established special savings bank departments after the war, but the deposits in these departments are not separated in the balance-sheets from ordinary deposit accounts, which are shown under *(c)* in this group of the summary table. These include both sight and short-term deposits and time or fixed deposits, since no distinction is made by the banks between these groups No uniform principle is followed by the banks with regard to the distinction between "creditor current accounts" and "deposit accounts". The relative importance of the deposits of the general banks compared with those of the savings banks and of the Agricultural Credit Societies may be seen from the following statement.

Years	Gulden (000,000's)								
	Leading General Banks			Post office savings bank deposits	Other savings bank deposits	Agricultural societies deposits	Total savings bank deposits (d)+(e)+(f)	Grand totals	
	Current acc	Deposit acc	Total (a)+(b)					(c)+(g)	(b)+(g)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1925	681	351	1,032	312	281	343	936	1,968	1,287
1929	634	458	1,092	351	381	456	1,188	2,280	1,646
1930	712	511	1,223	375	430	480	1,285	2,508	1,796
1931	584	382	966	439	449	- -	- -	- -	- -
1932	606	311	917	500	—	—	—	—	—

The sums shown under 17 *(d)* in the summary table do not in their entirety represent deposits in the same sense as those discussed above They include the liabilities of the banks to their contango customers, etc, the deposit liability for securities borrowed for the banks' own use (cf note to group 4 above), some rediscounts not shown separately and certain other creditor accounts not clearly specified in the balance-sheets.

Summary of Profit-and-Loss Accounts.

1. *Gross Profits*

The source of the gross profits according to classes of assets and nature of operations is not uniformly shown by the banks, and in some cases no specified information is given It cannot, therefore, be summarised. Some of the banks would appear to make certain provision for depreciation and contingencies before disclosing their profit figures Therefore, the sums given in this and in certain other groups of the summary table may not be complete.

2. *Expenses.*

As a rule, an itemised account of expenses is not given in the statements published by the banks. Some provision for depreciation may be concealed in the aggregates given — at least, for certain years No uniform principles are followed by the banks with regard to the accounting of dividend taxes; when these are shown separately, they have been included under expenses in the summary table

3 *Reserved for Pension Funds, etc.*

The sums given include a small proportion representing bonus to the staff.

4, 5 and 7. *Depreciation. Net Profit or Loss Taken from Reserves or Capital.*

As stated above, the figures for depreciation provisions may not be complete. It will be noticed that the banks covered by the Summary Table showed a net loss in 1931

10. *Dividends.*

The sums shown include a small proportion of dividend taxes not deducted by some of the banks under review.

11. *Directors' Fees, etc.*

The sums given in this group of the table are not complete, as some of the banks include at least part of the fees and remunerations to directors under expenses.

NORWAY.

Introductory Note.

In the first edition of this *Memorandum*, a detailed analysis was given of the evolution of Norwegian commercial banking, particularly during the long-extended period of painful liquidation of the inflation which occurred during and immediately after the war Attention was directed to the measures taken in accordance with the Law of March 1923, whereby a large number of insolvent banks were enabled to continue certain operations under public control pending ultimate liquidation or reconstruction, instead of entering into immediate liquidation In the summary tables and the detailed notes, the accounts of these banks were shown separately from those of the " free " banks For reasons of space, however, this distinction (though still maintained in the official statistics) is no longer made in the attached summary tables and detailed notes, which refer exclusively to the " free " banks , the following statement, however, indicates the relative importance of banks in liquidation and under public administration in the years covered in the present edition ·

	Number of Banks		Deposits				Total Assets			
			Free banks		Banks administered and in liquidation		Free banks		Banks administered and in liquidation	
	Free	Administered and in liquidation	Kr 000,000's	%	Kr 000,000's	%	Kr 000,000's	%	Kr 000,000's	%
1925 .	127	33	1,246	60	831	40	2 281	63	1,353	37
1929	112	39	1,058	64	605	36	1,710	66	875	34
1930 .	112	39	1,048	68	501	32	1,723	72	678	28
1931 .	112	33	994	69	448	31	1 612	73	601	27
1932	105	28	883	69	397	31	1 564	75	533	25

Between 1929 and 1931, there was no change in the number of free banks in operation, while the number of institutions in public liquidation or under public administration has been falling since 1930. For several years, the policy of the responsible organs has been not to authorise any attempts to reconstruct the latter banks (reduced to 28 in 1932), which will therefore all be completely wound up

The relative position of the commercial banks in the Norwegian banking system is shown in the following statement comparing the deposits, loans and advances (including discounts less rediscounts) and security holdings of the commercial and of the savings banks on selected dates :

End of	Commercial Banks				Savings Banks			
	Number of banks	Deposits	Loans	Securities	Number of banks	Deposits	Loans	Securities
		Kr (000,000's)				Kr. (000,000's)		
1925 . . .	160(127)	1,994(1,196)	2,069(1,438)	548(327)	584(577)	2,541	1,805	651
1929 .	151(112)	1,596(1,019)	1,320(1,093)	374(286)	633(613)	2,287(2,221)	1,547(1,507)	731(721)
1930 . .	151(112)	1,498(1,025)	1,225(1,116)	359(290)	627(612)	2,234(2,182)	1,492(1,463)	740(732)
1931 . .	145(112)	1,373 (948)	1,176(1,114)	299(249)	622(611)	2,150(2,110)	1,458	724
1932 . .	133(105)	1,246 (852)	1,095(1,043)	276(232)	617(610)	2,114(2,088)	1,444	720

The figures in parentheses refer to the so-called " free " banks. It will be observed that, between 1925 and 1929, the credit structure of the commercial banks contracted quite sharply, while that of the savings banks fell considerably less, both absolutely and relatively This tendency

ACCOUNTS	SUMMARY OF POSITION AT THE END OF .				
	1925	1929	1930	1931	1932
	Free banks	Free banks	Free banks	Free banks	Free banks
Number of Banks	127	112	112	112	105
ASSETS.	Kroner (000,000's omitted)				
1. Cash	55·4	56·5	56·1	45·3	53·7
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank					
2. Other Items of a Cash Nature	0.2	0.6	0.6	0.4	0.4
3. Bills discounted and bought	439.2	357.8	373·4	357·2	343·7
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	425 3	338 1	361.2	345 9	332.7
(c) Commercial bills, Foreign	13 9	19.7	12.2	11 3	11 0
4. Investments and Securities	326.8	285.9	289.7	248.6	232.0
(a) Government	—	84 1	81.8	72 2	63.9
(b) Other	—	201 8	207 9	176 4	168 1
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	222.4	176.8	173.7	138.9	158.5
(a) At home	109.0	93.1	98.8	81.4	106.0
(b) Abroad	113.4	83.7	74 9	57 5	52.5
7. Loans and Advances	1,062.3	754.7	753.8	755.4	708.2
(a) On current account	995.4	674.6	672.0	668 0	627.4
(b) Other	66 9	80.1	81.8	87 4	80.8
8. Cover for Acceptances	22.1	17.8	16.9	0 4	10.4
9. Premises, etc.	23.2	23.1	23.4	23 5	22.7
10. Sundry Assets	129.7	36.6	35.6	33.0	33.0
11. Total Assets	**2,281.3**	**1,709.8**	**1,723.2**	**1,611.7**	**1,563.5**
LIABILITIES.					
12. Capital paid up	227.8	196.1	200.8	170.5	183.3
13. Reserve Funds	114.1	66.6	70.8	51.3	53.1
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	14.7	12.0	—	—	—
15. Cheques and Drafts, etc., in circulation	11 5	13.1	10.5	9.6	10.4
16. Due to Banks (Correspondents)	452.8	321.0	320.2	348.3	396.9
(a) At home	210 2	263 3	269 9	306.2	348 8
(b) Abroad	242 6	57 7	50.3	42 1	51.1
17. Deposits	1,245.6	1,058.2	1,084.1	993.7	883.2
(a) Current accounts and sight deposits	89 8	124.1	127 8	112 7	99 5
(b) Savings accounts	1,106.6	894.4	897.0	835 4	752 1
(c) Time or fixed deposits	—	—	—	—	—
(d) Other deposits	49 2	39.7	59.3	45.6	31 6
18. Rediscounts and Other Borrowings	86.9	9.8	8.5	15.7	10.0
19. Acceptances and Endorsements	19.1	17.0	15.6	9.2	12.3
20. Sundry Liabilities	108.8	16.0	12.7	13.4	11.3
21. Total Liabilities	**2,281.3**	**1,709.8**	**1,723.2**	**1,611.7**	**1,563.5**
22. Value of currency in cents of a U. S. dollar at the end of each year	20.3	26.6	26.6	18.5	16.9

NORWAY. COMMERCIAL BANKS. **Table 16 *(b)*.**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS .				
	1925	1929	1930	1931	1932
	Free banks	Free banks	Free banks	Free banks	Free banks
Number of Banks	127	112	112	112	105
	Kroner (000,000's omitted)				
Capital paid up	227.8	196.1	200.8	170.5	183.3
Reserves and Undivided Profits	115 1	67.4	71.9	52.3	53.8
1. Gross Profits	**55.5**	**42.6**	**44.7**	**44.8**	**43.2**
To be deducted.					
2. Expenses	23.3	21.2	22.0	23.9	22.7
(a) Salaries, etc.	18 6	13 4	13 8	14 3	13 1
(b) Other working expenses		4 5	4 4	4 6	4 4
(c) Taxes, etc.	4 7	3 3	3 8	5 0	1 9
3. Reserved for Pension Funds, etc.	—	—	—	—	—
4. Written off on (Depreciation Accounts for)	39.3	8.8	9.1	63 8	12.5
(a) Premises, etc.	1 4	0 7	—	—	—
(b) Investments and securities	37 9	1 4	—	—	—
(c) Other assets		6 7	—	—	—
5. Remaining Net Profit (+) or Loss (−)	**−7.1**	**+12.6**	**+13.6**	**−42.9**	**+8.0**
6 Carried forward from preceding year	1.0	0.8	1.1	1 0	0.7
7. Taken from Reserves or Capital	23 3	3 6	1.4	22.9	0.5
8. Deficit left uncovered	—	—	—	32 6	4 2
9. Total Amount disposed of for Dividends, etc	**17.2**	**17.0**	**16.1**	**13.6**	**13.4**
10. Carried to Reserves	3.3	5.8	4.6	6.9	5.5
11. Dividends	12.6	10.1	10.5	6.0	6.1
12. Directors' Fees, etc	—	—	—	—	—
13. Carried forward to following year	1 3	1.1	1 0	0 7	1 8
14. Total as above	**17.2**	**17.0**	**16.1**	**13.6**	**13.4**
15. Value of currency in cents of a U.S. dollar at the end of each year	20.3	26.6	26.6	18 5	16 9

was intensified during the economic depression, and, at the end of 1932, deposits in the " free " commercial banks were less than half as great as those in the " free " savings banks.

In addition to the commercial and savings banks, there are a number of mortgage institutions operating in the country, the aggregate loans of which, at the end of 1932, amounted to almost 900 million kroner granted practically exclusively against issue of mortgage bonds.

Balance-Sheet Summary.

1 *Cash.*

This item includes balances with the Bank of Norway in addition to coins and notes. Details are shown below :

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Gold, subsidiary coins and notes	21 5	23 3	24 2	28 2	20 7
Balances with Central Bank . .	33 9	33 2	31 9	17 1	33 0
Totals . . .	55 4	56 5	56 1	45 3	53 7

2 *Other Items of a Cash Nature.*

This item represents coins and notes in foreign currency.

3 *Bills discounted and bought.*

Treasury bills are little used in Norway. All banks have to report their rediscounts, which are included in the statistics in the bill portfolio as follows :

	Kr (000,000's)				
	1925	1929	1930	1931	1932
Inland Bills					
Discounted .	365 2	334 5	358 2	335 8	328 8
Rediscounted .	60 1	3 6	3 0	10 1	3 9
Totals .	425 3	338 1	361 2	345 9	332 7

The rediscounts are likewise included under liabilities in group 18 of the summary table.

The protested bills are also shown separately and are included in the summary table in Sundry Assets (see note to group 10 below).

4 and 5 *Investments and Securities Participations.*

The investments and securities other than Government bonds shown in the summary table (group 4 *(b)*) are composed as follows :

	Kr (000,000's)			
	1929	1930	1931	1932
Norwegian securities.				
Municipal bonds . . .	64 7	57 8	45.7	42 3
Bonds of Mortgage and Fisher Banks, etc.	45 1	39 3	37.7	35 9
Other bonds	38 9	40 0	40.6	35.3
Shares	40.1	43 8	37.7	40.4
Totals	188 8	180 9	161 7	153 9
Foreign securities :				
Government bonds . . .	7 8	13.6	7 4	7.2
Other bonds and shares	5 2	13 4	7 3	7 0
Totals	13 0	27.0	14 7	14 2
Total Norwegian and foreign securities	201.8	207 9	176.4	168 1

The statistics for 1925 do not give the detailed composition of the securities and investments of the banks.

The balance-sheet model of the banking statistics does not contain any separate heading for participations, but the greater part of the share holdings would appear to represent industrial participations.

6. *Due from Banks (Correspondents).*

The sums shown in the summary table as due from foreign banks (group 6 *(b)*) include debtors in foreign currency :

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Due from banks abroad	25 2	57 9	43 4	21 7	19 3
Debtors in foreign currency	88 2	25 8	31 5	35 8	33 2
Total	113 4	83 7	74 9	57 5	52 5

7. *Loans and Advances.*

The sums given under *(a)* in this group of the summary table represent sundry debtors, cash credits, etc. Since 1925, an amount equal to the acceptances has been deducted from this item and carried to group 8 of the table (see note below).

The figures shown under *(b)* represent collateral loans.

8. *Cover for Acceptances and Reimbursement Credits.*

The composition of this group of the summary table is given below :

	Kr (000,000's)				
	1925	1929	1930	1931	1932
Cover for acceptances	4 9	1 0	1 5	0 5	0 6
Current reimbursements	17 2	16 8	15 4	8 9	9 8
Total	22 1	17 8	16 9	9 4	10 4

10. *Sundry Assets.*

Details are shown below

	Kr (000,000's)				
	1925	1929	1930	1931	1932
Real estate taken over by the banks	5 5	4 1	3 7	3 6	4 2
Protested bills	5 2	2 6	2 1	2 1	1 8
Inter-accounts with branches	70 1	3 1	9.9	6 3	11 9
Other assets	48 9	26 8	19 9	21 0	16 0
Total	129 7	36 6	35 6	33 0	33.9

Only the net balance of the inter-accounts between head offices and branches figures in the statistics for 1929-1932, while gross amounts are given for 1925

12 and 13. *Capital and Reserve Funds.*

Excluding uncalled capital and the bank holdings of their own shares

The composition of the aggregate reserves shown in the summary table is given below

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Ordinary reserve funds	86 9	57 1	60.0	40.1	43 0
Other reserve funds	27.2	9.5	10.8	11 2	10 1
Total	114.1	66 6	70.8	51 3	53 1

Pension funds are included in sundry liabilities (see note to group 20 below) in 1925 and 1929, but are not shown separately from " other reserve funds " since 1930.

In the banking law it is stipulated that, before any distribution of dividends, etc., is made, one-fifth of the annual profits must be carried to the ordinary reserve fund until it has reached half of the share capital.

The " other reserve funds " shown above consist of taxation, *del credere*, dividend regulation and building funds, etc

In the beginning of the post-war crisis, some of the banks, with a view to strengthening their position, raised additional funds against the issue of special bonds. These funds are shown in the statistics under the heading " Certificate capital " and are included in group 18 of the summary table. See note to that group.

15. *Cheques and Drafts in Circulation.*

The sums given in this group of the summary table consist of post bills and notified cheques.

16. *Due to Banks (Correspondents).*

The amount shown as due to banks at home in 1925 include 9.6 million kroner specified as borrowings.

The sums shown in the summary table as due to banks abroad include creditors in foreign currency as follows :

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Due to banks abroad	138.0	41.3	37 2	17.3	15.0
Creditors in foreign currency .	104 6	16 4	13.1	24 8	36 1
Total	242.6	57 7	50.3	42 1	51.1

The greater part of the sums due to creditors in foreign currency represents balances received from customers for deposit on exchange account with foreign banks These balances are included in the assets under debtors in foreign currency (see note to group 6 above), and thus represent operations for third parties.

Of the amount due to banks abroad in 1925, 0.2 million kroner is indicated in the statistics as borrowings.

17. *Deposits.*

Savings accounts are not shown separately from time deposits Other deposits (group 17 *d)* of the summary table) are given in the statistics under the heading " Sundry creditors ".

The unusually low ratio of demand to time deposits is due to the fact that, according to Norwegian banking practice, time deposits may be drawn upon to a large extent at sight, like current accounts.

Of the total demand and time deposits, 56.8 million kroner is indicated in the statistics of 1925 as held by foreigners

18. *Rediscounts and Other Borrowings.*

The composition of the sums shown in the summary table is given below :

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Capital borrowings . .	16 3	5.0	5.0	5.0	5.0
Rediscounts :					
At home . . .	60.1	3 6	2.9	10.1	3.9
Abroad	6.6	0.7	0.2	0.5	0.4
Acceptances for own account	3.9	0.5	0.4	0.1	0.7
Total . .	86.9	9.8	8.5	15.7	10.0

It is stated in the official report that practically the whole of the amounts shown above as rediscounts abroad represent foreign bills.

19. *Acceptances and Reimbursement Credits.*

The acceptances (for the account of clients) and reimbursement liabilities included in this group of the summary table are given below :

	Kr (000,000's)				
	1925	1929	1930	1931	1932
Acceptances	4 9	1.0	1.5	0 5	0.6
Current reimbursements	14.2	16 0	14 1	8 7	11 7
Total	19.1	17 0	15 6	9 2	12.3

20. *Sundry Liabilities.*

The composition of this group of the summary table is given below :

	Kr (000,000's)				
	1925	1929	1930	1931	1932
Pension funds	1 6	0.3	.	.	.
Mortgage debts on premises and real estate taken over	1.2	1.2	0 7	0 7	0.9
Interest accounts	4.0	3 6	3.3	4 4	2.9
Inter-accounts with the branches	68 4	1.6	1 6	4 6	0 3
Other accounts	33 6	9 3	7 1	3 7	7 2
Total	108 8	16 0	12 7	13 4	11 3

Since 1930, Pensions Funds are included in "other reserve funds" See note to groups 12 and 13 above

As already mentioned in the note to group 10 above, only the net balances of the inter-accounts between head offices and branches are included since 1929, whereas in 1925 gross balances are included.

Summary of Profit-and-Loss Accounts.

1 *Gross Profits.*

According to details given in the official statistics, about 75 to 80 per cent of gross profits are derived from net interest on loans and discounts and the remainder from commissions, securities and foreign exchange, etc. The figures shown in the summary table for 1925 and 1929 include small amounts recovered from assets previously written down.

2. *Expenses*

The sums shown under the heading "Salaries, etc." include directors' fees, which are not shown separately in the statistics.

3. *Reserved for Pension Funds.*

The aggregate sums reserved for this purpose are too small to appear in the summary table.

5 *Net Profit or Loss.*

It will be noticed that, in 1925 and 1931, the "free" banks as a whole suffered a net loss.

10 *Carried to Reserves.*

The sums shown in this group of the summary table were divided as follows :

	Kr. (000,000's)				
	1925	1929	1930	1931	1932
Carried to:					
Ordinary reserves	1.1	4 4	3 1	3 4	3 1
Taxation and other funds	2.2	1 4	1.5	3.5	2.4
Total	3.3	5.8	4.6	6 9	5 5

POLAND.

Introductory Note.

The structure of the Polish credit system was described in some detail in the last edition of this *Memorandum*. During 1931 and 1932, a very sharp contraction of commercial bank credit took place in Poland ; in these two years, the total balance-sheet of the joint-stock banks and principal private banking houses, on whose returns the summary table presented in this chapter is based, declined by over 1,000 million zloty, or more than one-third. This drastic liquidation was rendered possible by the fact that, in the evolution of the Polish banking system after the war, the State banks — the National Economic Bank and the State Land Bank — had taken over, in large measure, the task of meeting the long-term credit requirements of industry and agriculture, thus leaving the commercial banks free to specialise in commercial discounts and other short-term credits, which are more amenable to liquidation. The sharp credit deflation in Poland must be considered in conjunction with the fact that this country has, up to the present, maintained its currency on an unrestricted gold basis and has placed no legal restrictions in the way of the withdrawal of foreign short-term capital invested in Polish banks and industries.[1]

Foreign short-term capital has, in fact, been extensively withdrawn from Polish banks since 1929. This capital was invested in Poland largely through the intermediary of the Polish branches or affiliates of foreign banks. Of the sixty-four joint-stock banks and large private banking houses in existence at the end of 1930, the capital stock of some twenty-five was owned wholly or in part abroad. These banks transacted about half the business of all joint-stock banks operating in Poland In addition, certain Polish institutions worked with large foreign credits There are, at present, five branches of foreign banks operating in Poland ; in particular, the German " D " banks maintain branches in Polish Upper Silesia The most important foreign affiliate carrying on business in Poland is the Commercial Bank of Warsaw, founded in 1870 by the Niederösterreichische Escomptegesellschaft In recent years, part of the ownership of this bank has passed into the hands of Italian, British, American, Belgian and Hungarian groups. The Discount Bank of Warsaw, until recently another important medium of foreign credits, is an affiliate of the Austrian Creditanstalt, as are the Mortgage Bank of Lemberg and the Silesia Creditanstalt in Biehtz Austrian interests are further represented by the Allgemeine Bankverein, which was originally founded by the Wiener Bankverein, and is now supported by the Banque Belge de l'Etranger and the Basler Handelsbank. Of the other affiliates of foreign banks, the largest is the American Bank in Poland

The magnitude of the withdrawals of foreign short-term credits which have taken place from Polish banks in recent years is illustrated in the following table :

Short-Term Foreign Borrowings of Polish Banks

Country of creditor	Zloty (000,000's)				
	End of				
	1929	1930	1931	1932	June 1933
England	135	179	95	56	46
Germany.	116	83	93	72	62
France. .	99	104	66	56	59
Austria .	97	64	43	31	28
United States. .	65	65	16	11	4
Others . .	161	145	88	66	63
Total .	673	640	401	292	262

[1] In June 1932, the Union of Polish Banks adopted a resolution whereby they bound themselves to refrain from effecting purchases and sales of gold specie and bullion, and also from selling foreign exchange or foreign currencies presumably destined for speculative or hoarding purposes (see *Bulletin* of Bank of Poland, June 1932). According to the Bank of Poland, this resolution was never put into effect, as the demand for dollar notes, which had formerly played an important rôle in the economy of the country, diminished considerably

Between the end of 1929 and the middle of 1933, foreign short-term capital in excess of 400 million zloty was withdrawn from Polish banks. Withdrawals were relatively slight during 1930 increases in British and French capital placed at the disposal of Polish banks partly offsetting reductions in credits from Germany, Austria and elsewhere. During the general liquidity crisis which followed the collapse of the Creditanstalt in Austria and the German banking holidays in the summer of 1931, British, French and American banks — as well as those of the Netherlands, Belgium and Switzerland — withdrew large portions of their credits to Polish banking institutions. In the second half of 1931, the Polish banks lost 258 million zloty in foreign credits. These withdrawals continued, with some alleviation, during the first half of 1932, in the second half of that year only 24 million zloty were withdrawn and 32 millions in the first half of 1933.

The foreign withdrawals from Polish banks were accompanied by domestic runs. Total deposits in private banks, which had increased by 94 million zloty in 1930 — due principally to time and savings accounts — fell by 450 million zloty, or nearly 40 per cent in 1931. The run was particularly violent in the case of the Warsaw Discount Bank, an affiliate of the Austrian Creditanstalt, whose deposits fell from 83 to 18 million zloty in the course of 1931. This institution, which had formerly been the second largest commercial bank in Poland, now became of secondary importance.

During 1931, the Polish private banks had therefore to meet domestic withdrawals of 450 million zloty in addition to foreign withdrawals of 240 millions. This they achieved without resort to the Central Bank for fresh rediscount credits, by contracting their bill portfolio and their loans on current account by equal amounts (335 million zloty each), and allowing some reduction in their cash holdings (23 millions). Several banks were unable to meet the mass withdrawals from foreign and domestic creditors and were forced to suspend payment. Among these, mention may be made of the Polish Industrial Bank in Lemberg, which came into difficulties through the failure of the Société financière de Paris (Devilder group), which held a majority of its capital stock, the Silesia Discount Bank in Bielitz and the Commercial Bank in Lodz.

In 1932, the private banks lost a further 100 million zloty in foreign credits and 85 millions in domestic deposits. They again contracted their bill portfolio very sharply (120 million zloty), bringing it to less than 45 per cent of its 1929 level, and reduced their outstanding current account credits by the same amount (120 million zloty). Through this sharp liquidation of credit, they were not only able to pay off depositors and foreign creditors, but to reduce their domestic rediscounts by 60 million zloty.

During the first half of 1933, short-term foreign credits granted to Polish banks have been withdrawn to the extent of 30 million zloty and domestic deposits in private banks have been reduced by a further 60 millions. In these six months, the short-term credits granted by private banks in Poland have fallen by 85 million zloty.

Some part of the sums withdrawn from private banks in recent years went into hoards, but the greater part would appear to have been transferred to public institutions. The following table shows the amounts outstanding to the credit of depositors in the main groups of credit institutions at the end of each year since 1929:

	Zloty (000,000's)			
	End of :			
	1929	1930	1931	1932
1 Private joint-stock banks	1,090	1,184	730	646
2 State and Municipal bank	384	379	301	385
3 Postal savings bank	384	431	510	623
4 Communal savings banks	446	582	693	628
5. Co operative credit associations	338	392	346	307
Total	2,642	2,968	2,550	2,589

Total deposits in Polish credit institutions, after rising quite sharply in 1930 (due, as a detailed analysis of the basic statistics shows, to a large increase in time and savings deposits which more than offset a fall in the total of current accounts), declined during 1931 and rose slightly in 1932. At the end of the latter year, they were only slightly lower than their 1929 level. During this period, however, very marked changes took place in the distribution of deposits among the various classes of institution. In particular, the private banks lost very heavily to the savings institutions, deposits in the former fell by 450 million zloty, while deposits in the postal savings bank increased by 240 millions and in communal savings banks by 180 millions. At the end of 1932, the savings banks accounted for almost 50 per cent of total deposits, as compared with only about 30 per cent in 1929; the share of the private banks fell from 40 to 25 per cent. The shift of deposits to the public institutions primarily reflects the desire on the part of depositors to enjoy a public guarantee, it was also encouraged by the relatively high interest rates paid by the savings banks.

It will be observed that deposits in the State and municipal banks (which include the National Economic Bank, the State Land Bank and two municipal banks) have undergone but little fluctuation since 1929. Like the private banks, the State banks have reduced their short-term commercial credits; on the other hand, they have

POLAND. COMMERCIAL BANKS **Table 17 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1925	1929	1930	1931	1932
Number of banks	78	63	64	64	60
ASSETS.	Zloty (000,000's omitted)				
1. Cash	26	106	97	76	66
(a) Gold, silver and small coins	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—
2. Other Items of a Cash Nature	22	28	29	14	12
3. Bills discounted and bought	214	935	863	528	407
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—			—	—
4. Investments and Securities					
(a) Government	58	112	114	98	93
(b) Other					
5. Participations					
6. Due from Banks (Correspondents)	85	122	135	108	112
(a) At home	—	46	53	45	43
(b) Abroad	—	76	82	63	69
7. Loans and Advances	402	1,092	1,204	872	754
(a) On current account	327	904	988	656	533
(b) Other loans and advances	75	188	216	216	221
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc.	103	134	149	126	122
10. Sundry Assets	114	449	421	430	405
11. Total Assets	**1,024**	**2,978**	**3,012**	**2,252**	**1,971**
LIABILITIES.					
12. Capital paid up	131	239	263	250	243
13. Reserve Funds	25	66	74	72	68
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	—	—	—	—
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	215	563	561	344	307
(a) At home	—	102	90	64	88
(b) Abroad	—	461	471	280	219
17. Deposits	333	1,090	1,184	730	646
(a) Current accounts and sight deposits	256	536	544	375	322
(b) Savings accounts	11	141	178	87	78
(c) Time or fixed deposits	66	413	462	268	246
(d) Other deposits	—	—	—	—	—
18. Rediscounts and Other Borrowings	147	495	473	427	361
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	173	525	457	429	346
21. Total Liabilities	**1,024**	**2,978**	**3,012**	**2,252**	**1,971**
22. Value of currency in cents of a U.S. dollar at the end of each year	10.8	11.2	11.2	11.2	11.2

considerably increased their special loans from Government funds administered by them The following table shows the net total of bills discounted (excluding rediscounts) and short-term loans and advances of the private banks and the State banks, and special loans by the State banks outstanding at the end of each year since 1929.

	Zloty (000,000's)				Per cent of total			
	1929	1930	1931	1932	1929	1930	1931	1932
Joint-stock banks and principal private banks	1,532	1,593	973	804	67	67	56	53
State banks :								
(a)	497	450	377	306	22	19	21	20
(b)	255	355	396	421	11	14	23	27
Total	2,284	2,398	1,746	1,531	100	100	100	100

Both the amount and the proportion of short-term loans made by the State Land Bank out of Government funds administered by it (shown alongside *(b)* above) have greatly increased in recent years, while the proportion made by the joint-stock banks has fallen.

Long-term (mortgage) loans are not included in the above table As already mentioned, the joint-stock banks have never played an important part in the granting of long-term credits. During the years under review the National Economic Bank increased its long-term loans by 470 million zloty, or over 40 per cent, and the State Land Bank increased its long-term loans by 75 million zloty, or nearly 30 per cent The mortgage loans of the joint-stock banks were 11 million zloty, or 8 per cent, higher at the end of 1932 than at the end of 1929 In the first half of 1933, the National Economic Bank reduced its long-term loans outstanding by 20 million zloty, the State Land Bank by 50 millions and the joint-stock banks by 8 millions.

Balance-sheet Summary.

1 and 2. *Cash Assets*

The official statistics give no specification of "Cash in hand", foreign currency holdings are, however, shown separately in the *Polish Statistical Year-Book*. They are accordingly included in group 2 of the summary table.

3. *Discounts.*

No distinction is made in the Polish statistics between domestic and foreign bills, nor are Treasury bills shown separately. The sums shown include that part of the portfolio which has been rediscounted by the banks either with the Central Bank and other domestic banks or abroad, and which is shown separately under liabilities (see note to group 18 of the summary table). Net figures excluding the rediscounts are given below :

	Zloty (000,000's)				
	1925	1929	1930	1931	1932
Total discounts	214	935	863	528	407
Less rediscounts	147	353	319	268	204
Net portfolio	67	582	544	260	203

6. *Due from Banks (Correspondents)*

The sums shown in the summary table since 1929 were composed of "loro" and "nostro" accounts as follows

		Zloty (000,000's)			
		1929	1930	1931	1932
Due from banks					
At home.	Loro	17	21	18	20
	Nostro	29	32	27	22
Abroad	Loro	10	14	9	10
	Nostro	66	68	54	60
Total	Loro	27	35	27	30
	Nostro	95	100	81	82

7 *Loans and Advances.*

Of the advances on current account *(a)* at the end of 1929, 631 million zloty were covered and 273 million zloty uncovered (overdrafts). The sums shown under *(b)* since 1929 consist of time loans and long-term mortgage loans as follows ·

	Zloty (000,000's)			
	1929	1930	1931	1932
Time loans	46	61	57	67
Mortgage loans.	142	155	159	154
Total *(b)*	188	216	216	221

10 *Sundry Assets.*

These include expenditure accounts, inter-branch accounts, protested bills, movable property and various other transitory accounts

11 and 21. *Total Assets and Liabilities*

The sums shown exclude guarantees and collection accounts

14 *Profit-and-Loss Accounts*

The balance of profit-and-loss accounts is not shown in the banking summaries published in the *Statistical Bulletin of the Ministry of Finance.* But the difference between the expenditure accounts and the earnings (interest and commissions) constitutes a rough measure of the amount of the ordinary net profits of each year. This difference is shown below

	Zloty (000,000's)			
	1929	1930	1931	1932
Interest and commissions	135	125	94	60
Expenditure	105	101	84	63
Net balance .	30	24	10	— 3

These details are not shown for 1925. As the above figures do not include profits from investments and exchange profits on the one hand, and depreciation of securities and of foreign exchange and sums written off credits on the other, the balance shown does not represent actual net profits. These are shown in a special statement at the end of the present notes.

16 *Due to Banks (Correspondents).*

The " loro " and " nostro " accounts (the latter representing borrowings with credit institutions apart from rediscounts and pledging of own securities) are shown separately since 1929 as follows ·

		Zloty (000,000's)			
		1929	1930	1931	1932
Due to banks					
At home .	Loro .	53	55	35	38
	Nostro	49	35	29	50
Abroad .	Loro . .	83	89	59	36
	Nostro .	378	382	221	183
Total .	Loro .	136	144	94	74
	Nostro .	427	417	250	233

17. *Deposits.*

The sums shown under *(a)* are composed of sight deposits and current accounts, as follows ·

	Zloty (000,000's)				
	1925	1929	1930	1931	1932
Sight deposits	82	259	238	166	147
Current accounts	174	277	306	209	175
Total *(a)*	256	536	544	375	322

18. *Rediscounts and Other Borrowings.*

The sums shown since 1929 are composed as follows

	Zloty (000,000's)			
	1929	1930	1931	1932
Bills rediscounted ·				
At home . . .	292	268	257	198
Abroad .	61	51	11	6
Total .	353	319	268	204
Mortgage and other bonds issued.	142	154	159	157
Grand total .	495	473	427	361

The amounts shown for 1925 in the summary table consist entirely of rediscounts ; in that year, bonds issues are included with Sundry Liabilities.

20. *Sundry Liabilities.*

The sums shown in this group of the summary table include interest and commission accounts, sundry profits, inter-branch accounts and various other accounts not representing liabilities to the public.

Profit-and-Loss Accounts.

Certain profit-and-loss statistics are published in the *Polish Statistical Year-Book*. The figures relating to the domestic joint-stock banks are summarised in the following statement, which gives, in addition, the amount of the capital and reserves of these banks at the end of each year.

Year	Number of banks (a)	Capital paid up (b)	Reserve funds (c)	Gross profits (d)	Working expenses (e)	Depreciation of Assets: Securities (f)	Foreign Exchange (g)	Other Assets (h)	Total (f+g+h) (i)	Total expenses and depreciation (e+i) (j)	Net profits (+) or loss (−) (d less j) (k)	Value of currency in cents of a U.S. dollar (l)
						Zloty (000,000's)						
1925.	69	132 1	32 6	86 1	81 1	8 2	6 5	23 0	37 7	118 8	—32 7	10 8
1929	50	223 6	54 2	123 0	104 8	1 6	1 2	6 5	9 3	114 1	+ 8 9	11 2
1930. . .	49	221 0	55 0	124 9	74 6			.	37 5	112 1	+12 8	11 2

The composition of gross profits according to the sources from which they are derived, is shown opposite.

The first item has been calculated by deducting interest and commissions paid from those earned; gross amounts are shown in the Polish statistics. The disposal of net profits is not shown.

	1925	1929	1930
	Zloty (000,000's)		
Net interest and commissions earned	64 3	102.1	93.0
Profits from securities .	2.5	5.4	3 9
Profits on exchange.	9.5	4.8	4.9
Sundry profits.	9 3		
Brought forward from preceding years.	0 5	10 7	23 1
Total.	86.1	123.0	124.9

PORTUGAL.

Introductory Note.

The history of modern banking in Portugal dates from the beginning of the nineteenth century, when the Bank of Lisbon was organised for the purpose of controlling the issue of paper money. This bank went into liquidation in 1846 and was subsequently re-organised as the Bank of Portugal.

Since the beginning of this century, the Bank of Portugal has enjoyed the exclusive right of note issue, and has gradually acquired and developed the functions of a central bank. It operates, in addition, as fiscal agent and banker to the Government.

In the middle of the nineteenth century there were only three banks operating in Portugal; this number rapidly increased to over 50 in 1875, but by 1889 the number had fallen to 41. By 1925 it had declined further to 22, mainly as a result of numerous absorptions and amalgamations.

The largest Portuguese commercial bank is the Banco Nacional Ultramarino. But the greater part of its business is carried on abroad, chiefly in Brazil and other South-American countries and in the Portuguese colonies. It issues notes in all the colonies except Angola, which has its own bank of issue, the Banco d'Angola. Other important Portuguese institutions are the Banco Lisboa y Acôres, the Banco Pinto y Soto Maior and the Banco Aliança. Foreign capital is represented by the Bank of London and South America, which has established branches at Lisbon and Oporto, and the Crédit Franco-Portugais. The deposits of the Bank of London and South America are among the largest of any of the banking institutions of Portugal.

In addition to the joint-stock banks — whose business resembles the Anglo-Saxon system of short-term credit and deposit banking more closely than the continental type of investment and industrial banking — there are also a number of private banking houses and several savings banks in Portugal. The private bankers do not publish accounts. The accounts of the savings banks and similar institutions have been excluded, so far as possible, from the attached summary table. The State maintains two important banking institutions, the Caixa Geral de Depositos and the Caixa Económica Postal, or Postal Savings Bank. The deposits in the former institution, which amounted to 1,567 million escudos at the end of 1931, are chiefly invested in loans and advances to the State. The deposits in all other savings banks and similar institutions amounted at the same date to some 1,100 million escudos and thus exceeded those in the commercial banks (excluding the Banco Nacional Ultramarino and the Banco d'Angola), as shown in the summary table attached. This table is based on the official balance-sheet summaries published in the *Situação Bancaria* for the years 1923-1927 and 1930-31 and in the *Annario Estatistico* for 1928 and 1929. The former publication was temporarily discontinued for the last two years mentioned. As from 1930, it shows the accounts of the banks in greater detail than previously. At the same time, the principles of classification were somewhat changed, without, however, seriously affecting the comparability of the principal items as summarised in the attached table. Since the accounts of the Banco Nacional Ultramarino for 1930 and 1931 have not as yet been approved by the Government, no data for this bank are given in the official statistics relating to those years. Moreover, only a minor proportion of the business of this bank is carried on in Portugal, and this differs considerably in character from that of the ordinary commercial banks. Consequently the accounts of the Banco Nacional Ultramarino have been excluded throughout the whole period here considered. The Banco d'Angola, whose business also differs from that of the ordinary banks, and the Banco de Portugal, whose chief functions are those of a central bank of note issue, are likewise excluded from the summary table.

The official banking statistics do not contain any summary of the profit-and-loss accounts of commercial banks.

PORTUGAL. COMMERCIAL BANKS[1] **Table 18 (a).**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF:						
	1925	1926	1927	1928	1929	1930	1931
Number of Banks	21[1]	21[1]	21[1]	21[1]	23[1]	22[1]	23[1]
ASSETS.	Escudos (000,000's omitted)						
1. Cash							
(a) Gold, silver and small coins	143	128	154	148	162	145	210
(b) Notes of inland banks, State notes and balances with the Central Bank							
2. Other Items of a Cash Nature							
3. Bills discounted and bought	406	442	461	525	581	386	320
(a) Treasury bills	—	—	—	—	—	—	—
(b) Commercial bills, Inland	390	425	444	512	565	371	308
(c) Commercial bills, Foreign	16	17	17	13	16	15	12
4. Investments and Securities	54	69	80	91	91	85	72
(a) Government	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	88	99	121	134	131	140	107
(a) At home	—	—	—	—	—	76	58
(b) Abroad	—	—	—	—	—	64	49
7. Loans and Advances	320	383	359	462	423	407	362
(a) On current account	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—	—	—	—
9. Premises, etc.	102	162	237	379	588	40	51
10. Sundry Assets						197	256
11. Total Assets	1,113	1,283	1,412	1,739	1,976	1,400	1,378
LIABILITIES							
12. Capital paid up	128	170	170	184	198	198	223
13. Reserve Funds	45	45	47	49	51	82	84
14. Profit-and-Loss Balances, etc.	24	25	25	25	23	17	15
15. Cheques and Drafts, etc., in circulation	25	16	16	17	14	17	16
16. Due to Banks (Correspondents)	75	91	84	125	119	76	62
(a) At home	—	—	—	—	—	39	32
(b) Abroad	—	—	—	—	—	37	30
17. Deposits	736	821	872	986	1,044	885	812
(a) Current accounts and sight deposits	355	372	413	445	481	389	464
(b) Savings accounts	—	—	—	—	—	—	—
(c) Time or fixed deposits	130	153	181	223	273	255	225
(d) Other deposits	251	296	278	318	290	241	123
18. Rediscounts and Other Borrowings	—	—	—	—	—	—	—
19. Acceptances and Endorsements	—	—	—	—	—	—	—
20. Sundry Liabilities	81	115	198	353	527	125	166
21. Total Liabilities	1,113	1,283	1,412	1,739	1,976	1,400	1,378
22. Value of currency in cents of a U.S. dollar at end of each year	5.12	5.12	4.96	4.41	4.51	4.48	3.23

[1] Excluding the Banco Nacional Ultramarino and the Banco d'Angola (see Introductory Note).

Balance-sheet Summary

1 and 2. *Cash and Other Items of a Cash Nature.*

The joint amounts shown for these two items are composed as follows

	Escudos (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Cash in hand	70	77	66	67	80	73	126
Deposits in other banks	73	51	88	81	82	70	82
Foreign notes and coin	—	—	—	—	—	2	2
Total	143	128	154	148	162	145	210

Cash in hand consists exclusively of inland notes and coins. Balances with the central bank are not shown separately from deposits in other banks. Foreign notes and coins were not shown separately from foreign bills prior to 1930.

3 *Bills discounted and bought.*

The treasury bills — if any — taken up by the commercial banks are not shown separately in the statistics. The inland bill portfolio includes "bills receivable" in addition to bills discounted, as follows :

	Escudos (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Bills discounted	305	315	354	413	470	358	292
Bills receivable	85	110	90	99	95	13	16
Total	390	425	444	512	565	371	308

Bills for collection, etc., amounting to 75 and 92 million escudos respectively in 1930 and 1931 — which have been included under sundry assets for those years — were not shown separately in the statistics for the preceding years. They would appear to have been included under bills receivable.

4 and 5. *Investments and Securities : Participations.*

Government securities are not shown separately from other securities in the statistics. The banks would appear as a rule not to engage in direct participation in industrial undertakings.

6 *Due from Banks (Correspondents).*

Amounts due from banks abroad were not shown separately from domestic correspondents prior to 1930.

7. *Loans and Advances.*

The sums shown are composed as follows :

	Escudos (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Secured loans and advances	103	121	148	190	192	203	221
Sundry debtors :							
In national currency	217	262	211	272	231	117	112
In foreign currency						87	29
Total	320	383	359	462	423	407	362

A minor proportion of the first item above consists of mortgage loans which, however, are not shown in detail.

9. *Premises*, etc.

Not shown separately prior to 1930.

10. *Sundry Assets.*

Since 1930, this item includes bills for collection, etc., previously included in the bill portfolio (see note to group (3) above). Prior to 1930, sundry assets include premises, etc., and may, in addition, include certain accounts of third parties which are

subsequently shown separately in the statistics and have been entirely excluded from the balance-sheet in the summaries for 1930 and 1931

11 and 21. *Total Assets and Liabilities*

Excluding *comptes d'ordre* and, since 1930, accounts of third parties.

15. *Cheques and Drafts in Circulation*

Amounts shown represent bills payable.

16 *Due to Banks (Correspondents).*

Amounts due to domestic and foreign banks are not shown separately prior to 1930.

17. *Deposits.*

The composition of deposits is shown in detail below.

	Escudos (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Demand deposits							
National currency	—	—	—	—	—	356	433
Foreign currency	—	—	—	—	—	33	31
Total *(a)*	355	372	413	445	481	389	464
Time deposits							
National currency	—	—	—	—	—	250	221
Foreign currency	—	—	—	—	—	5	4
Total *(c)*	150	153	181	223	273	255	225
Sundry creditors							
National currency	—	—	—	—		182	82
Foreign currency	—	—	—	—		59	41
Total *(d)*	251	296	278	318	290	241	123
Grand total	756	821	872	986	1,044	885	812

The nature of the "sundry creditors" is not indicated in the statistics, but, like "sundry debtors" shown under assets (see note to group (7) above), they would appear chiefly to represent current accounts of the business community.

20 *Sundry Liabilities.*

This item includes collection accounts (shown separately only since 1930) in addition to unspecified sundry accounts.

ROUMANIA.

Introductory Note.

In the first edition of this publication, a brief account was given of the history, composition and post-war development of the commercial banking system of Roumania. It was pointed out that the larger domestic banks, like the relatively important branches or subsidiaries of foreign banking institutions operating in Roumania, are essentially mixed industrial (investment) and deposit banks. Until the recent years of depression, these banks operated largely with foreign short-term credits and received deposits almost exclusively on short-term, while their loans and advances outstanding were mainly of the character of long-term engagements

The banking system as a whole is very decentralised , the decentralisation was indeed more marked at the beginning of the present economic depression than it had been immediately after the war. Although many banks failed during the depression, and particularly in 1931, the total number of institutions carrying on commercial banking at the end of that year still exceeded one thousand. Small rural banks, purely local in character, form the great majority of these institutions As a result of the failure of three of the larger Bucharest banks in 1931 and of a relatively important provincial bank in 1932, there now remain only eleven important commercial banks — five in Bucharest and six in the leading provincial centres — with operations extending beyond the immediate locality of their head offices At the end of 1931, these eleven banks held 20 per cent of the capital and reserves and 29 per cent of the deposits of all Roumanian banks, apart from the National Bank.

The international financial crisis which began in Central Europe in the summer of 1931 and was further aggravated by the collapse of the pound in September of that year had serious repercussions on the larger Roumanian banks, on account of their dependence upon foreign short-term credits and their close relations with Central European banking institutions In the course of the autumn of 1931, a large part of the foreign credits enjoyed by Roumanian banks was called in ; a heavy run began on the deposits of the larger banks and soon spread to the smaller local institutions. The banks attempted to face the withdrawals by calling in outstanding loans, and considerable cuts were in fact made But a very great proportion of the credits granted by the bigger banks (mainly to industry) were immobilised ; and, as a result, moreover, of the enormous drop in agricultural prices, many of the customers of the rural banks were unable to repay their bank debts While — as may be seen from the summary table attached — total deposits were reduced by 23 milliard lei or by 43 per cent in the course of 1931, total discounts, loans and advances fell some 14 milliard lei Excess withdrawals are reflected in the movements of cash and rediscounts Before the onset of the financial panic, cash reserves were exceptionally large , although they were subsequently replenished by fresh rediscounts — almost exclusively at the National Bank — to the extent of 6 milliard lei (reflected in the increase in item 18 of the summary table), their amount was reduced on balance by 5 milliards in the course of 1931.

Figures for 1932 are, at the time of writing, not yet available for all banks, but statistics relating to the few more important banks referred to above have recently been published by the Economic Research Department of the National Bank [1] Four of these banks — Bank Marmorosch Blank & Co., Bank L Berkowitz, the General Bank of Roumania and the Bank Moldova — which were heavily engaged in certain industries, were unable to withstand the run on their deposits and had to be closed, the first three in 1931 and the fourth in 1932. Their importance may be judged from the following aggregates of their principal accounts at the end of 1930 .

	Lei (000,000's)
Cash and bank balances . . .	1,025
Bill portfolio	2,971
Loans, advances and participations	4,246
Capital and reserves . . .	956
Deposits and creditors . . .	6,916
Rediscounts	734

[1] *Bulletin d'Information et de Documentation*, August 1933.

The position of the remaining eleven leading banks at the end of each of the three years 1930-1932 is shown below :

	Lei (000,000's)		
	1930	1931	1932
ASSETS			
Cash and bank balances . .	3,755	1,458	1,542
Bill portfolio	7,961	6,923	6,029
Loans, advances and participations	10,071	7,296	6,583
Securities	753	702	668
Premises	478	554	569
Sundry accounts	295	161	144
Total assets	23,313	17,094	15,535
LIABILITIES			
Capital and reserves . . .	3,037	3,193	3,145
Net profits	479	228	78
Deposits and creditors . . .	18,053	8,752	7,814
Rediscounts	586	4,077	3,763
Sundry accounts . . .	1,158	844	735
Total liabilities . . .	23,313	17,094	15,535

It will be noted that, in 1931, these banks lost a much higher proportion (52 per cent) of their deposits, but cut their outstanding credits less (16 per cent) than the banking system as a whole. Thus, although they rediscounted almost 60 per cent of their bill portfolio, their cash reserves dropped proportionately more than those of the other banks. Both deposits and discounts, loans and advances were further reduced in 1932, though on a much more moderate scale.

A system of official exchange control was put into effect in May 1932. In April of that year, certain laws were passed concerning the conversion of agricultural debts and judicial liquidation of commercial debts. These laws, which were voted in the interest of debtors affected by the depression, seriously aggravated the position of the banks, which remained subject to great strain after the run on deposits in the preceding autumn. The laws were criticised on the ground that they made it practically impossible for a debtor to be forced into liquidation for non-payment of debt and thus had the effect of discouraging efforts on the part of debtors to repay the banks. The law on agricultural debts was therefore partially suspended in October 1932. On the other hand, in April 1933 a new law was passed providing for a five-year moratorium with annual interest payment of 1 to 3 per cent in respect of all agricultural debts concerning which creditors and debtors had not agreed to a settlement on the basis of a reduction of the capital sum by one-half in the case of smaller and one-fourth to one-third in the case of larger properties. The law on judicial liquidation of commercial debts was abrogated in October 1932 by a new law which considerably broadened — in the favour of debtors — the law concerning compulsory composition, by reducing to a minimum of 40 per cent the amounts to be offered to creditors and by extending to five years the maximum term of payment. A great many banks, particularly smaller ones, have taken advantage of the compulsory composition law.

A very considerable proportion of the burden of illiquid debts ultimately falls on the National Bank, thanks to its intervention during the panic of 1931 and its subsequent rediscounts, particularly in favour of the rural banks. Thus it carries, subject to ultimate settlement with the State, a great and, until the middle of 1933, continuously increasing portfolio of illiquid agricultural bills, and, in the circumstances, it has also been obliged to accept for rediscount large amounts of other bills of doubtful quality. According to the report of the Adviser to the National Bank, dated August 15th, 1933, the Bank's total bill portfolio, including certain categories of bills not shown under discounts in the published statement, increased from 10·4 milliard lei before the onset of the financial crisis to 18·8 milliards at the end of 1931, and 19·3 milliards at the end of June 1932. It has since fallen but slightly — viz., to 18·7 milliards at the end of 1932 and 18·5 milliards at the beginning of August 1933.

As in the preceding edition of this memorandum, the summary table is based on the official *Statistics of Joint-Stock Companies*. Detailed profit and loss statistics are not available.

Balance-sheet Summary.

1 and 2. *Cash Assets.*

The cash reserves of the Roumanian banks are composed of two items. "Cash", which presumably consists only of bank-notes and token coin (not divided), and "banks", which includes balances with the Central Bank, the clearing house and other banks (likewise not divided).

	Lei (000,000's)			
	1925	1929	1930	1931
"Cash"	3,198	3,510	3,742	1,739
"Banks"	1,743	3,119	4,268	1,321
Total. . . .	4,941	6,629	8,010	3,060

ROUMANIA. COMMERCIAL BANKS **Table 19 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF .			
	1925	1929	1930	1931
Number of Banks	928	1,097	1,102	1,037
ASSETS.	Lei (000,000's omitted)			
1. Cash.				
(a) Gold, silver and small coins	4,941	6,629	8,010	3,060
(b) Inland notes and balances with Central Bank				
2. Other Items of a Cash Nature				
3. Bills discounted and bought	15,443	31,826	31,078	25,815
(a) Treasury bills	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—
4. Investments and Securities	2,443	2,781	2,804	2,625
(a) Government	—	—	—	—
(b) Other	—	—	—	—
5. Participations	1,787	3,582	3,300	3,667
6. Due from Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
7. Loans and Advances	20,059	34,504	34,475	24,952
(a) On current account	—	28,907	28,114	21,047
(b) Other	—	5,597	6,361	3,905
8. Cover for Acceptances	—	—	—	—
9. Premises, etc.	1,235	2,601	2,782	3,478
10. Sundry Assets	1,281	2,357	1,333	1,862
11. Total Assets	**47,789**	**84,280**	**83,782**	**65,459**
LIABILITIES.				
12. Capital paid up	5,833	10,411	10,730	10,652
13. Reserve Funds	2,138	4,433	5,353	4,919
14. Profit-and-Loss Account, Undivided Profits, etc	1,384	1,947	1,638	493
15. Cheques and Drafts in circulation	372	280	219	122
16. Due to Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
17. Deposits	28,286	51,314	53,323	30,206
(a) Current accounts and sight deposits	—	—	—	—
(b) Savings accounts	—	—	—	—
(c) Time or fixed deposits	—	—	—	—
(d) Other deposits	—	—	—	—
18. Rediscounts and Other Borrowings	8,292	12,170	10,033	16,258
19. Acceptances and Endorsements	—	—	—	—
20. Sundry Liabilities	1,484	3,725	2,486	2,809
21. Total Liabilities	**47,789**	**84,280**	**83,782**	**65,459**
22. Value of currency in cents of a U.S. dollar at the end of each year	0.46	0.60	0.59	0.60

3. *Bills discounted and bought.*

The figures for discounts include, not only bills actually held in portfolio, but also bills which the banks have rediscounted either with the Central Bank or with other banks, these rediscounts being shown as a separate item under liabilities (group 18 of the summary table).

Some banks distinguishing rediscounts under both assets and liabilities show higher figures under this heading on the liabilities side than on the assets side of their balance-sheets. This seems to indicate that other borrowings are also included under the heading rediscount liabilities.

No distinction is made between Treasury bills and commercial paper ; nor are foreign bills shown separately.

4 and 5 *Investments and Securities — Participations*

The sums given in group 4 of the summary table are shown in the official statistics under the heading " Public Securities and Shares " ; the component parts are not specified, nor is the nature of the shares indicated The participations shown in group 5 are chiefly in industrial and other business undertakings.

6 *Due from Banks (Correspondents)*

Most inter-bank accounts are included in ordinary current accounts in the official statistics. Sight deposits with other banks, however, are included, together with balances at the Central Bank, in the item " banks " shown separately in the note to 1 and 2 above.

7 *Loans and Advances.*

The sums given under *(a)* are shown in the official statistics as " current account debtors " and those given under *(b)* as " sundry advances ". The nature of the latter is not indicated. As mentioned in the preceding note, current accounts include inter-bank accounts

10. *Sundry Assets.*

The sums shown in this group of the summary table are composed as follows

	Lei (000,000's)			
	1925	1929	1930	1931
Merchandise .	199	622	126	94
Collection accounts .	1,046	1,440	870	606
Transitory accounts	- -	114	89	462
Expenditure relating to following year .	17	26	25	14
Losses .	19	155	223	686
Total . . .	1,281	2,357	1,333	1,862

Certain Roumanian banks, like the banks in several other countries of Eastern Europe, have established special wholesale departments. It is not stated what proportions of the first item above consist of *(a)* goods held in the course of ordinary wholesale transactions by these departments, and *(b)* goods which have become the property of the banks owing to failure on the part of customers to repay credits granted on such security

Bills in course of collection for customers' account are booked under the second item above. A " per contra " item is included under sundry liabilities (see note to group 20 below)

The fourth item above represents interest payable after the date of the balance-sheet

11 and 20 *Total Assets and Liabilities*

Uncalled capital, banks' holdings of own shares, " comptes d'ordre " and certain other purely nominal accounts are excluded from the summary table.

14 *Profit and Loss, etc.*

The sums shown in the summary table are totals of the net profits shown by individual banks Some banks, however, closed their accounts with a loss The total of these losses (included in group 10 of the summary table) should be deducted in order to arrive at the net profits of the banking system as a whole This is done in the following statement .

	Lei (000,000's)			
	1925	1929	1930	1931
Net profits of individual banks	1,384	1,947	1,638	493
Losses of individual banks . . .	19	155	222	686
Balance representing net profits of banking system . .	1,365	1,792	1,416	—193

It will be noted that the banking system as a whole made a net loss in 1931 It is probable that, in 1932, for which year complete figures are not yet available, the negative balance as recorded in the statistics was considerably greater Even in that year, however, most of the actual losses were not yet disclosed in the balance-sheets

16 *Due to Banks (Correspondents)*

Inter-bank accounts are not shown separately from ordinary current accounts in the official statistics ; they are thus included in group 17 of the summary table

17 *Deposits*

Deposits are not divided according to periods of maturity in the official statistics, but distinction is made between current-account creditors and other deposits as shown in the following table :

	Lei (000,000's)			
	1925	1929	1930	1931
Current-account creditors	11,510	19,561	18,212	12,840
Deposits	16,776	31,753	35,111	17,366
Total	28,286	51,314	53,323	30,206

Apart from inter-bank accounts (see preceding note), the first item above would appear to consist chiefly of the deposits of important customers, more especially the industrial and other undertakings directly financed by the banks, while the second item represents deposits made by the general public. Judging from details available with reference to the larger banks, the second item also consists mainly of demand deposits.

In addition to the banks covered by the summary table, there is a National (Post Office) Savings Bank and a system of "people's banks" for which separate statistics are published. The relative importance of their deposits will be seen from the following statement :

	Lei (000,000's)						
	People's Banks			National Savings Bank	Total (c) and (d)	Commercial Banks	Grand Total (e) and (f)
	Savings deposits (a)	Current accounts (b)	Total (c)	Savings deposits (d)	(e)	Total deposits (f)	(g)
1925	617	854	1,471	146	1,617	28,286	29,903
1929	1,533	2,714	4,247	198	4,445	51,314	55,759
1930	1,739	2,806	4,545	255	4,800	53,323	58,123
1931	1,578	--	—	624	—	—	—
1932	—	—	—	800	—	—	—

It will be observed that a minor part of the deposits withdrawn from the other banks in recent years has sought refuge with the National Savings Bank.

18. *Rediscounts and Other Borrowings*

See note to group 3 above

20. *Sundry Liabilities*

The composition of the sums in this group of the summary table is shown below The last item represents interest, rebates on bills, etc., maturing after the date of the balance-sheet

	Lei (000,000's)			
	1925	1929	1930	1931
Depositors of bills for collection	1,206	1,575	774	769
Transitory accounts	—	683	524	789
Net balance of guarantee accounts and sundries	10	1,060	790	994
Unclaimed dividends	42	84	82	81
Earnings relating to following year	226	323	316	176
Total	1,484	3,725	2,486	2,809

SPAIN.

Introductory Note.

The origins of Spanish banking may be traced back to the first years of the fifteenth century The Banco da Taulo de Canbi, established in Barcelona in 1401, is among the earliest banking institutions for which records exist. Banks were also established at an early date in Gerona and Manresa The activities of these early banks were, however, limited, and unsettled political conditions prevented any great expansion of banking A new period in Spanish banking history was inaugurated with the establishment of the Banco de San Carlos, the first note-issuing bank, in 1782. Other note-issuing institutions were soon set up in the provinces , their number remained small, however, and their importance slight until the end of the nineteenth century. The more important were used as instruments of State finance, and the mortality rate of the banks at this date was high. In 1874 the right of issue, which was then exercised by seventeen private banks, was concentrated in the hands of the Bank of Spain, established in 1856

At the beginning of 1914, there were fifty private banks with a capital of 250 million pesetas. The greatest stimulus to banking organisation came during and after the war , from 1917 to 1920, thirty-nine banks with a capital of some 700 million pesetas were established in Spain. Previously, credit granted by the banks took the form mainly of personal advances on the individual security of the borrower. But from about this date industrial credits, granted to firms and not to persons, and covered by adequate saleable security, came into more frequent use. There was little legislative control of banks, and many speculated heavily in foreign exchange and shares ; during the crisis of 1920-21 a large number were forced to suspend payments. By a Law of December 29th, 1921, a Supreme Banking Council was established to detect irregularities in bank transactions, and all private banks were required to carry out the regulations imposed by this body (*see infra*).

The Spanish system resembles Anglo-Saxon deposit and discount banking more closely than continental industrial banking The development of deposit business has, however, been somewhat restricted until quite recently by the absence in Spain of a law of cheques. This condition was remedied after the war and an attempt has further been made to encourage the use of cheques by freeing them from the stamp tax, provided they are cleared through official clearing houses. Banking assets take the form chiefly of investments and loans largely on current account, which are in many cases secured only by the personal note of the borrower. Commercial paper is also discounted and lombard and report loans made Certain banks, particularly in the industrial north, act as intermediaries for the placing of industrial issues with the public.

There are three main groups of banking institutions carrying on business in Spain -- the inscribed banks, the non-inscribed banks and the foreign banks The inscribed banks are those registered with the Superior Banking Council in virtue of the Law of 1921 described below. The non-inscribed banks are smaller institutions and are in most cases privately owned. Foreign institutions have always been of considerable importance in Spain , in 1920, when they were subjected to a more stringent fiscal regime, they numbered fifteen with forty-three branches. The relative importance of these various institutions may be judged from the following figures :

	1925						1930					
	Inscribed banks		Non-inscribed banks		Foreign banks		Inscribed banks		Non-inscribed banks		Foreign banks	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Number of banks.	104	91	32	2	10	7	132	58	85	37	11	5
	Pesetas (000,000's)											
Paid-up capital and reserves .	980	91	59	6	31	3	1,495	60	124	8	32	2
Deposits	3,772	83	149	3	600	14	6,568	91	178	2	726	9
Cash	594	87	25	4	63	9	1,006	88	27	2	121	10
Loans and discounts . . .	2,817	84	106	3	454	13	3,992	83	196	5	500	12
Investments	1,935	92	46	2	116	6	3,922	94	85	2	159	4
Total balance sheet	6,814	84	231	3	1,097	13	11,290	84	395	3	1,752	13

It may first be observed that the foreign banks appear from the above figures to operate with a smaller proportion of own funds (capital and reserves) to total volume of business than either of the other groups of banks. Foreign institutions are generally set up with purely nominal capital, since they are able to draw on their head offices in case of need, reserves are not accumulated to any considerable extent within the country, but are transferred to the head-office accounts. At the end of 1925, the average paid-up capital and reserve funds of the non-inscribed banks was less than 2 million pesetas, as compared with almost 10 million pesetas for the inscribed banks. The average total balance-sheet of the non-inscribed banks was some 7 million pesetas, that of the inscribed banks some 65 millions, and of the foreign banks about 110 million pesetas.

Between 1925 and 1930 (particularly in 1927) a large number of small non-inscribed banks were organised. The average capitalisation (including reserve funds) of the non-inscribed banks dropped to about 1½ million pesetas, while during the same period that of the inscribed banks rose to 11 million pesetas. It should be noted, however, that, even with this low per unit capitalisation, the share of own funds to total liabilities was greater in the case of the small non-inscribed banks (over 30 per cent) than in the comparatively large inscribed banks (13 per cent).

The most important of the foreign banks operating in Spain is the Banco Anglo Sud-Americano, which accounts for over one-third of the total banking business of the foreign institutions. The largest banks in Spain are the Banco Español de Crédito and the Banco Hispano Americano, whose combined balance-sheets at the end of 1930 amounted to over 3 milliard pesetas, or 25 per cent of that of all the commercial banks carrying on business in the country at that date. In the northern part of Spain, the most important bank is the Banco de Bilbao, and in Catalonia the Crédito y Docks de Barcelona. Since the war, there has been a noticeable tendency towards the concentration of banking resources; and the development of a few institutions, such as those mentioned above and the Banco de Vizcaya and Banco Urquijo, has been particularly rapid. The degree and progress of banking concentration in Spain may be illustrated by the fact that, at the end of 1925, four banks with capital of 100 million pesetas or more accounted for about one-third of the banking business of all the domestic institutions, and, at the end of 1930, six banks with capital exceeding the amount mentioned transacted about one-half of all the business done by Spanish banks. Branch banking has been developed to a considerable extent by the Banco Hispano Americano, which has established some 150 branches, the Banco de Bilbao, and certain other institutions; but the system as a whole is not characterised by a marked development along these lines. On the other hand, the interrelationships among the larger city banks and the regional and provincial banks are often very close. Several of the banks, including the Banco de Bilbao and the Banco de Cataluña, have established branches abroad and many hold participations in the Banque Espagnole et Française in Paris.

As auxiliary parts of the commercial banking system, mention may be made of the clearing houses of Madrid, Barcelona and Bilbao, established in 1923 and that of Zaragoza, established in 1924. In cities where there is no clearing house but there is a branch of the Bank of Spain, town clearing is carried on by the banks drawing on their accounts with each other and settling differences by drafts on the Bank of Spain.

Mention may also be made of the Banco Hipotecario de España and the Banco Crédito Industrial, whose accounts are not included in the summary table. The former was established by the State in 1872 through an issue of *cédulas* to the extent of 300 million pesetas. As its name suggests, its function is to grant loans on the security of real property. During 1929, loans to the extent of 1,750 million pesetas were granted, chiefly on the security of urban real estate. The funds were raised through the issue of *cédulas*, of which over 1,000 million pesetas were outstanding at the end of 1929. Until the organisation of the Banco Crédito Industrial during the war, the issue of industrial shares and bonds was confined largely to the banks of Bilbao and the Sindicato de Banqueros de Barcelona. This institution issues its own paper and underwrites issues for industrial concerns, its purpose is thus to provide industry with long-term credits. The Banco Hipotecario and the Banco Crédito Industrial are not subject to the provisions set out below relating to private banks.

Savings institutions of various types have been established in Spain since quite early times. One of the most important, the Monte de Piedad y Caja de Ahorros of Madrid, was set up in 1724. In general, these institutions are of two types: *Cajas de Ahorros* and *Montes de Piedad*. The Cajas de Ahorros are ordinary savings banks; there were 208 of them in existence in 1929, with 3 million depositors and total deposits exceeding 1.7 milliard pesetas. In the case of the Montes de Piedad, which more closely resemble stock savings banks, depositors receive certificates of ownership (capital stock) of the bank to an amount equivalent to their deposit. They may then borrow against these certificates. In 1929, there were 134 Montes de Piedad with 1,200,000 stockholders and paid-up capital of 365 million pesetas. In addition to these institutions, a postal savings bank was established in 1916 and developed very rapidly. At the end of 1930, it had over 1,000 branches, depositors numbered almost 900,000 and total

deposits exceeded 250 million pesetas. Interest is allowed on deposits up to 5,000 pesetas. Several of the private banks also accept savings deposits, notably the Banco de Vizcaya and the Banco Central. At the end of 1929, thirty-six private banks were reported as having established special savings departments, depositors numbered 400,000 and total deposits exceeded 1 milliard pesetas. Co-operative banks have, until now, not been developed to any significant extent in Spain.

The relative importance of the various deposit institutions in the country may be judged from the following figures :

DEPOSITS IN SPANISH BANKING INSTITUTIONS, 1925 AND 1929

End of year	Pesetas (000,000's).						
	(1) Ordinary savings banks	(2) Postal savings banks	(3) Montes de Piedad	(4) Savings deposits in private banks	(5) Total savings deposits	(6) Other deposits in private banks [1]	(7) Grand total [2]
1925	1,187	153	265	505	2,110	4,016	6,127
1929	1,703	252	365	1,066	3,386	5,877	9,263

[1] The figures in this column are calculated by subtracting from the total deposits in private banks reported by the Superior Banking Council the savings deposits in private banks, as shown in column (4) and reported in the *Official Year-Book* of Spain.

[2] This column involves double counting to the extent that the savings banks redeposit sums lodged with them in the private banks, in would appear that such amounts are comparatively small.

It will be seen that the most important institutions collecting savings deposits are the ordinary savings banks. Between 1925 and 1929, however, the private banks extended their activities along these lines more rapidly than the other groups. They accounted for less than one-quarter of total savings deposits in the former and almost one-third in the latter year. The growth of savings deposits was more rapid between 1925 and 1929 than the growth of other deposits in the private banks. The share of the private banks in total deposits, however, remained unchanged (about 75 per cent).

In 1925, an important banking law was introduced, which was subsequently extended by Decrees of 1925 and 1926. The most important of the reforms effected by this law was the establishment of the *Consejo Superior Bancario*, composed of a president nominated by the Government, a vice-president nominated by the Bank of Spain, two members nominated by each of the three banking zones and one member nominated by the National Chamber of Commerce. The functions of this Council are to collect and publish quarterly the balance-sheets of all banks operating in Spain and to lay down the conditions under which they may operate. Thus, the Council has the right to fix a minimum capital for each bank, taking account of the size of the place where it operates, to determine the relationship which must be maintained between the capital and reserve funds of each bank and its sight liabilities, to set a maximum interest rate for deposits, bonds, etc, to fix the proportion which must be maintained between sight liabilities and immediately realisable assets ; and, in general, to regulate the business of banking. The Council may request the Bank of Spain to inspect the books of any bank, and penalties are provided for breach of the regulations laid down by it.

The banking statistics collected by the Supreme Banking Council are published annually on a standard form in the *Boletín del C.S.B.*, quarterly balance-sheets of all the banks operating in Spain both individually and by groups (*i.e.*, the inscribed banks in the three zones, the uninscribed and the foreign banks) are given. The figures published in the *Boletín* form the basis of the summary balance-sheet given in the present chapter. Current figures for the inscribed banks are published quarterly in the *Balances trimestrales de la Banca inscrita*. No official profit-and-loss statistics are published for the Spanish banks.

SPAIN. COMMERCIAL BANKS **Table 20 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT END OF					
	1925	1926	1927	1928	1929	1930
Number of Banks	146	160	201	210	215	228
ASSETS.	Pesetas (000,000's omitted)					
1. Cash	677.9	707.1	613.6	1,122.6	1,111.3	1,146.7
(a) Gold, silver and small coins	-	-	-	-	-	-
(b) Inland notes and balances with Central Bank	-	-	-	-	-	-
2. Other Items of a Cash Nature	549.3	616.4	656.0	909.7	888.8	852.5
3. Bills discounted and bought	1,425 8	1,437.7	1,614.8	1,714.7	1,900.4	1,949.6
(a) Treasury bills	-	-	-	-	-	-
(b) Commercial bills, inland	-	-	-	-	-	-
(c) Commercial bills, foreign	-	-	-	-	-	-
4. Investments and Securities	2,096.9	2,201.6	2,577 1	3,406.9	3,807.4	4,166 4
(a) Government	1,349 9	1,450 4	1,624 1	2,002 2	2,231 3	2,519 4
(b) Other	747 0	751 2	953 0	1,404 7	1,576 1	1,647.0
5. Participations	—	—	-	-	-	-
6. Due from Banks (Correspondents)	-	-	-	-	-	-
(a) At home	—	—	-	-	-	-
(b) Abroad	—	—	-	-	-	-
7. Loans and Advances	1,950.6	1,942.3	2,125.2	2,107.7	2,610.2	2,738.2
(a) On current account	797.7	781 9	822.2	678 5	1,119.1	1,098 5
(b) Other	1,152.8	1,160 4	1,303.0	1,429 2	1,491.1	1,639 7
8. Cover for Acceptances	64.9	47.4	51.5	103.9	159.8	170.6
9. Premises, etc	227.3	229.1	264.5	281.5	293.6	315.1
10. Sundry Assets	1,153.1	1,185 4	1,588 1	1,141 9	2,100 5	2,098 3
11. Total Assets	**8,145.8**	**8,867.0**	**9,790.8**	**10,788.9**	**12,881.0**	**13.437.4**
LIABILITIES.						
12. Capital paid up	775.8	824.3	896.6	977.7	1,050.5	1,092.8
13. Reserve Funds	289.3	303 5	324.2	364.3	418.3	457 9
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	—	-	-	-	-
15. Notes in Circulation	-	-	-	-	-	-
16. Cheques and drafts, etc., in Circulation	85.8	88.8	89 0	157.1	208.6	183.4
17. Due to Banks (Correspondents)	944.4	869.9	819.9	1,598.8	1,865.2	1,919.7
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	4,521.3	4,786.2	5,642.8	6,189.7	6,943.0	7,472.0
(a) Current accounts and sight deposits	3,008.7	3,176 4	3,743.2	3,953 5	4,206.2	4,538.5
(b) Savings accounts	—	—	—	—	—	—
(c) Time or fixed deposits	1,512.6	1,609.8	1,899.6	2,236 2	2,736.2	2,933.4
(d) Other deposits	—	—	-	-	-	-
19. Rediscounts and Other Borrowings	—	—	—	—	—	—
20. Acceptances and Endorsements	64.9	47.4	51.5	103.9	159.8	170.6
21. Sundry Liabilities	1,464.3	1,946.9	1,966.8	1,397.4	2,235.6	2,141.0
22. Total Liabilities	**8,145.8**	**8,867.0**	**9,790.8**	**10,788.9**	**12,881.0**	**13,437.4**
23. Value of currency in cents of a U.S. dollar at end of each year	14.2	15.3	16.7	16.2	13.8	10.7

Balance-sheet Summary.

Number of Banks.

The division of the total number of banks among the various groups mentioned in the introductory note was as follows at the end of each year under review :

	1925	1926	1927	1928	1929	1930
Inscribed banks	104	112	116	122	123	132
Non-inscribed banks	32	39	74	77	80	85
Foreign banks	10	9	11	11	12	11
Total	146	160	201	210	215	228

1. *Cash.*

The official banking statistics do not show the commercial banks' holdings of gold, silver, etc., separately from their holdings of paper money. The amounts shown in the summary table consist of "cash and balances with the Bank of Spain".

2. *Other Items of a Cash Nature*

The sums shown under this heading consist of cheques, etc., on other banks and small amounts of foreign money ranging from 4 million pesetas in 1925 to 7 million in 1930.

3 *Bills discounted and bought*

The Spanish banks do not discount Treasury bills, and the sums shown in the table refer entirely to commercial bills. The official statistics show separately bills of ninety days and those of longer currency, as follows :

	Pesetas (000,000's).					
	1925	1926	1927	1928	1929	1930
Maturity of commercial bills :						
Up to ninety days	1,409.7	1,422 6	1,598.1	1,700.2	1,890.3	1,928.3
Over ninety days	16.1	15.1	16 7	14.5	19 1	21 3
Total	1,425.8	1,437 7	1,614.8	1,714 7	1,909.4	1.949.6

Most of the larger banks have foreign, as well as town and provincial, bill departments ; foreign bills are, however, not shown separately in the official statistics

6. *Due from Banks (Correspondents).*

No distinction is made in the official statistics between amounts due from domestic and foreign banks and bankers.

7 *Loans and Advances.*

The sums shown under *(a)* in the summary table include sight advances and loans in foreign currencies ; those shown under *(b)* include time loans and those specifically secured by collateral The division among these groups in the years under review was as follows :

	Pesetas (000,000's).					
	1925	1926	1927	1928	1929	1930
Sight advances	388.5	409.6	486.9	517.1	580.0	576.5
Loans in foreign currencies	409.2	372.3	335.3	161.4	539.1	522.0
Total *(a)*	797.7	781.9	822.2	678.5	1,119.1	1,098.5
Time advances	418.2	435.7	507.6	597.4	683.3	718.8
Collateral advances	734.6	724.7	795.4	831.8	807.8	920.9
Total *(b)*	1,152.8	1,160.4	1,303.0	1,429.2	1,491.1	1,639.7
Grand total	1,950.5	1,942.3	2,125.2	2,107.7	2,610.2	2,738.2

Sight advances generally take the form of overdrafts; loans covered by securities are generally made for three months with the option of extension to six, when they must be cancelled or renewed. The law requires a bank extending credit on the security of stocks to sell the latter the day following default on repayment of the loan. If the bank fails to sell the stock on that day it loses its right to do so.

8. *Cover for Acceptances.*

Before 1929, this item was not shown separately in the balance-sheets. A sum equal to acceptances and endorsements, as shown under group (20) of the balance-sheets, has been deducted from sundry assets for the years 1925-1928 and carried to the present group in the summary table. Certain small discrepancies between acceptances, as shown under liabilities, and cover for acceptances, as shown under assets, for the years 1928 and 1929 are adjusted by carrying the excess cover to "sundry assets".

10. *Sundry Assets.*

No indication is given in the official statistics with regard to the composition of this account. As stated in the note to group (8) above, amounts equal to acceptances as shown in group (20) of the summary table have been carried from this account to group (8) in the years 1925-1928, and the excess of cover for acceptances over acceptances in 1929 and 1930 has been included under Sundry Assets in those years. The amounts involved are 9.9 million pesetas in 1929 and 4.9 millions in 1930.

11 and 22. *Total Assets and Liabilities*

Not including *comptes d'ordre*, unpaid capital or banks' holdings of own shares The last two items were as follows in the years under review.

	Pesetas (000,000's).					
	1925	1926	1927	1928	1929	1930
Unpaid capital	210.9	204.7	200.0	181.3	160.1	130.4
Holdings of own shares	399.9	404.6	383.9	362.3	435.4	609.8
Total	610.8	609.3	583.9	543.6	595.5	740.2

16. *Cheques and Drafts in Circulation.*

The amounts shown under this heading consist of bills payable and other obligations due.

17. *Due to Banks (Correspondents).*

The sharp increase in this account in 1928, which is marked in all classes of banks but particularly noticeable in the case of foreign banks, is probably due to the currency speculation which characterised that year.

18. *Deposits.*

The amounts shown under *(a)* in the summary table consist of sight deposits and deposits in foreign currencies and those under *(c)* consist of deposits made for one month and for longer periods.

	Pesetas (000,000's).					
	1925	1926	1927	1928	1929	1930
Sight deposits	2,573.2	2,757.8	3,333.0	3,637.7	3,694.1	3,915.7
Deposits in foreign currencies	435.5	418.6	410.2	315.8	512.1	622.8
Total *(a)*	3,008.7	3,176.4	3,743.2	3,953.5	4,206.2	4,538.5
Time deposits:						
Up to one month	669.8	821.3	880.4	982.7	1,290.2	1,472.9
Over one month	842.8	788.5	1,019.2	1,253.5	1,446.0	1,460.5
Total *(c)*	1,512.6	1,609.8	1,899.6	2,236.2	2,736.2	2,933.4
Grand total *(a)*+*(c)*	4,521.3	4,786.2	5,642.8	6,189.7	6,943.0	7,472.0

Interest is generally allowed on current accounts at the rate of 2½ per cent per annum and on time accounts at higher rates. Many of the private banks also accept savings deposits.

20. *Acceptances and Endorsements.*

See notes to groups (8) and (10) above.

SWEDEN

Introductory Note.

In the early stages of the world economic depression, which affected Sweden later than most other countries, foreign short-term capital sought refuge with Swedish banks During the European financial crisis of the summer of 1931, however, this capital was largely withdrawn ; the Swedish banks held important claims on the countries concerned and it was feared that they would be seriously affected by the freezing of these assets Moreover, an unfavourable turn in the balance of payments, consequent upon a growing import surplus and increased foreign exchange requirements of the Kreuger concern, put a heavy strain on the *devisen* reserve of the central bank. This strain was further intensified after the British suspension of the gold standard (September 19th) and the Riksbank even began to lose gold. On September 28th, the gold standard was therefore suspended also in Sweden

Although the events of 1931 had no serious visible repercussions on the commercial banks, the latter were increasingly affected by the deterioration of economic conditions , and to alleviate their position, without precipitating any sudden credit contraction, they had recourse to the central bank for rediscounts on a considerable scale The evolution of the banking position up to the end of 1931, on the one hand, and during the subsequent period up to the end of 1933, on the other, may be judged from the following statement summarising the principal accounts of the commercial banks and the Riksbank

End of	Commercial banks					Riksbank			Riksbank and commercial banks : foreign assets (net holdings)
	Domestic discounts[1]	Loans on shares	All loans and domestic discounts	Deposits	Rediscounts with Riksbank	Bankers' sight balances[2]	Note circulation	Gold at home and abroad[3]	
	Kronor (000,000's)								
1929	966	1,123	4,169	3,481	251	9	569	245	584
1930	1,028	1,253	4,437	3,031	197	8	594	241	554
1931	976	1,183	4,638	3,554	326	15	583	206	290
1932	1,169	888	4,200	3,556	115	49	598	206	428
1933	1,103	707	3,905	3,629	—	249	648	370	553

As a result of the breakdown of the Kreuger concern in March 1932, certain banks were exposed to considerable strain, although the public remained calm and no run on deposits occurred. In particular, one of the largest banks, the *Skandinaviska Kreditaktiebolaget*, had granted the concern extensive credits. As these credits, though fully secured, would remain immobilised for a considerable time, the bank applied for temporary State assistance to restore its liquidity This assistance was granted by the National Debt Office to the extent of 100 million kronor in the form of a loan (redeemable within eight years) on security of the bank's registered certificates *(förlagsbevis* [4]) and, in addition, to the extent of 115 million kronor in the form of a credit against certain securities

[1] Excluding rediscounts

[2] Including, in addition to sight balances of commercial banks, a small amount of other clearing balances with the Riksbank (10 million kronor at the end of 1933)

[3] Gold counted at legal mint parity even after the suspension of the gold standard

[4] For explanation of the nature of this special form of security representing borrowed supplementary capital, see *Memorandum on Commercial Banks, 1913-1929*, page 254

pledged with the bank by the Kreuger concern. Pending the complete repayment of these advances, the bank's dividend must not exceed 8 per cent of the nominal value of its shares Apart from this State assistance, a number of commercial banks deposited with the bank in question sums amounting in all to 40 million kronor, half of which was not to be withdrawn for one year and the other half for two years. The bank subsequently wrote off or transferred to *del credere* accounts assets amounting to 89 million kronor, using for that purpose 39 million kronor from current profits and available special funds and 50 million kronor from its ordinary reserve fund. In closing its 1933 accounts at the beginning of 1934, when the bank had repaid 65 million kronor of the credit due to the National Debt Office and 20 million kronor of the sum deposited with it by Swedish commercial banks, it wrote off assets by another 10 million kronor, but was nevertheless able to resume dividend payments.

Several other banks incurred heavy losses in 1932, partly on account of credits to certain export industries which were severely hit by the general depression, but largely on account of loans granted customers on security of debentures and shares in the Kreuger and Toll Company and various other companies connected with that concern. Assistance to some of these banks was granted by the *Aktiebolaget Kreditkassan* (an official credit liquidation institute), to which reference was made in the previous edition of this *Memorandum*.

The depreciation in the exchange value of the krona was further accentuated in connection with the Kreuger crash, and, while imports were considerably reduced as from the early summer of 1932, exports recovered markedly as from the beginning of 1933 Capital movements were also affected. These factors largely explain the rapid increase in visible foreign exchange reserves and in the gold reserve up to the end of 1933, as shown in the above statement. On the other hand, the general level of prices was kept stable and a certain recovery in economic activity, and particularly in industrial production, was noticeable as from the summer of 1932. Nevertheless, the banks reduced heavily their loans on the security of shares and certain other credits which had previously been frozen. Although domestic discounts (excluding rediscounts) were actually increased, the total volume of outstanding credits declined between the end of 1931 and the end of 1933 by 15 per cent (or by 21 per cent, including the part of the bill portfolio ceded to the central bank), while deposits rose by 2 per cent. As a result, the commercial banks' rediscounts with the Riksbank dropped to nil in the summer of 1933 (since when no recourse has been had to the central bank for such borrowings), and the idle funds deposited by them on sight account with the Riksbank rose to an unprecedented level. In 1933, therefore, the cash position of the banks was exceptionally liquid and money rates fell to a level previously unknown in Sweden. [1]

The right of banks to acquire shares has repeatedly been discussed in Sweden Severe restrictions in this respect were imposed by the banking law of 1911 On June 2nd, 1933, certain amendments to this law were passed which went into force on January 1st, 1934. According to these amendments, the above right has been restricted to .

> (1) Shares in companies whose sole object is to administer real estate intended to serve as bank premises ,
>
> (2) Subject to royal warrant, shares in other Swedish banks, in foreign banking companies, or in Swedish companies founded for a purpose which may be considered beneficial for banking or in the public interest

The banks still have the right, however, to take over other shares pledged as security for loans in order to protect themselves against appreciable loss, but such shares must be sold as soon as this may be done without loss

The recent amendments to the banking law also include certain regulations regarding the granting of credits by banks and, in particular, regarding loans on security of shares, advances to a single customer or group of customers associated in economic interests, etc In order to avoid unduly fettering the liberty of the banks, these regulations were not given the character of stringent rules, but of general directions On the other hand, the functions and authority of the official Bank Inspectorate, which must supervise the effective application of these directions, were at the same time extended or rendered more explicit.

A committee appointed by the Government to investigate the problem of medium-term credits to industry has recently proposed the creation of a semi-official institution to grant such credits for one to ten years against the issue of special debentures. It is anticipated that such an institution, while rendering considerable service particularly to smaller industries, would help to relieve the ordinary banks of certain credits which are not short-term in character.

[1] Since December 1933, both the official discount rate and the market rate for three-months' commercial paper have stood at 2 5 per cent

SWEDEN. COMMERCIAL BANKS **Table 21 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF					
	1925	1929	1930	1931	1932	1933
Number of Banks	32	30	30	30	30	29
Branches and Sub-Branches	1,050	1,015	1,015	1,016	1,012	
ASSETS.	Kronor (000,000's omitted)					
1 Cash	86	84	89	88	133	333
(a) Gold, silver and small coins	1	1	1	1	1	1
(b) Inland notes and balances with Central Bank	85	83	88	87	132	332
2. Other Items of a Cash Nature	40	43	46	47	47	58
3 Bills discounted and bought	903	1,047	1,150	1,066	1,239	1,166
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, Inland	854	966	1,028	976	1,169	1,103
(c) Commercial bills, Foreign	49	81	122	90	70	63
4 Investments and Securities	348	395	461	411	426	462
(a) Government	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—
6 Due from Banks (Correspondents)	272	302	208	170	266	229
(a) At home	137	89	93	83	172	140
(b) Abroad	135	213	115	87	94	89
7 Loans and Advances	3,347	3,203	3,408	3,392	3,031	2,802
(a) On current account	763	732	849	792	650	542
(b) Other	2,584	2,471	2,559	2,600	2,381	2,260
8. Cover for Acceptances	—	—	—	—	—	—
9. Premises, etc.	85	89	87	88	94	98
10. Sundry Assets	340	220	258	230	453	506
11. Total Assets	**5,430**	**5,383**	**5,707**	**5,492**	**5,689**	**5,654**
LIABILITIES						
12. Capital paid up	525	514	514	525	525	505
13. Reserve Funds	294	312	321	309	293	204
14. Profit-and-Loss Accounts, Dividend Accounts, etc	—	—	—	—	—	—
15. Cheques and Drafts in Circulation	87	93	82	76	61	72
16. Due to Banks (Correspondents)	331	319	458	320	334	354
(a) At home	211	208	212	257	287	245
(b) Abroad	120	111	246	63	47	109
17. Deposits	3,494	3,481	3,631	3,553	3,556	3,628
(a) Current accounts and sight deposits	700	659	681	610	625	674
(b) Savings accounts	780	688	710	686	648	643
(c) Time or fixed deposits	2,014	2,134	2,240	2,257	2,283	2,311
(d) Other deposits	—	—	—	—	—	—
18. Borrowings by the Banks	296	297	314	325	532	487
19. Acceptances and Endorsements	3	6	1	2	1	3
20. Sundry Liabilities	400	361	386	382	387	401
21. Total Liabilities	**5,430**	**5,383**	**5,707**	**5,492**	**5,689**	**5,654**
22. Unutilised balances of credits granted	267	310	269	257	238	254
23. Rediscounts	281	254	199	327	116	1
24. Borrowings against own or pledged securities	29	41	28	25	129	91
25. Guarantees	.	...	...	(265) [1]	151	156
26. Value of currency in cents of a U.S dollar at the end of each year	26.8	26.8	26.8	18.7	17.9	20.4 [2]

[1] January 30th, 1932.

[2] 16.8 cents of old gold content

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :				
	1925	1929	1930	1931	1932
Number of Banks	33	30	30	30	30
	Kronor (000,000's omitted)				
Capital paid up	525	514	514	525	525
Reserves and Undivided Profits	331	348	362	353	325
1. Gross Profits	**150.8**	**160.4**	**156.4**	**169.9**	**162.2**
To be deducted:					
2. Expenses	71 7	74.4	77.5	75.6	70.5
(a) Salaries, etc.	45 5	46 1	47 2	46 9	46 4
(b) Other working expenses	18 2	19 0	21 5	21 2	19 9
(c) Taxes, etc.	8 0	9.3	8 8	7 5	4 2
3 Reserved for Pension Funds, etc	0.4	1.2	1.1	0.5	0 3
4. Written off on (Depreciation Accounts for)	35.1	19.8	38 6	61 0	236 8
(a) Premises, etc.	1 0	1 9	2 1	0 8	0 8
(b) Investments and securities	3 4	1 4	2 5	28 1	43 9
(c) Other assets	30 7	16 5	34 0	33 0	192 1
5. Remaining Net Profit (+) or Loss (−)	**+ 43.6**	**+ 65.0**	**+ 39.2**	**+ 31.9**	**−145.4**
6. Carried forward from preceding year	36.6	35.0	41 1	44.2	31.7
7. Taken from Reserves or Capital	3 3	—	17.1	1 7	160.4
8. Total Amount disposed of for Dividends, etc.	**83.5**	**100.9**	**97.4**	**77.8**	**46.7**
9. Carried to Reserves	3.4	8 8	3.8	11 4	0.4
10. Dividends	40 1	51.0	49.4	34.7	19 1
11. Directors' Fees, etc.	—	—	—	—	—
12 Carried forward to following year	40 0	41 1	44 2	31 7	27 2
13. Total as above	**83.5**	**100.9**	**97.4**	**77.8**	**46.7**
14. Value of currency in cents of a U.S. dollar at the end of each year	26.8	26.8	26.8	18.7	17 9

Balance-sheet Summary.

1. *Cash.*

The sums given under *(a)* represent exclusively gold. Silver and small coins are not shown separately from domestic bank-notes and sight balances with the central bank.

2. *Other Items of a Cash Nature.*

The sums given in this group consist of cheques and bills payable at sight and foreign bank notes.

3 *Bills discounted and bought.*

Treasury bills are included under securities given in group 4. Inland discounts in group 3*(b)* exclude bills rediscounted, which, in conformity with the procedure adopted in the Swedish statistics, are given in a special account (item 23 of the summary table) outside the balance-sheet proper. In the following statement, the inland discounts are shown, including the rediscounts in conformity with the practice followed in most other countries.

	Kronor (000,000's)					
	1925	1929	1930	1931	1932	1933
Inland bills						
In portfolio	854	966	1,028	976	1,169	1,103
Rediscounted	281	254	199	327	116	1
Total	1,135	1,220	1,227	1,303	1,284	1,104

4 *Investments and Securities.*

	Kronor (000,000's)				
	1929	1930	1931	1932	1933
Government securities and interest-bearing bonds					
Inland	162	185	177	199	217
Foreign	135	173	126	98	63
Shares	98	103	108	129	182
Total	395	461	411	426	462

7 *Loans and Advances.*

The sums shown under *(a)* only represent amounts actually drawn; the undrawn balances of the credits opened by the banks are not included in the balance-sheets proper in the Swedish banking statistics. On the other hand, the total amount of credits opened is shown in these statistics as a separate account outside the balance-sheet. The undrawn balances obtained by deducting the sums included from those shown outside the balance-sheets are given separately in group 22 at the bottom of the summary table. In the following statement, the loans and advances, including the undrawn balances as above, are divided according to the nature of their cover:

	Kronor (000,000's)					
	1925	1929	1930	1931	1932	1933
Credits opened in current account						
Actually drawn	703	732	849	792	950	542
Undrawn balances	267	310	269	257	238	254
Loans	2,584	2,471	2,559	2,600	2,381	2,260
Total	3,614	3,513	3,677	3,649	3,269	3,056
Thereof granted against						
1 Mortgages	1,520	1,408	1,427	1,398	1,419	1,427
2 Shares	1,128	1,123	1,253	1,183	888	707
3 Bonds, goods or other real security	390	384	475	589	495	495
4 Personal guarantees	576	538	522	479	467	427
Total as above	3,614	3,513	3,677	3,649	3,269	3,056

17. *Deposits.*

The sums given under *(a)* include, in addition to sight accounts proper (giro and cheque accounts), deposits on less than one month's time or notice. In conformity with the principles adopted in the Swedish banking statistics, the potential sight liability represented by the unutilised balances of credits granted are not included under deposits in the summary table, but are shown as a separate account outside the balance-sheet. Had they been included, the sums under *(a)* would have been as follows:

	Kronor (000,000's)					
	1925	1929	1930	1931	1932	1933
Giro and cheque accounts	409	409	436	438	406	437
Unutilised balances of credits opened	267	310	269	257	238	254
Deposits under one month	291	250	245	172	219	237
Total	967	969	950	867	863	928

Deposits received on savings accounts (the sums shown under *(b)* in this group of the summary table) must not exceed 4,000 kronor for any one depositor. Withdrawals from savings account are, under the law, subject to one week's notice, but are, in practice, allowed at sight up to a maximum of 1,000 kronor per month. The savings accounts therefore serve the small customers of the banks as current accounts.

The sums given under *(c)* are shown in the banking statistics under the heading " deposit and capital accounts " and represent ordinary time deposits for periods varying between one and six months

Under the Bank Law, the total of a bank's deposits, less an amount corresponding to the sums held by it on deposit with other domestic banks, must not exceed eight times the amount of its own funds, [1] plus the funds borrowed through issue of *förlagsbevis* (see note to group 18 below)

On the other hand, the banks must maintain a cash reserve in easily realisable assets which, together with the actual cash, must amount to not less than 25 per cent of all their liabilities payable on demand.

18. *Rediscounts and Other Borrowings by the Banks.*

The sums given in this group of the summary table are headed in the banking statistics " borrowings from other than banks and savings banks ". They include the bonds of a mixed commercial and mortgage bank *(Stockholms Inteckningsgaranti, A.B.)* and registered certificates *(förlagsbevis)* issued by some of the banks for the purpose of strengthening their position so as to comply, *inter alia*, with the legal minimum requirements regarding ratio of own funds to deposits referred to in the preceding note (see also introductory note) In addition, the banks have frequent recourse to rediscounting of bills almost exclusively with the central bank. As mentioned in the note to group 3 above, these bills and the liability incurred in respect of them are not included in the balance-sheet proper in the banking statistics. The borrowings of the banks against their own securities or securities received as collateral for loans are likewise excluded and are shown outside the balance-sheet If these two items be added, the following totals are obtained

	Kronor (000,000's)				
	1929	1930	1931	1932	1933
Borrowings from other than banks .					
Mortgage bonds . .	135	150	160	151	147
Förlagsbevis .	150	150	150	258	256
Other borrowings . . .	6	5	6	123	84
Total (group 18).	297	314	325	532	487
Rediscounts . .	254	199	327	116	1
Borrowings against own or pledged securities.	41	28	25	129	91
Grand total	592	541	677	777	579

Summary of Profit-and-Loss Accounts.

It will be seen from the summary table that the losses written off assets in 1932 considerably exceeded the aggregate of the current profits and the " carry-over " from the preceding year. A very substantial part of the losses were met by drawing on reserves and, in the case of certain banks, even on the share capital In the latter case, however, the banks concerned called upon their shareholders to pay up the deficiency (in conformity with the prescription of the banking law) so as to restore the capital to its previous amount. This explains why the loss of share capital, although included in item (7) of the summary table, is not apparent in the figures for capital paid up. Profit-and-loss statistics for 1933 are not available at the time of writing ; but, from such individual bank accounts as have been published, it would appear that losses in that year were much smaller in the aggregate than those suffered in 1932.

[1] In the case of a bank possessing own funds of not more than 5 million kronor, the deposits must not exceed five times the amount of these funds

SWITZERLAND

Introductory Note.

The structure of the Swiss banking system and its development up to 1929 were described in detail in the last issue of this *Memorandum*. The figures shown in Summary Table 22*(a)* suggest that, between the end of 1929 and the end of 1932, there was a relatively slight contraction in the total balance-sheet of Swiss commercial banks, and that the net changes in the aggregates of the more important items - loans and deposits — were also comparatively small. This summary table is, however, based upon the returns of several groups of institutions, including cantonal banks whose deposits enjoy a public guarantee. The accounts of the big banks, which transact the bulk of the genuine commercial banking business in Switzerland, have undergone quite a different development in the course of the economic depression from the accounts of the cantonal and local banks. It is therefore necessary to consider them separately, and the principal balance-sheet items of the big banks at the end of each year since 1930 are set out below:

	Francs (000,000's)		
	1930	1931	1932
1 Cash, etc.	344	995	970
2 Bill portfolio	1,483	951	807
3 Securities, etc.	300	281	266
4 Correspondent debtors	1,651	718	538
5. Loans on current account	3,115	2,562	2,298
6 Capital, reserves, etc.	1,163	1,206	1,171
7 Correspondent creditors	850	470	376
8. Deposits [1]:			
(a) Current accounts	1,386	1,520	1,489
(b) Time deposits	2,580	1,782	1,433
9 Acceptances	673	339	193
10 Total balance-sheet	8,578	7,171	6,429

[1] Excluding cash bonds

Between the end of 1930 and the end of 1932, the total balance-sheet of the big Swiss banks fell by 2,150 million francs, or 25 per cent. Figures comparable to those given above are not available for the end of 1929, but it is known that, in the course of 1930, the total balance-sheet of these banks increased by about 500 million francs.

A striking feature of the development of the banks' accounts since 1930 is the greatly increased importance of the cash item, which more than doubled between 1930 and 1932, rising from less than 9 to over 33 per cent of total deposits. As early as 1930, the big banks, in view of the general feeling of economic insecurity, began to increase their cash resources, and a large part of the foreign capital deposited in Swiss banks and the Swiss capital repatriated in 1930 and 1931 was maintained by the banks in liquid form. It is generally understood that an appreciable part of the increase in cash holdings in recent years has taken the form of gold. The Swiss banks are not required to show their gold holdings separately from other cash, but an analysis of the gold import and export statistics and the returns of the National Bank shows that net imports of gold exceeded the increase in the gold stocks of the central bank held at home by 270 million francs in 1931 and 180 million francs in 1932. A small part of the excess represents gold taken by the industrial arts ; the remainder must be held by private individuals and by banks, for their own account or for account of others. It must be pointed out, moreover, that this comparison fails to take into account any gold held by the private banks under earmark abroad. (See also note to group 1 in Balance-sheet Summary below).

It is not possible to determine from the Swiss banking statistics the amount of foreign capital which has sought refuge in the country. The increase in current account deposits shown in the above statement for 1931 is no doubt largely due to foreign accounts, and the decline in 1932 coincides with a withdrawal of capital towards the end of that year ; but this period was one of considerable domestic credit contraction, and foreigners' accounts cannot be segregated from those of Swiss nationals. Time deposits fell by 1,150 million francs between the end of 1930 and the end of 1932. This decline is partly explained by diminished savings consequent upon the economic crisis, partly by mass withdrawals from certain banks resulting from lack of confidence, and partly by the reduction in interest rates paid by the banks. The average rate of interest paid by the big banks on savings and time deposits fell from $3\frac{2}{3}$ per cent in 1930 to less than 3 per cent in 1931 and $2\frac{3}{4}$ per cent in 1932. The extent of

currency hoarding during the financial crisis of 1931 may be gauged from the movement of the note circulation of the National Bank, which increased by almost 700 million francs between the middle of May and the end of 1931.

Correspondent debtors showed a more marked decline, both absolutely and relatively, than any other asset item between the end of 1930 and the end of 1932. The fall in this item is chiefly due to the withdrawal by Swiss banks of short-term credits previously extended to Central Europe and was particularly sharp in 1931, the smaller decline in 1932 — when exchange-control regulations and standstill agreements prevented any further large withdrawals — represents chiefly the conversion of short-term credits to Germany into long-term investments under Clause 10 (the so-called "Swiss Clause") of the Standstill Agreement of February 1932. The banks' bill portfolio also fell very sharply in 1931, due partly to the failure to renew foreign bills upon expiry. The internal demand for discount credits was reduced in consequence of the fall in prices and the low level of economic activity. The big banks' current account credits fell by over 800 million francs, or 25 per cent, between the end of 1930 and 1932; this reduction, more especially in 1931, also in large part represents loans abroad. The sharp decline in acceptances partly reflects the fall in international trade, in part, it also reflects the elimination from the banks' balance-sheets of own acceptances discounted, and, in part, the conversion of acceptance credits into cash credits.

Reference has already been made to the fact that the big banks in Switzerland underwent a different development during the crisis from the other groups of banks. The following statement shows the principal accounts of the various groups of banks at the end of 1930 and 1932:

Group	Number of institutions		Deposits: Francs (000,000's)		Deposits: Per cent of commercial banks		Discounts, loans, etc.: Francs (000,000's)		Discounts, loans, etc.: Per cent of commercial banks		Total balance-sheet: Francs (000,000's)		Total balance-sheet: Per cent of commercial banks	
	1930	1932	1930	1932	1930	1932	1930	1932	1930	1932	1930	1932	1930	1932
1 Big banks	8	8	5,644	4,487	38	32	6,081	4,444	39	31	8,578	6,420	43	35
2 Local banks														
Bigger	82	81	2,607	2,751	18	20	2,784	2,958	18	21	3,436	3,546	17	19
Smaller	100	100	415	440	3	3	421	454	3	3	507	536	3	3
3 Cantonal banks	27	27	5,993	6,231	41	45	6,175	6,459	40	45	7,465	7,686	37	43
Total Commercial Banks (1-3)	*217*	*216*	*14,719*	*13,909*	*100*	*100*	*15,461*	*14,315*	*100*	*100*	*19,986*	*18,188*	*100*	*100*
4 Raiffeisen banks' association	1(516)	1(571)	247	298			235	290			267	325		
5 Savings banks	92	92	1,177	1,310			1,025	1,139			1,266	1,411		
6 Trust companies	46	47	128	103			634	541			1,725	1,657		

The last column of the above table indicates that the decline in the total balance-sheet of Swiss commercial banks between 1930 and 1932 shown in Summary Table 22*(a)* is entirely to be ascribed to the big banks. The balance-sheet totals of all other groups of commercial banks rose during these years, most markedly in the case of the cantonal banks. The share of the big banks in the total balance-sheet of all banks here classified as commercial fell from 43 per cent in 1930 to 35 per cent in 1932, while the share of the cantonal banks rose from 37 to 43 per cent — the cantonal banks thus becoming, from the point of view of total balance-sheet, the largest group in Switzerland. The share of the local banks also increased somewhat, more particularly the larger institutions.

The columns for deposits and discounts show similar movements. Deposits in savings banks also increased, as did those in the co-operative credit associations. It will also be noted that the number of units affiliated to the Raiffeisen banks' association (shown in brackets) increased during this period. The total balance-sheet of the trust companies, deposits in which are of small relative importance, fell between 1930 and 1932.

The only change in the number of commercial banks operating in Switzerland resulted from the failure of the Banque de Genève — one of the bigger local banks — in the summer of 1931. In July of that year, the Comptoir d'Escompte de Genève, a big bank, absorbed the Union financière de Genève, a trust company, and took the title "Banque d'Escompte suisse". The position of the Union financière had been affected both by the American stock market collapse and by the events in Central Europe in the previous months. The Comptoir d'Escompte, which was also in a weak position, reduced its capital from 60 million to 42 million francs, and used the difference, together with 8.5 million francs taken from reserves,

to write off losses Its capital was subsequently increased to 110 million francs by the issue of 28 million new ordinary shares and 40 million preference shares.

From the moment of the amalgamation, the Banque d'Escompte suffered from continuous withdrawal of deposits, due largely to the lack of confidence created by the collapse of the Banque de Genève, with which the Comptoir d'Escompte was closely associated In order to cover the very extensive withdrawals, it called on other commercial banks and the Caisse des Prêts (see below), which granted it credits amounting to 116 million francs Eventually, in April 1933, a reconstruction of capital was arranged The share capital of 110 million francs was reduced to 40 millions (B capital) and new capital amounting to 35 millions (A capital) was provided as follows : the Confederation converted claims of 20 million francs into shares, the creditor banks converted claims of approximately 14 millions and a further 1 million was raised by new subscriptions. The capital reduction and the new capital were used to cover losses on investments, shown at 23 million francs in the 1932 balance-sheet ; 44 millions were used for writing off, or constituting reserves against, frozen credits , and the remainder was applied to depreciation on account of correspondents and premises

The Confederation was also authorised to deposit 15 million francs with the Bank in order to increase its liquidity The help of the Confederation was made dependent upon the following conditions : (1) measures of re-organisation within the Bank : reduction of working costs, limitation of foreign business, etc , (2) new shares of 15 millions to be taken up by other banks (see above) , (3) other banks and the Canton of Geneva to accord the bank a credit of not less than 15 million francs and (4) other banks' time-deposits with the Banque d'Escompte, amounting to approximately 40 million francs, not to be withdrawn until the end of 1934.

Two months after the ratification of this scheme, the Banque d'Escompte absorbed the Banque de Dépôts et de Crédit (Genève), with which it had been closely connected for some years, and which recorded losses amounting to almost the whole of its capital and reserves Each shareholder of the Banque de Dépôts received two B shares of the Banque d'Escompte (nominal value 1 franc each) and one *bon de caisse* of 25 francs

The Caisse des Prêts (Eidgenossische Darlehenkasse) referred to above was created in the summer of 1932 as a temporary instrument for the purpose of assisting banks and other enterprises in difficulties. It is authorised to grant loans against second-class paper ; paper bearing its endorsement is eligible for rediscount by the National Bank. It can issue interest-bearing *bons de caisse* with a currency of not more than five years. Its liabilities must not exceed 200 million francs. It is supported by a guarantee fund of 100 millions, of which 75 millions were provided by the Confederation and 25 millions by Swiss banks and other enterprises Liabilities exceeding this sum are guaranteed by the Confederation. The whole of its profits are to be placed to a reserve fund At the end of 1933, loans of the Caisse des Prêts outstanding amounted to almost 70 million francs ; the greater part of its funds was raised through rediscounting at the National Bank.

In the course of 1933, three of the big banks (the Basler Handelsbank, the Banque Fédérale and the Union de Banques suisses) sought authorisation from their general assemblies to purchase below par and cancel part of their outstanding share capital and to write off losses to a corresponding amount This operation has by now been carried through in the case of each of the banks concerned, the first two having thereby reduced their capital by 25 million francs and the third by 20 millions.

In November 1933 the Banque populaire suisse (Schweizerische Volksbank), one of the largest commercial banks in Switzerland, announced a scheme of capital reconstruction in view of the heavy losses it had suffered through its foreign loans and on its advances to the hotel and watch-making industries This bank is a co-operative credit institution, drawing its funds from semi-autonomous branches all over the country, and has no fewer than 350,000 depositors and 100,000 shareholders. Consequently, the Confederation was willing to grant the extensive assistance required to protect depositors against loss and to prevent the complete wiping-out of share capital The latter, amounting to 186 million francs, was reduced by half to 93 millions and reserves from 29 to 3 5 millions. This reduction in the bank's own funds by 118 million francs was effected in order to offset losses incurred or anticipated to the amount of 82 million francs, and contingent losses of 36 millions. Shareholders, the nominal value of whose holdings had been reduced by 50 per cent, received certificates entitling them to benefit from the eventual reimbursement of frozen credits written off

New capital of 100 million francs was provided by the Confederation, of which 25 per cent to be paid immediately. As conditions of this assistance, it was laid down that the internal administration of the bank should be re-organised, that the Confederation should be represented at the General Assembly in proportion to its holding of shares and should name a majority of the Directors, that it should have the right to inspect books and to control transactions, and to approve of the balance-sheet published by the bank

In December 1933, the Bank für Graubunden at Chur, operating with capital and reserves of less than 5 million francs, disclosed considerable losses, mainly on loans to the hotel industry, and

SWITZERLAND. COMMERCIAL BANKS **Table 22 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1925	1929	1930	1931	1932
Number of banks	208	212	217	217	216
ASSETS.	Francs (000,000's omitted)				
1. Cash	276	367	459	1,278	1,236
(a) Gold, silver and small coins	-	—	—		
(b) Inland notes and balances with Central Bank	—	—	—	—	
2. Other Items of a Cash Nature		—	-	—	
3. Bills discounted and bought	1,332	1,915	2,018	1,382	1,154
(a) Treasury bills	—	—	—	-	
(b) Commercial bills, Inland	—	—	-	—	
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities					
(a) Government	861	1,165	1,351	1,405	1,409
(b) Other					
5. Participations					
6. Due from Banks (Correspondents)	1,251	2,177	2,352	1,114	842
(a) At home	—	—	—		
(b) Abroad	-	—			—
7. Loans and Advances	9,520	13,056	13,443	13,203	13,161
(a) On current account	3,844	5,947	5,023	4,475	4,113
(b) Other	5,676	7,109	8,420	8,728	9,048
8. Cover for Acceptances	—	—	—		—
9. Premises, etc	180	171	180	187	197
10. Sundry Assets	193	214	183	207	180
11. Total Assets	**13,613**	**19,065**	**19,986**	**18,776**	**18,188**
LIABILITIES.					
12. Capital paid up	1,383	1,850	1,860	1,897	1,883
13. Reserve Funds	376	541	565	569	577
14. Profit-and-Loss and Dividend Accounts, etc	-	—	10	10	10
15. Cheques and Drafts, etc., in circulation		—	44	35	28
16. Due to Banks (Correspondents)	871	1,340	1,143	692	563
(a) At home	-	—	—	—	
(b) Abroad	—	—	—	—	—
17. Deposits	9,817	13,678	14,719	14,229	13,909
(a) Current accounts and sight deposits	2,741	3,756	2,287	2,449	2,418
(b) Savings accounts	2,571	3,294	4,422	4,575	4,680
(c) Time or fixed deposits	580	1,283	2,139	1,453	1,123
(d) Other deposits	3,925	5,345	5,871	5,752	5,688
18. Rediscounts and other Borrowings	528	665	659	734	789
19. Acceptances and Endorsements	400	702	733	385	235
20. Sundry Liabilities	238	283	244	225	194
21. Total Liabilities	**13,613**	**19,065**	**19,986**	**18,776**	**18,188**
22. Value of currency in cents of a U.S. dollar at the end of each year	19.33	19.44	19.48	19.24	19.24

ACCOUNTS	SUMMARY PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:				
	1925	1929	1930	1931	1932
Number of banks	208	212	217	217	216
	Francs (000,000's omitted)				
Capital paid up	1,382 8	1,849 8	1,869.0	1,897.3	1,882 3
Reserves and Undivided Profits	383 7	551.9	575.0	578.9	586 8
1. Gross Profits	**286.3**	**360.7**	**361.6**	**361.0**	**322.8**
To be deducted:					
2 Expenses	143.0	173.6	179.3	179.0	165.5
(a) Salaries, etc.	123 8	150 2	154 4	154 3	144 9
(b) Other working expenses					
(c) Taxes, etc	19 2	23 4	24 9	24 7	20 6
3. Reserved for Pension Funds, etc	–	–	1.2	1.0	1.2
4 Written off on (Depreciation Accounts for)	32 3	23 4	21 6	91 7	117.8
(a) Premises, etc.					
(b) Investments and securities	–	–	–	–	–
(c) Other assets	–	–	–	–	–
5 Remaining Net Profit	**111.0**	**163.7**	**159.5**	**89.3**	**38.3**
6. Carried forward from preceding year	7.0	10.9	10.0	9.9	9.7
7. Taken from Reserves or Capital	9.0	—	—	30.2	70.9
8. Total Amount disposed of for Dividends, etc.	**127.0**	**174.6**	**169.5**	**129.4**	**118.9**
9. Carried to Reserves	17.0	26 3	24.2	8.4	10.6
10. Dividends	96.1	131.5	131.2	108.8	102.7
11. Directors' Fees, etc	2.1	3.6	3.2	1.7	1.2
12 Other purposes	1.8	2.0	1.0	0 8	1.7
13. Carried forward to following year	9.2	11.2	9.9	9.7	2.7
14. Total as above	**127.0**	**174.6**	**169.5**	**129.4**	**118.9**
15. Value of currency in cents of a U S dollar at the end of each year	19.33	19 44	19 48	19.24	19.24

announced its intention, with a view to strengthening its position, of increasing its capital by 1.8 million through the issue of preference shares, of which part would be taken up by the Graubündner Kantonalbank Its liquidity was to be further increased by the granting of credits to the amount of some 6 million francs by the Kantonalbank, the Confederation and the Darlehenskasse. The existing share capital was not written down.

Since the last issue of this memorandum, the use of long-dated mortgage bonds has been introduced into Switzerland. Previously, the banks financed their mortgage loans through the issue of bank bonds and through fixed deposits At the beginning of 1931, two central mortgage-bond institutes, the Banque des lettres de gage d'Établissements de Crédit hypothécaire, and the Centrale d'émission de lettres de gage des banques cantonales, began to function The first was constituted by credit institutions of whose assets mortgage loans represented at least 60 per cent ; the second, as its name implies, by cantonal banks The paid-up share capital of both institutes was, at the outset, 5 million francs. The Banque des lettres de gage subsequently raised its capital to 10 millions. These central institutes, which bear a close

resemblance to the Swedish State Mortgage Bank, are authorised to issue mortgage bonds, with a currency of not less than fifteen nor more than forty years ; to invest the yield of these issues in long-dated loans to their own members or to certain other institutions, in mortgage annuities and mortgages on land improvement ; and to invest their own capital in various forms of mortgages, bills of exchange, securities, etc. They are entirely exempt from direct taxation and enjoy certain other fiscal privileges. It is stipulated that their total liabilities, including bond issues, shall not exceed 20 times their capital [1] By the end of 1933, the combined issues of these institutions amounted to 261 millions, of which 45 millions had been taken up by the Confederation.

A draft banking law is at present (January 1934) under consideration It provides, *inter alia*, for the annual audit of all bank balance-sheets by specially designated bodies, for more detailed balance-sheets, for a control by the National Bank of banks' loans abroad and foreign capital issues of an amount exceeding 10 million francs, for the special protection of savings deposits, and for the establishment of a Federal Supervisory Commission for Banks.

Balance-sheet Summary.

1. *Cash*

The official Swiss banking statistics do not distinguish between gold and other metallic currency on the one hand, and notes and balances with the Banque Nationale on the other hand Figures of bankers' balances with the central bank are, however, available from the reports of that institution, and they are compared with the total cash resources shown by all Swiss banks (including savings and co-operative banks as well as commercial banks) in the following statement ·

	1929	1930	1931	1932
	Francs (000,000's)			
Total cash holdings of all Swiss banks . .	376	467	1,290	1,254
Whereof Balances with National Bank. .	172	203	813	825
Difference . .	204	264	477	429

The last line represents the Swiss banks' holdings of small coin, notes and gold As it is unlikely that the first two items would have increased since 1929 — rather the contrary — it would appear that the whole of the increase shown in that item in recent years is to be ascribed to the accumulation of gold by the banks.

3. *Bills discounted and bought.*

No distinction is now made in the basic statistics between domestic and foreign bills. This detail was given by certain banks until 1929 (foreign bills amounting to 102 million francs being shown for that year, and to 53 millions for 1925), but the amounts of foreign bills shown were incomplete and, probably for that reason, the division was dropped in 1930

4 and 5. *Investments and Participations.*

The Swiss banks do not participate directly in industrial enterprises to the same extent as the banks in many other countries on the European continent ; but the big banks often exercise an influence through the intermediary of trust companies under their control.

In special statements, comprising all cantonal banks, six of the big banks, and most local banks, the annual statistical reports give the following details with regard to the composition of the investment portfolio

	1925	1929	1930	1931	1932
	Francs (000,000's)				
Swiss securities.					
Bonds	642	734	894	951	979
Shares	81	157	189	190	202
Total	723	891	1,083	1,141	1,181
Foreign securities.					
Bonds	38	74	91	74	60
Shares	13	40	51	60	56
Total	51	114	142	134	116
Grand total	774	1,005	1,225	1,275	1,297

[1] *Feuille fédérale*, July 2nd, 1930

The composition of the Swiss portfolio according to the nature of bonds and shares held is shown in the following statement, which includes all cantonal banks but a smaller number of big banks and local banks than the preceding statement.

	1925	1929	1930	1931	1932
			Francs (000,000's)		
Bonds of					
Federal Government and Railways	206	187	208	200	225
Cantons	116	144	168	186	174
Municipalities	70	58	97	89	88
Public Authorities total	392	389	473	475	487
Bonds of					
Banks	142	249	310	372	352
Trust companies	7	13	22	23	19
Other enterprises	62	83	89	81	121
Private undertakings total	211	345	421	476	492
Total bonds	603	734	894	951	979
Shares in					
Banks	17	51	60	67	78
Trust companies	7	53	57	46	48
Other enterprises	26	53	72	77	76
Total shares	50	157	189	190	202
Grand total	653	891	1,083	1,141	1,181

The figure shown in the above statement for bonds of "other enterprises" in 1932 includes *Pfandbriefe* to the amount of 51 million francs, shown without further designation in the official statistics

6 *Due from Banks*

The sums given in this group of the summary table are shown in the Swiss statistics under the heading "Correspondent debtors" and appear to consist almost exclusively of sight balances with banks and bankers. No distinction is made between banks at home and abroad

7. *Loans and Advances.*

The amounts shown under *(a)* are shown in the official statistics as debtors on current account without further subdivision. The Swiss banks, in particular the big institutions, allow overdrafts, and the following statement, covering all banks (savings banks, trust companies, etc., in addition to commercial banks), enables an estimate to be made of the importance of overdrafts in the total of current accounts and fixed loans and advances

Current accounts and fixed loans	Francs (000,000's)		
	1930	1931	1932
Covered	5,704	5,404	5,026
Uncovered	1,462	1,228	1,189
Total	7,166	6,632	6,215

Loans on current account include cover for acceptances, but, as acceptances are not shown separately from drafts under liabilities, it is not possible to make the appropriate deduction

The following is the composition of the amounts shown under *(b)* since 1930

	Francs (000,000's)		
	1930	1931	1932
Contangos	62	15	19
Long-term advances.			
Ordinary	1,472	1,479	1,384
Against mortgages	665	679	754
Mortgage loans	6,221	6,555	6,891
Total	8,420	8,728	9,048

12 and 13 *Capital and Reserve Funds.*

Reference should be made to the introductory note for details regarding the re-organisation of the capital structure of the big banks in recent years

14. *Profit-and-Loss Accounts, etc*

The balance-sheet summaries in the Swiss banking statistics do not give separate figures for these accounts, but include them in sundry liabilities, the detailed composition of which is not shown. Both gross and net profits are shown, however, in the detailed profit-and-loss summaries

15 *Cheques and Drafts in Circulation.*

This item is not shown separately in the Swiss banking statistics, but is grouped with acceptances under a common heading. The joint sums thus shown are given in group 19 of the summary table.

16. *Due to Banks.*

The sums given in this group of the summary table include cheque and giro accounts in addition to correspondent creditors. The latter are not shown separately in the Swiss banking statistics In addition, the statistics make no distinction between domestic and foreign accounts

17. *Deposits, etc.*

The sums given under *(d)* in this group of the summary table represent bank bonds *(Obligationen)* which, in Switzerland, largely take the place of time deposits. These are fixed interest-bearing bonds issued by nearly all the banks for periods varying from one to five years The banks use the same instrument for raising funds to finance their mortgage business ; since 1931, however, the banks have also issued long-dated mortgage bonds, which are included in group 18 of the summary table (see also Introductory Note).

In the following comparative statement, the figures given under I refer to the commercial banks and those under II refer to the savings banks, the Raiffeisen banks and the mortgage banks

End of ·	Francs (000,000's)														
	Current accounts			Savings accounts			Time deposits			Bank bonds			Total deposits		
	I	II	Total	I	II	Total	I	II	Total	I	II	Total	I	II	Total
1925 .	2,741	40	2,781	2,571	839	3,410	580	15	595	3,925	169	4,094	9,817	1,063	10,880
1929 . . .	3,756	52	3,808	3,294	1,010	4,304	1,283	21	1,304	5,345	240	5,585	13,678	1,323	15,001
1930 . .	2,287	44	2,331	4,422	1,095	5,517	2,139	10	2,149	5,871	276	6,147	14,719	1,425	16,144
1931	2,449	47	2,496	4,575	1,189	5,764	1,453	14	1,467	5,752	280	6,032	14,229	1,530	15,759
1932	2,418	47	2,465	4,680	1,265	5,945	1,123	16	1,139	5,688	280	5,968	13,909	1,608	15,517

18. *Rediscounts and Other Borrowings.*

Rediscounts are not shown in the Swiss banking statistics. The sums given in this group of the summary table consist of bonds representing " fixed loans " raised by the banks *(feste Anlehen)* and of the long-term mortgage bonds issued since 1931

Trust companies which are not included in the summary table raise a considerable proportion of their working capital through the issue of bonds.

19 *Acceptances and Endorsements*

The sums shown include drafts in addition to acceptances ; the latter are not shown separately in the Swiss banking statistics.

The acceptance business is almost entirely concentrated in the hands of the few big banks and the market is decentralised among the four financial centres — Zurich, Berne, Basle and Geneva

Summary of Profit-and-Loss Accounts.

1. *Gross Profits.*

The composition of gross profits by sources of revenue is shown below ·

Sources of revenue	Francs (000,000's)				
	1925	1929	1930	1931	1932
Discounts	69 9	86 0	80 9	73 6	59 0
Net interest and commissions .	150 3	195 8	190 2	196 8	172 5
Securities and participations . .	46 0	62 6	76 8	74 3	69 0
Other sources . .	11 0	8 9	12 8	15 8	21 6
Recovered from assets previously written down	2 4	1 0	0 9	0 5	0 7
Total . .	279 6	354 3	361 6	361 0	322 8
Sources not specified	6.7	6 4	—	—	—
Grand total . .	286.3	360 7	361.6	361.0	322 8

The figures referring to certain small banks giving no specification of their gross profits before 1930 are given in the above statement under the heading " sources not specified ".

UNITED KINGDOM AND IRISH FREE STATE.

Introductory Note.

The main features of the commercial banking system of the United Kingdom and Irish Free State were set out in some detail in the first issue of this *Memorandum*, and the significant trends in evidence up to 1929 were there examined The development since then may be analysed on the basis of the following figures, which show, for certain selected months, the chief accounts of the ten London clearing banks These banks account for some 95 per cent of the total resources of the sixteen British joint-stock banks covered by the attached summary table *(a)*, and may therefore be taken as representative.

	Average weekly figures (£ (000,000's))					
	September 1929	December 1930	September 1931	June 1932	December 1932	September 1933
1. Cash in hand and at Bank of England .	194 5	207 5	173 7	191 3	206 5	214 8
2. Balances with other banks in United Kingdom .	49 1	54 0	43 9	44 5	49 9	39 0
3 Money at call and short notice	153.8	144 5	108 3	115 5	128 1	92 1
4 Discounts (including Treasury bills)	224.1	321 5	236 9	277 7	497 9	355 0
5 Investments	256.2	284 7	304 0	339 7	472 4	563 2
6 Advances and other accounts .	987 1	931 0	913 2	853 5	776 4	751 3
7 Current, deposit and other accounts	1,791 8	1,875 8	1,771 8	1,704 4	1,983 1	1,957 9
8 Acceptances . . .	188 7	117 4	118 4	93 2	89 4	105 9
9. Capital and reserves .	133 8	135 1	135 1	125 3	125 4	125 8

Considering the period September 1929 to September 1933 as a whole, it will be seen that total deposits, etc., rose by £166 million Current accounts rose comparatively little, the increase falling mainly on deposit accounts, which represent, to a considerable extent, funds awaiting investment. The differences in the movements of current and deposit accounts for the London clearing banks[1] are brought out in the following statement

	£ (000,000's)		
	September 1929	September 1933	Increase
Current accounts	931	989	58
Deposit accounts . .	799	924	125
Total . .	1,730	1,913	183

In spite of this increase in deposits, which, indeed, is largely explained by the decline in private investment activity during the economic depression, there was a marked contraction of bank credit to industry and trade. This is reflected in the drop of £236 million, or 25 per cent, in loans and advances. Further, money at call and short notice dropped by £62 million. On the other hand, the banks' own investments increased by £307 million and their bill portfolio by £131 million. The detailed composition of the last two items is not shown in the returns It would appear, however that the bulk of the aggregate increase of £438 million in investments and bill portfolio consists of Government stocks and Treasury bills acquired by the banks with a view to strengthening their liquidity Acceptances fell by £83 million, a reflection of the sharp contraction in the volume of international trade

Thus, the ordinary commercial operations of the banks were greatly diminished during the four year period from September 1929 to September 1933 The increase in bank deposits was much more than counterbalanced by a decline in their average rate of turnover. This is reflected in the clearing-house returns. The town clearings of London banks, which are much affected by financial activity, fell from a monthly average of £3,340 million in the first ten months of 1929 to a monthly average of £2,290 million in the corresponding period of 1933, or by almost one-third. Metropolitan clearings, conventionally described as an indicator of London retail trade, fell by about 12 per cent and provincial clearing-house returns, which are frequently taken as representative of the general state of trade, dropped by some 25 per cent in this period.

[1] Current and deposit accounts as reported by the ten clearing banks according to the classification applied by the Macmillan Committee. These figures exclude the Irish deposits of the National Bank, Ltd , the totals are therefore lower than those given in the earlier statement

The following statement shows the percentage which each of the chief asset items of the London clearing banks was of total deposits at the beginning and end of the period under review :

	Percentage of various assets to total deposits	
	September 1929	September 1933
1 Cash in hand and with Bank of England. . .	10.0	11.0
2 Balances with other banks.	2 7	2.0
3 Money at call, etc . .	8 6	4.7
4 Bill portfolio	12 5	18.1
5 Investments.	14.3	29.0
6. Loans and advances . .	55.2	38.4

This statement brings out in striking fashion the increased relative importance of bills and investments, whose combined ratio to deposits rose from 27 per cent in September 1929 to 47 per cent in September 1933 ; while the ratio of loans and advances, representing chiefly credits to industry, dropped from 55 to 38 per cent. Cash in hand and at the Bank of England showed little fluctuation, but money at call and short notice constituted a much smaller proportion of the deposits at the later than at the earlier date.

A detailed analysis of commercial banking in the United Kingdom during the depression must distinguish two periods—first, the period of gradual contraction of credit from the beginning of the depression in the autumn of 1929 to the abandonment of the gold standard in September 1931 ; and, second, the period since the abandonment of the gold standard.

The economic stagnation which characterised the first period (September 1929 to September 1931) is reflected in a moderate decline in loans and advances (£74 million) *pari passu* with a similar decline in deposits (£80 million). The increase in bills and investments during this period was likewise moderate (£61 million) and did not even fully compensate the simultaneous decline in cash and money at call (£66 million). On the other hand, the catastrophic fall in the volume of international trade finds expression in a sharp decline in acceptances by £70 million, or almost 40 per cent. During the course of 1930, bad trade and depressed stock markets had resulted in an accumulation of idle funds on deposit with the joint-stock banks. Total deposits were £84 million higher at the end of that year than in September 1929. The detailed figures submitted to the (Macmillan) Committee on Finance and Industry show that the greater part of this increase took place in deposits on current account. In the course of 1930, the banks increased their bill portfolio by almost £100 million as compared with September 1929. As shown in the report of the Macmillan Committee, practically the whole of this increase was in the form of Treasury bills, a particularly liquid investment. The banks' investments in stocks rose by some £30 million in the same period. The increased demand for Treasury bills and the relative reduction in their supply resulting from the Government's conversion operations in the spring of 1930 resulted in a rise in their price — *i.e.*, a reduction in market rates of discount. The portfolio was again reduced in the first nine months of 1931, and money at call, after showing little change during the preceding period, also fell sharply. The decline in money at call reflects the less active conditions in the new issue market and at the stock exchange. Investments in stocks continued to increase and loans and advances to decline, though somewhat less rapidly than during the previous year The cash reserves of the banks fell substantially during the first nine months of 1931, due no doubt in part to the financial crisis and heavy loss of gold which occurred prior to the departure from the gold standard The large contraction in deposits, which were £164 million lower in September 1931 than in December 1930, was perhaps mainly due to the withdrawal of deposits from British banks on the part of foreign holders during the summer of 1931. Although there were no domestic runs on banks, some distrust was aroused as a result of the German banking crisis in the summer of 1931 ; the British banks were believed to be involved in Germany to a considerable extent. Idle funds did not come forward during this period, and there were some domestic withdrawals.

The British banks were not directly affected to any appreciable degree by the depreciation of the pound, as practically all their assets and liabilities were in sterling. Such balances as were held outside the country were in most cases in the form of gold currencies, while liabilities in foreign currencies were very small in relation to total resources

After the suspension of the gold standard, there was a further sharp fall in the volume of acceptances outstanding, the total for the London clearing banks falling by £29 million, or 25 per cent, between September 1931 and December 1932 By the latter date, acceptances had shrunk to less than half their volume in September 1929 Loans and advances fell even more sharply than previously, the total decline between the months mentioned amounting to £137 million, as compared with £77 million in the previous two years. In part, this decline in advances might represent the unfreezing of credit rather than the cutting down of credit lines, but it was no doubt mainly due to a genuine contraction of credit

After the suspension of the gold standard, the clearing banks' totals of cash and deposits show

a sharp reversal of the trend in evidence before September 1931. Cash in hand and at the Bank of England, which had fallen by £34 million in the first nine months of 1931, increased by £17 million between September 1931 and June 1932 and by another £15 million in the second half of 1932. Deposits rose by £53 million from September 1931 to June 1932 and by a further £220 million to December 1932, when they were some £200 million higher than in September 1929.

The explanation of these apparently anomalous movements of deposits and loans is to be found in the figures for bills and investments, which increased by £171 million and £168 million respectively between September 1931 and December 1932.

The period under review was one of increasing monetary ease and relaxation from the previous financial stringency At the beginning of 1932, confidence had not yet been restored. Bank rate stood at the high level of 6 per cent, to which it had been raised at the time of the official suspension of gold payments ; the Treasury-bill rate was 5 4 per cent and the yield on long-date Government securities was 5.55 per cent

The situation began to improve early in the year. Encouraged by the soundness of the budgetary position, by the Bank of England's early repayment of the foreign credits raised in the attempt to support sterling in August 1931 and by the high money rates prevailing, foreign funds began to return to London in large volume, particularly from the United States, which was undergoing a domestic banking crisis Bank rate was reduced to 5½ per cent in February and by successive stages to 2 per cent on June 30th. The yield on Treasury bills fell from 4 per cent in February to 0.6 per cent at the end of June. The Bank of England's holdings of Government securities rose from £35 million at the beginning of February 1932 to £67 million at the end of June , bankers' deposits increased from £70 7 to £83 9 million The liberal credit policy of the Bank of England was partly designed to prepare the way for the large Government conversion operations which took place at the end of June, when approximately £2,000 million of 5 per cent War Loan was converted on a 3½ per cent basis. Since the middle of 1932, further conversion operations of somewhat lesser magnitude have taken place , the total of Government debt converted or funded on a lower interest basis between the summer of 1932 and the autumn of 1933 amounts to about £2,580 million

Money rates continued easy in the latter part of 1932 and in 1933. The increase in bankers' cash in this period was largely due to the operations of the Exchange Equalisation Account, created on July 1st, 1932, by the Finance Act of that year. The Account was originally a Government Fund with a limit of £150 million, plus the balance of the old Dollar Exchange Reserve, amounting to £25 million ; in May 1933 its resources were increased by £200 million. The purpose of the Fund is, as its name suggests, to even out irregular movements in the exchanges Its original sterling resources were partly in the form of Treasury bills and partly in the form of an advance by it to the Exchequer, the latter item representing the difference between the legal size of the Account and the working capital it actually needed. The Fund has the power to buy and sell foreign exchange and to hold its assets in the form of sterling, gold or foreign exchange, as it deems desirable

When the Fund wishes to buy foreign exchange, it puts itself in funds to pay for the exchange by selling Treasury bills to the Bank of England, which acts as its banker The exchange is paid for by a cheque on the Bank of England in favour of the bank selling the exchange The net result is an increase in the Bank of England's holdings of Government securities, offset by an increase in bankers' deposits at the Bank of England, which are part of the banks' cash Unless the Bank takes steps to counteract this expansion in bankers' deposits (by selling Government securities, for example), a purchase of foreign exchange by the Account tends to provide a basis for credit expansion by increasing the cash reserves of the commercial banks A sale of foreign exchange by the Fund has, of course, the contrary effect

It would appear that, towards the close of 1932 and during the first part of 1933, the resources of the Exchange Account were, on the whole, utilised in the direction of preventing a rise in sterling. This policy, coupled with the low discount rate of the Bank of England, had the effect, for the reasons just analysed, of increasing the cash basis of the commercial banks They used these additional resources to enlarge their holdings of Treasury bills and longer-dated Government securities, which were purchased to an extent sufficient not only to compensate for the decline in advances, but also to absorb the increase in deposits, which might in part have arisen — at least indirectly — from these purchases. At the end of 1932, deposits in the London clearing banks stood at the highest level ever recorded. They have since shown a moderate tendency to decline, which is presumably due to the withdrawal of idle funds during the moderate revival of business activity in the first nine months of 1933. The net decline between the end of 1932 and September 1933 is entirely confined to deposit accounts.

The downward trend of money rates which was so marked a feature of 1932 showed no signs of being reversed in 1933, and during the first nine months of that year they stood at record low levels. Bank rate remained unchanged at 2 per cent as compared with an average rate of slightly more than 4 per cent in the first half of 1932 , during the first half of 1933, fine bank paper averaged 0.65 per cent, compared with 2 9 per cent a year earlier ,

and Treasury-bill rates, which averaged 2.6 per cent in the first half of 1932, averaged only 0.55 in the corresponding period of 1933. The rate continued to fall in the third quarter and reached 0.25 per cent late in September. This record low figure was, however, partly due to the fact that the bills offered were end-of-year maturities. Rates gradually stiffened in October and November, reaching almost 1 per cent at the end of the latter month.

Several factors were responsible for these low money rates. The gold stocks of the Bank of England rose from £120 6 million at the end of 1932 to over £190 million early in October 1933 , and there was, on balance, a considerable influx of foreign funds induced by fear of depreciation of the remaining gold-standard currencies The demand for credit was restricted on account of the low volume of business , and it was, moreover, the policy of the Government to maintain easy money conditions with the object of stimulating a rise in prices and a revival of trade.

Deposits underwent the usual seasonal contraction during the first months of 1933, but, on balance, their total was less than £30 million lower in September 1933 than in December 1932, and more than £90 million higher than September 1932. The clearing banks' cash reserves rose somewhat, but money at call, which had previously shown great stability, declined by a corresponding amount (£23 million). This decline was the consequence of inactive conditions in the discount market and the low money rates prevailing throughout this year. The clearing banks pursued the policy of maintaining minimum rates of 1 per cent for call loans , and, as bill brokers were able to borrow elsewhere at lower rates, there was a natural tendency for them to repay advances of this type from the clearing banks They were encouraged to do so by an intimation from the banks that they would not view such repayments in an unfriendly light.

The bill portfolio, which increased considerably until January 1933, fell very sharply (by almost £100 million) during the following three months, a fall which was only partly counterbalanced by a rise during the next four months, so that the total was almost £40 million lower in September 1933 than in September 1932. The division of discounts into Treasury and trade bills is not available, but it would appear that the decline was mainly due to lower holdings of Treasury bills Even though the total national floating debt increased during these months, a substantial part of the new bills were issued to the Exchange Fund, and not all of them found their way into active circulation. The heavy fall in money rates accentuated the diversion of funds into investments. It is likely that the volume of trade bills held by the banks was also reduced by the repayment of Central European " standstill " bills.

Advances continued to decline during the first nine months of 1933, and stood £25 million lower in September 1933 than in December 1932 and £53 million lower than in September 1932. There was an increase of over £10 million in May, but this reflects the loan of £30 million granted to the French Treasury by a consortium of banks, rather than any increased extension of trade accommodation. In the course of 1933, the clearing banks continued to increase their holdings of gilt-edged securities, which in September stood £91 million higher than in December 1932 and £180 million higher than in September 1932.

Scottish and Irish Joint-Stock Banks.

The experience of the Scottish banks during the depression was much the same as that of the English banks. As similar influences were at work in the two countries, it is not necessary to analyse the development in Scotland in detail The following table shows, for the joint-stock banks of Scotland and Ireland, the percentage which each of the more important items of the balance-sheets was of total deposits at the end of 1929 and at the end of 1932 :

	Scottish banks		Irish banks	
	1929	1932	1929	1932
Cash	15.0	15.1	12.6	15 0
Money at call	8.7	9 3		
Bill portfolio	8.5	7.3	2 8[1]	14 8[1]
Investments	32 9	49.1	48 5	50 1
Loans and advances	52 2	36 9	52 2	32 5
Acceptances	2.6	1 8	-	—

The Scottish banks habitually hold a higher proportion of their assets in the form of investments than the English banks. In 1929, investments totalled about one-third of deposits, and at the end of 1932, the proportion had risen to one-half. Unlike the English institutions, the Scottish banks did not greatly increase their holdings of Treasury bills.

The sharp rise in the bill portfolio of the Irish banks was almost entirely due to the banks of Northern Ireland and represents increased holdings of Treasury bills. Investments, which were already very high in comparison with either English or Scottish banks, were further increased, and the ratio of loans and advances to deposits fell sharply.

The accounts given in Table 23 *(a)* III for the joint-stock banks of the Irish Free State and Northern Ireland are based upon balance-sheet summaries published in the banking supplements of the *Economist*. Official returns relating to the banks of the Irish Free State are now being published

[1] Where shown separately from loans and advances.

quarterly in the *Irish Trade Journal*. These returns, which are prepared by the Currency Commission, represent averages of figures for a selected date in each of the three months of the quarter to which they relate. Figures showing the deposits and combined discounts and advances of the eight banks holding shares in the Commission[1] are available since the end of 1929, and complete balance-sheets of these banks and the National City Bank, Ltd.,[2] are available since the March quarter of 1932. The former figures are summarised below :

Quarter ending	£ (000,000's)					
	Deposit and Current Accounts			Bills discounted and Advances		
	Within the Irish Free State	Outside the Irish Free State	Total	Within the Irish Free State	Outside the Irish Free State	Total
December 1929	124 1	40.6	164 7	56 0	34 2	90 2
December 1930	122.5	40 6	163.0	53 0	30 9	83 7
December 1931	122 0	40 8	162 8	52.2	32 2	84 4

It will be seen that the proportion of deposits originating within the Irish Free State is considerably higher than the proportion of discounts and advances made there. This discrepancy is even more striking with regard to total balance-sheets, which are summarised in the following statement :

	£ (000,000's)					
Liabilities.	First quarter 1932	Second quarter 1932	Third quarter 1932	Fourth quarter 1932	First quarter 1933	Second quarter 1933
Capital and Reserves						
Irish Free State	13 1	13 1	13 1	13 1	13 1	13 1
Elsewhere	3 7	3 7	3 7	3 8	3 8	3 8
Total	16 8	16 8	16 8	16 9	16 9	16 9
Notes in Circulation						
Irish Free State	5 1	5 1	5 1	5 1	5 1	5 2
Elsewhere	2 9	3 0	2 9	2 9	3 0	3 1
Total	8 0	8 1	8 0	8 0	8 1	8 3
Deposits :						
Irish Free State	124 2	127 7	129 6	131 6	134 5	129 0
Elsewhere	39 2	40 3	43 3	45 4	46 6	46 9
Total	163 4	168 0	172 9	177.0	181 1	175 9
Total Liabilities.						
Irish Free State	145 4	149 3	151 0	153 0	156 0	151 3
Elsewhere	47 9	49 3	51 7	54 0	54 9	55 5
Total	193 3	198 6	202 7	207 0	210 9	206 8
Assets.						
Cash and Bank Balances :						
Irish Free State	4 4	5 7	4 5	1 9	4.6	5 6
Elsewhere	8 2	8.2	10 1	10 6	10 0	10 8
Total	12 6	13 9	14 6	15 5	14 6	16 4
Money at call, etc.						
Irish Free State	—	—	—	—	—	—
Elsewhere	10 3	10.2	10 5	10 9	14 7	12 0
Total	10 3	10 2	10 5	10 9	14 7	12 0
Bills :						
Irish Free State	7 1	7 1	7 1	7 4	7 8	5 9
Elsewhere	5 4	4 1	4 0	4 5	3 9	2 5
Total	12 5	11 2	11 1	11 9	11 7	8 4
Loans and Advances :						
Irish Free State	44 9	45 4	44 9	43 9	43 3	42 8
Elsewhere	27.9	27 7	27 2	26 3	25 6	25 5
Total	72 8	73 1	72 1	70 2	68 9	68 3
Investments :						
Irish Free State	3.6	4 0	4 9	5 2	5 2	5 2
Elsewhere	73.7	78 0	81 9	83 4	88 1	88 5
Total	77 3	82.0	86 8	88 6	93 3	93 7
Total Assets :						
Irish Free State	63 3	65 7	64 5	64 7	64 2	63 0
Elsewhere	130 0	132 9	138 2	142 3	146 7	143 8
Total	193 3	198 6	202 7	207 0	210 9	206 8
Excess of assets outside Irish Free State over liabilities outside Irish Free State	82 2	83 6	86.5	88 3	91 9	88 3

[1] *i.e.*, the six Irish Free State Banks and the Ulster Bank and the Northern Banking Company.
[2] A subsidiary of the Bank of Ireland.

The accounts outside the Irish Free State include Northern Ireland as well as Great Britain. Capital and reserves have evidently been distributed according to some conventional basis. About three-quarters of total deposits appear to arise within the Irish Free State and one-third of cash is held there. Cash held within the Free State represents till money; further amounts are probably held at outside branches. Money at call is almost entirely in London. The bill portfolio in both the Irish Free State and Ulster would appear to consist largely of discounts of promissory notes, rather than genuine trade bills. The relatively high proportion of loans made outside the Irish Free State has already been commented upon, it is partly due to the fact that the banks of Northern Ireland maintain a closer relationship with industry than those of the Irish Free State. A strikingly high proportion of investments are held "elsewhere", they consist largely of British Government securities.

The bottom line of the above table is useful in gauging the movement of the balance of payments of the Irish Free State, as practically all debit and credit items are transferred through the banks. It will be seen that there was a steady inflow of funds from the first quarter of 1932 to the first quarter of 1933. This was reversed during the second quarter of the latter year, due in part, no doubt, to the tariff war with Great Britain.

Private Banks in England and Wales.

Although these institutions conduct practically all the banking business undertaken by the joint-stock banks, they have been omitted from the summary tables for England and Wales because their published statements of accounts are very condensed and cannot be adapted to the form used in these tables. A statement of the position of the private banks (in the form given in the *Economist*) for the years contained in the summary table is given opposite.

It will be seen that the private banks were much more seriously affected by the economic depression than the joint-stock banks. Their aggregate balance-sheet shows a contraction of almost 50 per cent between the end of 1929 and the end of 1932. Not only were deposits reduced very sharply, but partners' capital and reserve funds were written down to cover losses on loans and discounts. Investments were reduced less, proportionately, than other groups of assets and they accounted for a somewhat higher percentage of total deposits in 1932 than in 1929.

PRIVATE BANKS	1925	1929	1930	1931	1932
Number of banks	4	4	4	4	4
ASSETS.	£ (000 000's)				
1 Cash in hand, money at call and short notice . .	2.8	4.2	3.8	2.1	2.2
2. Investments .	5.1	4.2	6.1	2.2	2.7
3 Advances, loans, bills and other securities . .	22.3	24.0	20.1	20.9	11.9
4. Miscellaneous	5.2	7.3	6.7	1.9	3.9
5. Total assets . .	35.4	39.7	36.7	30.1	20.7
LIABILITIES.					
6. Partners' capital and reserve . .	2.6	3.4	3.5	3.2	2.4
7 Deposit and current accounts	27.8	29.2	26.8	22.2	14.9
8 Miscellaneous .	5.0	7.1	6.4	4.7	3.4
9 Total liabilities.	35.4	39.7	36.7	30.1	20.7

Acceptance Houses and Discount Companies.

Unfortunately, statistics are not published regularly showing the detailed accounts of the merchant bankers, or acceptance houses. The joint-stock banks have devoted increasing attention in recent years to the acceptance of bills of exchange, but the bulk of this business is carried on by special institutions. The acceptance houses also keep current accounts and act as agents for foreign bankers and as intermediaries of foreign Governments in the flotation of loans. Discount companies also operate to some extent with funds borrowed abroad.

It is not possible to state with any precision the extent of the London money market's short-term indebtedness abroad. The joint-stock banks, as well as the Bank of England, receive foreign deposits and hold sterling bills accepted on foreign account; the discount market borrows abroad. Short-term foreign assets arise from the fact that accepting houses and joint-stock banks accept bills on foreign account. The following table was constructed by the Macmillan Committee on the basis of information furnished it by the banks, acceptance houses, etc.

	End of 1927	End of 1928	End of 1929	End of 1930	End of March 1931
			£ (000,000's)		
Deposits of Foreign Banks, etc., with:					
Bank of England, clearing banks and Scottish banks	116 8	139 5	118 3	164 6	146 2
Accepting houses	89 3	104 3	79 2	82 1	81 0
1. Total deposits	206 1	243 8	197 5	246 7	227 2
Sterling Bills held on Foreign Account through:					
Bank of England, clearing banks and Scottish banks	161 6	195 3	200 2	144 7	136 8
Accepting houses	13 1	16 9	19 4	8 0	7 4
2 Total bills	174 7	212 2	219 6	152 8	144 2
Advances to Discount Market by:					
Banks with head offices abroad	35 6	43 4	30 5	33 6	33 6
Other foreign customers	2 8	3 6	3 5	1 5	2 1
3 Total advances	38 4	47 0	34 0	35 1	35 7
4. Total deposits, bills and advances (1+2+3)	419 2	503 0	451 1	434 6	407 1
Acceptances on Foreign Account by:					
Clearing banks and Scottish banks	31 7	38 5	51 6	43 2	32 3
Accepting houses	107 9	126 9	150 9	132 1	120 6
5 Total acceptances	139 6	165 4	202 5	175 3	152 9

Stress must be laid on the incomplete character of these estimates They clearly indicate, however, that, for the dates covered, the London money market's short-term indebtedness abroad was very much higher than its short-term assets abroad. This fact largely explains the sensitiveness of the London money market to the financial crisis on the Continent in the summer of 1931 The foreign short-term assets of the City became largely frozen as a result of that crisis , the vulnerable position of London was generally known, and foreign funds were withdrawn in large quantities It was this open position of the London money market which precipitated the abandonment of the gold standard in September 1931. A comparison of total 4 with total 5 in the above table shows that, in the period covered, liabilities to foreigners in the form of deposits, bills and advances ranged from £400 to £500 million, while foreign short-term assets in the form of acceptances ranged from £140 to £200 million

Like the joint-stock banks, the discount houses employed a much larger proportion of their resources in the form of investments in 1932 than in 1929. The aggregate of their discounts did not fall very sharply over the period considered, and rose somewhat in the course of 1932

Discount Houses	1925	1929	1930	1931	1932
Number of institutions	3	3	3	3	3
ASSETS			£ (000,000's)		
1. Cash at bankers	2 4	2 6	2.7	2.4	2.7
2 Investments	10 5	13 5	17.2	13 7	20.2
3 Bills discounted	110 5	121 6	125 6	111.2	117 0
4 Loans and sundry accounts	5 5	2.5	1.8	1 2	2.8
5. Total assets	128 9	140 2	147.3	128.5	142.7
LIABILITIES					
6. Capital and reserves	5 6	6 2	7 0	7.0	7 0
7. Loans, deposits, etc (including undivided profits)	87 8	92 4	98 5	86 4	105 0
8. Bills rediscounted	34 0	40.3	40.5	33.7	28 9
9. Rebate, etc.	1.5	1.3	1.3	1.4	1 8
10 Total liabilities	128 9	140.2	147.3	128.5	142 7

* * *

The development of deposits in savings institutions may be compared with that in the commercial banks in the table on the following page, which continues and brings up to date similar statistics given in the first issue of this *Memorandum*.

Unlike the experience in most other countries, there does not appear to have been any shift of deposits from commercial to savings banks in the United Kingdom during the economic depression. Deposits in post-office and trustee savings banks increased quite steadily, being £58 million, or almost 15 per cent, higher at the end of 1932 than at the end of 1929; but this increase cannot be taken to represent a withdrawal of deposits from commercial banks, as the latter rose by £200 million during the same period National savings certificates rose by £19 million in 1930 and fell by almost £30 million in the next two years.

	£ (000,000's)					
		Savings banks				
	Joint-stock and private banks	Trustee savings banks	Post-office savings banks	Total	National savings certificates	Total of columns (*d*) and (*e*)
	(*a*)	(*b*)	(*c*)	(*d*)	(*e*)	
1925	2,258.1	110.4	288.9	399.3	479.2	878.5
1929	2,367.5	124.5	289.3	413.8	487.9	901.7
1930	2,436.8	133.2	294.8	428.0	506.7	934.7
1931	2,264.7	143.0	294.4	437.4	489.3	926.7
1932	2,552.0	159.2	311.8	471.0	478.9	941.9

Balance-sheet Summary.

1 and 2. *Cash Assets, etc*

The combined sums shown for the first two groups of the summary table include the following items : *(a)* "Cash in hand" consisting of coin, bank and currency notes and balances with the Bank of England: *(b)* balances with, and cheques in the course of collection, on other banks; *(c)* money at call and short notice. The balance-sheet form employed for the statistical summaries of the *Economist* distinguishes between *(c)* and the total of *(a)* and *(b)* wherever *(c)* is shown separately in the published accounts. It is, in fact, shown separately by all the leading banks throughout the period under review. In the case of the banks not showing money at call as a separate item, the total of *(a)*, *(b)* and *(c)* has been included in the first column of the statement below

End of	Cash in hand and at the Bank of England Balances with and cheques on other banks	Money at call and short notice	Total (corresponding to the sums shown in summary table)
	£ (000,000's)		
	I. *Joint-Stock Banks in England and Wales.*		
1925	291.6	127.8	419 4
1929	328.4	152.9	481 3
1930	325.6	146.8	472 4
1931	288.7	125.8	414.5
1932	296.9	149.3	446 2
	II. *Scottish Banks.*		
1925	28.2	21.5	49.7
1929	40 2	22.1	62.3
1930	40.2	23.6	63.8
1931	39.3	21.1	60.4
1932	42.0	26.1	68.1

III. *Irish Banks.*

	I.F.S.	N.I.	Total	I.F.S.	N.I.	Total	I F.S.	N.I.	Total
1925	12.1	5.9	18.0	5.9	—	5.9	18.0	5.9	23.9
1929	8.9	6.2	15.1	7.2	—	7.2	16.1	6.2	22.3
1930	8.2	5.8	14.0	6.7	—	6.7	14.9	5.8	20.7
1931	7.7	5.8	13.5	9.9	—	9.9	17.6	5.8	23.4
1932	9.7	8.0	17.7	11.8	—	11.8	21.5	8.0	29.5

UNITED KINGDOM AND IRISH FREE STATE.

Table 23 *(a)*

I. JOINT-STOCK BANKS IN ENGLAND AND WALES

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of : Banks	18	16	16	16	16
Branches and Sub-Branches	8,873	9,815	10,082	10,178	10,066
ASSETS.	£ (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank.	441 8	481.3	472.4	414.5	446 2
2. Other Items of a Cash Nature					
3. Bills discounted and bought	227 1	224 3	316 4	234.1	389 2
(a) Treasury bills.	—	—	—	—	—
(b) Commercial bills, Inland.	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4 Investments and Securities.	292.8	260.7	303.4	304.7	496 6
(a) Government	258 9	232 5	275 6	275 6	459 0
(b) Other	33 9	28.2	27.8	29 1	37 6
5. Participations	24 8	24.4	25.9	24.8	24 3
6. Due from Banks (Correspondents).	—	—	—	—	—
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—	—	—
7. Loans and Advances.	930.8	1,026.5	964 6	931.7	799.1
(a) On current account	—	—	—	—	—
(b) Other	—	—	—	—	—
8. Cover for Acceptances.	125 0	179.3	128 0	109.7	96 7
9. Premises, etc.					
10. Sundry Assets	31.5	42.3	45.0	52.0	50.2
11 Total Assets	**2,073.8**	**2,238.8**	**2,255.7**	**2,071.5**	**2,302.3**
LIABILITIES					
12. Capital paid up.	74 0	78.1	80 0	80.0	80.0
13. Reserve Funds	60 8	63.5	64.4	54.5	55.3
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	6 9	6.6	6.2	6.0	5.9
15. Notes in circulation	0 1	0 1	0.1	0.1	0.1
16. Cheques and Drafts, etc., in circulation	—	—	—	—	—
17. Due to Banks (Correspondents)					
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—	—	—
18. Deposits	1,806.8	1,911 0	1,976.8	1,821.0	2,064.3
(a) Current accounts and sight deposits	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—
(d) Other deposits	—	—	—	—	—
19. Acceptances and Endorsements.	125.0	179.3	128.0	109.7	96.7
20. Sundry Liabilities.	0 2	0.2	0.2	0.2	—
21. Total Liabilities.	**2,073.8**	**2,238.8**	**2,255.7**	**2,071.5**	**2,302.3**
22. Value of currency in cents of a U.S. dollar at the end of each year.	486.65	486.65	486.65	337.37	327.87

UNITED KINGDOM AND IRISH FREE STATE.

Table 23 *(a)*.

II. SCOTTISH JOINT-STOCK BANKS

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925	1929	1930	1931	1932
Number of : Banks	8	8	8	8	8
Branches and Sub-Branches	1,563	1,646	1,718	1,663	1,764
ASSETS	£ (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins					
(b) Inland notes and balances with Central Bank.	60.3	62.3	63.8	60.4	68.1
2. Other Items of a Cash Nature					
3 Bills discounted and bought.	21 0	21.6	21.6	28.8	30.3
(a) Treasury bills.	—	—	—	—	—
(b) Commercial bills, Inland.	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities.	95.2	83.7	98.1	101.4	136.7
(a) Government	89 6	76 6	88 9	91.5	125 0
(b) Other	5 6	7 1	9 2	9 9	11.7
5 Participations.	—	—	—	—	—
6 Due from Banks (Correspondents).	—	—	—	—	—
(a) At home.	—			—	—
(b) Abroad	—			—	—
7. Loans and Advances.	110 3	132 5	124 5	104 3	92 6
(a) On current account	—	—	—	—	
(b) Other	—	—	—	—	—
8. Cover for Acceptances.	6.1	6 5	4 8	4 8	5 1
9. Premises, etc.					
10 Sundry Assets	4 9	4 8	4 7	4 7	4 8
11 Total Assets	**297.8**	**311.4**	**317.5**	**304.4**	**337.6**
LIABILITIES					
12. Capital paid up.	11 4	12 0	13 1	13.5	13.5
13 Reserve Funds	12 5	15 7	17 0	17.2	17 3
14 Profit-and-Loss Accounts, Dividend Accounts, etc	1 6	1 9	2 0	1 9	1 9
15 Notes in circulation.	21.7	21 4	21.4	21 4	21 0
16. Cheques and Drafts, etc., in circulation	3.6	3.0	3 1	2.1	2.3
17. Due to Banks (Correspondents)	—			—	—
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—	—	—
18. Deposits	240 9	250.9	256.1	243.5	276.5
(a) Current accounts and sight deposits.	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits.	—	—	—	—	—
(d) Other deposits.	—	—	—	—	—
19 Acceptances and Endorsements.	6.1	6.5	4.8	4.8	5 1
20. Sundry Liabilities.	—	—	—	—	—
21. Total Liabilities.	**297.8**	**311.4**	**317.5**	**304.4**	**337.6**
22. Value of currency in cents of a U.S. dollar at the end of each year.	486.65	486.65	486.65	337.37	327.87

UNITED KINGDOM AND IRISH FREE STATE. **Table 23 *(a)*.**

III. IRISH JOINT-STOCK BANKS

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1925	1929	1930	1931	1932
Number of : Banks	9	9	9	9	9
Branches and Sub-Branches	1,025	1,064	1,063	1,071	1,079
ASSETS.	£ (000,000's omitted)				
1. Cash.					
(a) Gold, silver and small coins.					
(b) Inland notes and balances with Central Bank	24.0	22.3	20.7	23.4	29.5
2. Other Items of a Cash Nature					
3. Bills discounted and bought	7.8	4.9	26.0	26.1	29.0
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities.	87.4	85.6	89.2	85.5	98.3
(a) Government	—	—	—		—
(b) Other	—	—	—		—
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents).	—	—		—	—
(a) At home.	—	—	—	—	—
(b) Abroad		—	—	—	—
7. Loans and Advances	94.2	92.1	69.1	68.9	63.8
(a) On current account	—	—	—	—	—
(b) Other		—		—	—
8. Cover for Acceptances.	0.3	0.1	0.1	0.1	0.2
9. Premises, etc.	2.9	3.0	3.1	3.3	3.1
10. Sundry Assets					
11. Total Assets	**216.6**	**208.0**	**208.2**	**207.3**	**223.9**
LIABILITIES					
12. Capital paid up.	7.9	8.6	8.7	8.7	8.6
13. Reserve Funds	9.0	9.7	10.0	8.9	8.9
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	1.0	1.0	1.0	0.8	0.9
15. Notes in circulation.	15.1	10.2	9.4	8.7	8.8
16. Cheques and Drafts, etc., in circulation	—	—	—	—	—
17. Due to Banks (Correspondents)	—	—	—	—	—
(a) At home.	—	—	—	—	—
(b) Abroad	—	—	—		
18. Deposits	183.1	176.4	177.1	178.0	196.3
(a) Current accounts and sight deposits	—	—	—	—	
(b) Savings accounts	—	—		—	
(c) Time or fixed deposits.	—	—			
(d) Other deposits	—	—	—		
19. Acceptances and Endorsements.	0.3	0.1	0.1	0.1	0.2
20. Sundry Liabilities.	0.2	2.0	1.9	2.1	0.2
21. Total Liabilities.	**216.6**	**208.0**	**208.2**	**207.3**	**223.9**
22. Value of currency in cents of a U.S. dollar at the end of each year.	486.65	486.65	486.65	337.37	327.87

UNITED KINGDOM AND IRISH FREE STATE.

Table 23 *(b)*

I. JOINT-STOCK BANKS IN ENGLAND AND WALES

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :				
	1925	1929	1930	1931	1932
Number of Banks	14	12	12	12	12
	£ (000,000's omitted)				
Capital paid up	71.1	74 9	75.8	75.8	75.8
Reserves and Undivided Profits	64.1	67.4	67.8	57 6	58 3
1. Gross Profits	**13.90**	**13.98**	**11.94**	**10.89**	**9.88**
To be deducted :					
2. Expenses	—	—	—	—	—
(a) Salaries, etc.	—	—	—	—	—
(b) Other working expenses	—	—	—	—	—
(c) Taxes, etc.	—	—	—	—	—
3. Reserved for Pension Funds, etc	0.97	0 89	0 66	0.37	0.37
4. Written off on (Depreciation Accounts for)	1.39	1 48	0.73	0 03	0 25
(a) Premises, etc.	1 39	1 48	0 73	0 03	0 25
(b) Investments and securities	—	—	—	—	—
(c) Other assets	—	—	—	—	—
5. Remaining Net Profit	**11.54**	**11.61**	**10.55**	**10.49**	**9.26**
6. Carried forward from preceding year	5 75	6 19	6 06	5 84	5 90
7. Taken from Reserves or Capital	—	—	—	—	—
8. Total Amount disposed of for Dividends, etc.	**17.29**	**17.80**	**16.61**	**16.33**	**15.22**
9. Carried to Reserves	1.21	1.28	0.86	1 43	0.73
10. Dividends	9.86	10 46	9.91	8.94	8 60
11. Directors' Fees, etc	—	—	—	—	—
12. Carried forward to following year	6.22	6.06	5.84	5.96	5 89
13. Total as above	**17.29**	**17.80**	**16.61**	**16.33**	**15.22**
14. Value of currency in cents of a U.S. dollar at the end of each year	486.65	486.65	486 65	337.37	327.87

The London clearing banks issue statements of their average monthly position and of their position on June 30th and December 31st each year, drawn up on a common form These statements show each of the three items *a), (b)* and *(c)* separately ; the end-of-year figures for nine of these banks, which in 1932 accounted for about 93 per cent of the total " Cash Assets " of the joint-stock banks in England and Wales, are summarised opposite :

UNITED KINGDOM AND IRISH FREE STATE.

Table 23 *(b)*.

II. SCOTTISH JOINT-STOCK BANKS

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:				
	1925	1929	1930	1931	1932
Number of Banks	8	8	8	8	8
	£ (000,000's omitted)				
Capital paid up	11.4	12.0	13.1	13.5	13.5
Reserves and Undivided Profits	14 4	17 7	19.1	19.3	19.4
1. Gross Profits	**2.44**	**2.79**	**2.87**	**2.74**	**2.73**
To be deducted:					
2. Expenses					
(a) Salaries, etc.	—	—	—	—	—
(b) Other working expenses	—	—	—	—	—
(c) Taxes, etc.	—	—	—	—	—
3. Reserved for Pension Funds, etc.	0 25	0 23	0 23	0 15	0.13
4. Written off on Depreciation Accounts for	0 26	0 26	0.27	0 22	0.22
(a) Premises, etc.	0 26	0 26	0 27	0 22	0 22
(b) Investments and securities	—	—	—	—	—
(c) Other assets	—	—	—	—	—
5. Remaining Net Profit	**1.93**	**2.30**	**2.37**	**2.37**	**2.38**
6. Carried forward from preceding year	1.94	2.00	2.06	2.09	2.05
7 Taken from Reserves or Capital	—	—	—	—	—
8. Total Amount disposed of for Dividends, etc	**3.87**	**4.30**	**4.43**	**4.46**	**4.43**
9. Carried to Reserves	0.54	0.53	0 52	0.57	0.53
10. Dividends	1.38	1.71	1.82	1.84	1.82
11. Director's Fees, etc	—	—	—	—	—
12. Carried forward to following year	1.95	2 06	2.09	2.05	2.08
13. Total as above	**3.87**	**4.30**	**4.43**	**4.46**	**4.43**
14. Value of currency in cents of a U.S. dollar at the end of each year	486.65	486.65	486.65	337.37	327.87

NINE LONDON CLEARING BANKS.

	1925	1929	1930	1931	1932
	£'s (000,000's)				
(a) Coin, bank and currency notes balances with the Bank of England	217 7	233 6	233 5	204 9	219 7
(b) Balances with and cheques in course of collection on other banks in Great Britain and Ireland	65 3	69 5	65 3	60 4	63 0
(c) Money at call and short notice	121 4	147.9	141.6	122 7	130 5
Total	404 4	451.0	440.4	388 0	413.2

UNITED KINGDOM AND IRISH FREE STATE.

Table 23 *(b)*.

III. IRISH JOINT-STOCK BANKS

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS				
	1925	1929	1930	1931	1932
Number of Banks	9	9	9	9	9
	£ (000,000's omitted)				
Capital paid up	7.9	8.6	8.7	8.7	8.6
Reserves and Undivided Profits	9.5	10.1	10.5	9 3	9 3
1. Gross Profits	**1.88**	**1.72**	**1.74**	**1.62**	**1.43**
To be deducted:					
2. Expenses	—	—	—	—	—
(a) Salaries, etc.	—	—	—	—	—
(b) Other working expenses	—	—	—	—	—
(c) Taxes, etc.	—	—	—	—	—
3 Reserved for Pension Funds, etc.	0.05	0.02	0.02	0.02	0 02
4. Written off on (Depreciation Accounts for)	0.11	0 09	0.08	0.04	0.03
(a) Premises, etc.	0 11	0 09	0 08	0 04	0 03
(b) Investments and securities	—	—	—	—	—
(c) Other assets	—	—	—	—	—
5 Remaining Net Profit	**1.72**	**1.61**	**1.64**	**1.56**	**1.38**
6. Carried forward from preceding year	0.46	0 44	0 49	0.44	0.40
7. Taken from Reserves or Capital	—	—	—	—	—
8. Total Amount disposed of for Dividends, etc.	**2.18**	**2.05**	**2.13**	**2.00**	**1.78**
9. Carried to Reserves	0.72	0.40	0.43	0 48	0.38
10 Dividends	1 03	1.16	1 26	1.12	0.96
11 Director's Fees, etc	—	—	—	—	—
12 Carried forward to following year	0 43	0 49	0.44	0.40	0 44
13 Total as above	**2.18**	**2.05**	**2.13**	**2.00**	**1.78**
14. Value of currency in cents of a U.S. dollar at the end of each year	486.65	486 65	486.65	337.37	327.87

3 *Bills discounted and bought.*

As a rule, the banks under review do not distinguish between Treasury bills and domestic and foreign trade bills in their published accounts. The figures given for "bills discounted and bought" in balance-sheet summaries include bills of all these categories. They do not, however, represent the total bill holdings of all the banks, because some of the minor banks include Treasury bills in their figures for Government securities (group 4*(a)* of the balance-sheet summary). In addition, a few banks do not show discounts separately from loans and advances and in such cases they are included in group 7 of the summary table.

The total of bills discounted in Ireland is divided between Irish Free State and Northern Irish banks as follows:

	1925	1929	1930	1931	1932
	£ (000,000's)				
Irish Free State banks	7.3	4.6	4.3	5.3	4 9
Northern Irish banks	0.5	0.3	21.7	20.8	24.1
Total	7.8	4.9	26.0	26.1	29.0

These figures do not include the discounts of two banks operating in the Irish Free State which are not shown separately but included under " Loans and Advances ".

4 and 5. *Investments and Securities. Participations.*

The banks do not give full details of the composition of their investments. A few of the minor banks in England and Wales do not show Government securities separately in their published accounts. In such cases these are included under *4(b)* in the summary table. As mentioned above, a minor portion of the sums shown under *(a)* consists of Treasury bills not shown separately by some banks. The " other investments " are mainly gilt-edged and do not, as a rule, include stocks, shares and debentures of industrial companies. The sums shown in group 5 of the summary table for England and Wales represent the investments in affiliations of the " Big Five ".

They consist mainly of capital participation in Scottish and Irish banks, and to a less extent in foreign and other auxiliary financial institutions. There is practically no direct participation in industry and trade.

The *Economist* does not distinguish between Government and other securities in its summaries of the accounts of the Irish Free State banks. This distinction is, however, made in the case of the Northern Irish banks.

	£ (000,000's)				
	1925	1929	1930	1931	1932
Northern Irish banks					
Government securities	16 8	18 1	18 5	18 8	18 7
Other securities	2 2	2 4	3 1	2 7	2 8
	19 0	20 5	21 6	21 5	21 5
Irish Free State banks :					
Government and other securities .	68 4	65 1	67 6	64 0	76 8
Total	87 4	85 6	89 2	85 5	98 3

6. *Due from Banks.*

Sight balances with, and the cheques in course of collection on, other banks are reported only by the London clearing banks and are included in their cash assets Correspondent accounts are, as a rule, merged with loans and advances under assets and with deposits under liabilities in the published statements of the joint-stock banks.

7. *Loans and Advances.*

As already mentioned, this item includes discounts not shown separately by some of the minor banks, and part of the correspondent accounts

The loans and advances of the Irish Free State banks and of the Northern Irish banks are given separately below

	£ (000,000's)				
	1925	1929	1930	1931	1932
Irish Free State banks	61 2	59 8	59 3	58 8	56 1
Northern Irish banks	33 0	32 3	9 8	10 1	7 7
Total	94 2	92 1	69 1	68 9	63 8

9 and 10. *Premises and Sundry Assets.*

Premises are not shown separately in the statistics of the *Economist*, but they constitute practically the whole of the joint sums shown in the balance-sheet summaries. It is generally recognised that the market value of the premises of the banks exceeds their book value and that important reserves are therefore concealed in this item of the aggregate balance-sheet.

12. *Capital.*

Uncalled capital is left out of account in the balance-sheet summaries. The potential resources represented by uncalled capital largely exceed the capital actually paid up.

13. *Reserve Funds.*

In addition to the ordinary reserve fund shown in the summary table, other reserves are maintained to meet emergencies. These other reserves are

included under deposits in the published statements. Moreover, additional resources are concealed by the fact that the premises and the investments of the banks are booked below their actual market value.

15. *Notes in Circulation.*

Joint-stock banks do not possess the right of note issue in England and Wales. The small note circulation shown in the summary table for England and Wales refers exclusively to the Isle of Man, which is not governed by the English currency legislation. The legislation governing the note-issue in Scotland and Ireland was set out in detail in the last edition of this memorandum.

Circulation figures of the Irish Free State and the Northern Irish banks are given below:

	£ (000,000's)				
	1925	1929	1930	1931	1932
Irish Free State banks	10 7	6.5	5 8	5 5	5 0
Northern Irish banks	4 4	3 7	3 6	3 2	3 2
Total	15 1	10.2	9 4	8 7	8 8

Most banks issue notes both in the Free State and in Northern Ireland.

17. *Due to Banks.*

The correspondent accounts as a rule are not shown separately but are merged in the deposits in the published statements of the banks.

18. *Deposits.*

The deposit figures of the joint-stock banks include current accounts and deposit accounts proper. The balances on current account, which are immediately drawable by cheque, are generally distinguished by the name "demand deposits", though in practice the banks also allow the withdrawal of most other deposits on demand. It is not customary, however, to allow interest on the balances on current account, and if the balance maintained is not sufficient to compensate for the work involved, a commission is charged.

The banking statistics as regularly published in English sources do not show current accounts separately from deposit accounts. The report of the Macmillan Committee gave these details for the deposits of the London clearing banks for the period January 1919-March 1931, and a continuation of these series is published currently in the League of Nations *Monthly Bulletin of Statistics*. The division of total deposits into current accounts and deposit accounts for the years covered by the summary table is shown below:

	£ (000,000's) Monthly averages, December				
	1925	1929	1930	1931	1932
Current accounts	961.7	957 7	991.8	865 1	991.6
Deposit accounts	676 6	815 1	846.6	845.8	962 8
Total	1,638 3	1,772 8	1,838.4	1,710 9	1,954 4

It will be seen that the London clearing banks account for about 95 per cent of the deposits included in Summary Table 23 *(a)* I.

Deposit figures of the Irish Free State and the Northern Irish banks are given below:

	£ (000,000's)				
	1925	1929	1930	1931	1932
Irish Free State banks	133 0	126 9	128 0	128 9	142.4
Northern Irish banks	50 1	49 5	49 1	49 1	53 9
Total	183.1	176 4	177 1	178.0	196.3

19. *Acceptances and Endorsements.*

The greater part of the sums given represents bills accepted by the banks on behalf of their customers. These are almost entirely foreign bills accepted on behalf of home importers.

The figures shown in the Irish summary table refer almost exclusively to the Northern Irish banks, the acceptance business of the Free State banks being insignificant.

Summary of Profit-and-Loss Accounts.

Some of the minor English joint-stock banks are omitted from the profit-and-loss statistics of the *Economist*, on which the summary table is based. The banks included are, however, fully representative, the aggregate of their capital and reserves constituting over 99 per cent of the total capital and reserves of all the banks included in the balance-sheet summary table in 1932. The profit-and-loss statistics for the Scottish and Irish banks are complete

1 and 2. *Gross Profits and Expenses.*

As most of the banks in the United Kingdom and the Irish Free State adhere to the practice of deducting working expenses and income tax before disclosing their profit, these items have been excluded throughout. In recent years, the banks have disclosed their profits "after making appropriations to contingency accounts out of which provision has been made for bad and doubtful debts". It is impossible to tell from this vague phrase to what extent depreciation of assets has been covered out of earnings, and to what extent out of undisclosed reserves. The amount shown as profits is entirely at the discretion of the directors

It is evident, then, that the sums shown under 1 in the summary table do not represent gross profits in a true sense and are not comparable with the corresponding figures given in the profit and loss summaries for other countries

3. *Reserved for Pension Funds.*

This item of the summary table is headed "Staff" in the statistics of the *Economist* and includes all allocations for the benefit of the banking staff, which are shown separately by the banks.

4. *Depreciation.*

As mentioned in the note to group 1 above, the banks do not show depreciation of investments in their published accounts.

6 and 12. *Sums carried forward.*

The amounts shown in the summary for Scottish banks include the "Rest" (*i.e.*, the Reserve Funds) of the Royal Bank of Scotland

10. *Dividends.*

The dividend figures given include a certain proportion of income tax not deducted from the sums distributed to shareholders by a number of banks.

YUGOSLAVIA.

Introductory Note.

Until the formation of the Kingdom of Yugoslavia each of its main constituent parts had banking systems of their own which have since remained as more or less distinct groups within the present credit organisation. These groups were described in some detail in the first edition of this *Memorandum*. There it was pointed out that, although the total number of joint-stock banks in the country still remained very large in 1929 (some 650 institutions), a considerable concentration of banking resources had taken place, as illustrated by the fact that the twenty most important commercial banks held 56 per cent of total deposits and 53 per cent of total outstanding credits of all recorded joint-stock credit institutions (excluding the National Bank). On the other hand, many of these larger banks are in reality dependencies of foreign banking institutions, which in 1929 controlled over half the total share capital of the twenty institutions referred to

No clear line of demarcation can be drawn between commercial and savings banks and there is no special private banking legislation , all banks established in the form of joint-stock companies are governed by the General Law on Joint-Stock Companies. Thus the banks may undertake any form of operation allowed by that law, including the issue of mortgage bonds. They must not, however, issue bank-notes, this being the sole privilege of the National Bank. As a rule, the larger banks maintain very close relations with industrial and other business enterprises by means of direct participations and long-term credits.

The most important public credit institutions are the State Mortgage Bank, the Post Office Savings Bank, the district or provincial (Banovin) savings banks and the municipal savings banks. The relative importance of the banking operations of the public credit institutions will be seen from the detailed statement of deposits given below in the note to group (17) of the summary table.

There are, in addition, two recently established semi-public joint-stock credit institutions, the Privileged Bank for Handicrafts and the Privileged Agricultural Bank, in which the Government and some other public bodies hold important capital participations

The attached summary table is based on the annual compilation of joint-stock bank accounts published in the *Bulletin* of the Economic Research Department of the National Bank of Yugoslavia. As this compilation covers only the principal accounts of the balance-sheets, total assets and total liabilities as shown in the summary table do not balance.

Profit and loss statistics are not available.

Balance-sheet Summary.

7. *Loans and Advances.*

The sums given under *(b)* in this group of the summary table are composed of loans against securities and mortgage loans, as shown below :

	Dinara (000,000's)			
	1925	1929	1930	1931
Loans against securities .	337	347	497	210
Mortgage loans	119	291	712	1,039
Total	456	638	1,209	1,249

The amounts of mortgage bonds issued by the banks are shown separately in the note to group (18) below. It will be observed that only a minor part of the sums extended in the form of mortgage loans is raised by means of such issues.

8. *Cover for Acceptances.*

This item is not given in the statistics published by the National Bank which, as mentioned in the introductory note, do not include all items in the balance-sheet. Sums equal to the acceptances as

YUGOSLAVIA. COMMERCIAL BANKS **Table 24 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF: 1925	1929	1930	1931
Number of Banks	.	.	.	.
ASSETS.	Dinara (000,000's omitted)			
1. Cash	645	734	772	629
(a) Gold, silver and small coins	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—
2. Other Items of a Cash Nature	—	—	—	—
3. Bills discounted and bought	3,204	5,250	5,000	5,328
(a) Treasury bills	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—
4. Investments and Securities	718	1,018	1,293	1,196
(a) Government	—	—	—	—
(b) Other	—	—	—	—
5. Participations	—	—	—	—
6. Due from Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
7. Loans and Advances	8,087	8,231	9,626	8,357
(a) On current account	7,631	7,593	8,417	7,108
(b) Other	456	638	1,209	1,249
8. Cover for Acceptances	79	57	73	74
9. Premises, etc.	553	794	805	823
10. Sundry Assets	—	—	—	—
11. Total Assets	**13,286**	**16,084**	**18,169**	**16,407**
LIABILITIES.				
12. Capital paid up	2,012	2,193	2,960	2,968
13. Reserve Funds	543	759	819	767
14. Profit-and-Loss Account, Undivided Profits, etc.	—	—	—	—
15. Cheques and Drafts in circulation	—	—	—	—
16. Due to Banks (Correspondents)	—	—	—	—
(a) At home	—	—	—	—
(b) Abroad	—	—	—	—
17. Deposits	10,898	13,186	14,172	11,734
(a) Current accounts and sight deposits	—	—	—	—
(b) Savings accounts	—	—	—	—
(c) Time or fixed deposits	—	—	—	—
(d) Other deposits	—	—	—	—
18. Rediscounts and other Borrowings	614	701	770	1,374
19. Acceptances and Endorsements	79	57	73	74
20. Sundry Liabilities	—	—	—	—
21. Total Liabilities	**14,146**	**16,896**	**18,803**	**16,917**
22. Value of currency in cents of a U.S dollar at the end of each year	1.77	1.77	1.77	1.78

shown under liabilities have been added, however, under the present heading of the summary table in order that it should better conform with the statements given for other countries included in this memorandum

9. *Premises, etc.*

This item includes both property used in the business of the banks and other fixed property held by them.

17. *Deposits.*

The statistics published by the National Bank distinguish between current accounts and savings deposits (which, however, also include certain current accounts), as shown below :

	Dinara (000,000's)			
	1925	1929	1930	1931
Current accounts	5,065	3,842	3,866	2,930
Savings deposits (on pass books and on current account)	5,833	9,344	10,306	8,804
Total	10,898	13,186	14,172	11,734

In the monthly statistics for the twenty most important banks published in the *Quarterly Bulletin* of the National Bank savings deposits are specified as below :

Twenty leading banks	Dinara (000,000's)			
	Decemb. 1929	Decemb 1930	Decemb 1931	Decemb. 1932
Ordinary current accounts.	2,368	2,197	1,827	1,663
Savings deposits in current account	1,599	1,693	1,125	1,060
Total current accounts .	3,967	3,890	2,952	2,723
Savings deposits on pass books	3,456	3,810	3,380	2,528
Total deposits	7,423	7,700	6,332	5,251
Thereof savings deposits .	(5,055)	(5,503)	(4,505)	(3,588)

Savings deposits on pass book presumably represent time deposits, while current accounts (including those headed savings deposits) consist chiefly of demand deposits.

The importance of the deposits held in the public credit institutions not included in the summary table will be seen from the following statement :

	Dinara (000,000's)			
	1929	1930	1931	1932
Post office	1,021	1,180	1,134	1,388
State Mortgage Bank savings deposits	455	529	616	751
Municipal savings banks (Slavonia)	1,025	1,182	1,260	—
Total public banks . . .	2,501	2,900	3,010	—
Total commercial banks	13,186	14,172	11,734	—
Grand Total . . .	15,687	17,072	14,744	—

18. *Rediscounts and Other Borrowings.*

The sums shown in this group of the summary table are made up as follows :

	Dinara (000,000's)			
	1925	1929	1930	1931
Rediscounts	574	671	738	1,336
Mortgage debts	40	30	41	38
Total	614	701	779	1,376

It is not stated what proportion of the rediscounts was effected at the Central Bank or with other banks. The mortgage debts incurred by the joint-stock banks are unimportant relatively to the bond issues of the State Mortgage Bank.

CANADA.

Introductory Note.

The most distinctive feature of the Canadian banking system is the relatively small number of individual banks and the large number of bank branches At the end of 1932, there were ten chartered banks ; they had 3,158 branches and 614 sub-agencies for receiving deposits in Canada. The number of persons per banking office is lower in Canada than in any country in the world except Australia [1]

The Canadian banks carry on all forms of deposit and discount banking. They enjoy, moreover, the right of note issue [2] and bank-notes constitute the chief circulating medium used in the Dominion. There is no central bank, [3] but the commercial banks are authorised, under the Finance Act, to secure Dominion notes against deposits of securities, commercial paper, etc., pledged with the Department of Finance. The rate of discount is determined by the Treasury Board, a Committee of the Cabinet, and it is not frequently changed.

Another peculiarity of the system is the existence and operation of the Canadian Bankers' Association. This body, though an unofficial organisation, carries out certain functions under the authority of the Dominion Treasury Board. Thus, it supervises clearing-house transactions, oversees the printing and issue of notes by its members, etc

The economic depression of 1930-1932 is clearly reflected in the accounts of the chartered banks of Canada, but, unlike the experience in the United States and certain other countries, there were no bank failures during this period. Only one bank insolvency, indeed, has occurred in Canada since 1914 · that of the Home Bank in 1923 This may be attributed to the wide diversification of risk achieved through the branch banking system. Practically all the banks, however, found it unprofitable to operate certain of their branches during the depression, and 311 were closed between the end of 1929 and the end of 1932 Of this number, 176 were situated in the three prairie provinces. Branches situated in these provinces were largely concerned with the financing of cereal crops — in particular, wheat. The drastic fall in cereal prices in recent years immobilised a large volume of bank resources, and the provincial governments guaranteed to the banks part of their advances against wheat crops. The sums involved in this guarantee are not known, but they are thought to be substantial.

The concentration of banking resources, for many years a striking feature of the Canadian banking system, has continued during the depression. In May 1931, the Imperial Bank absorbed the small Weyburn Security Bank, thus reducing the number of chartered banks to ten.

In the course of the depression, the Bank of Montreal has replaced the Royal Bank as the largest institution ; together, these two banks controlled over 50 per cent of the aggregate resources of all the chartered banks at the end of 1932.

The development of the principal items on the banks' balance-sheets since the end of 1929 is illustrated in the following statement ·

	$ (000,000's)				
	End of ·				
	1929	1930	1931	1932	September 1933
Loans [4]	2,282 5	1,839 7	1,659 6	1,450.2	1,413 4
Investments	448 4	604 1	694 0	778 2	881.0
Acceptances	112 6	78 4	55 5	42 6	48.0
Notes in circulation	175 5	148 0	141 0	127 1	141 1
Deposits	2,696 9	2,487 3	2,367 6	2,244.5	2,250 3

From the end of 1929 to the end of 1932, the deposits in Canadian banks fell by $450 million, or 17 per cent, note circulation by almost $50 million, or 28 per cent, loans by $830 million, or 36 per cent ; while investments increased by $330 million, or 75 per cent. Acceptances (letters of credit outstanding) declined by $70 million, or 63 per cent

The fact that deposits fell less than loans suggests that the restriction of credit was not caused by

[1] See *Memorandum on Commercial Banks*, 1913-1929, page 11.

[2] Notes may be issued against the general credit of the banks to the amount of their unimpaired paid-up capital and reserve funds ; an additional 15 per cent may be issued during the crop-moving season. Supplementary issues may be made against deposits of gold or dominion notes in "Central Gold Reserves". A deposit equal to 5 per cent of average circulation must be kept in a "Circulation Redemption Fund".

[3] See, however, pages 230-231 below.

[4] Excluding non-current loans (overdue debts).

any internal drain of currency (*i.e.*, runs on banks). This is also indicated by the steady decline in the volume of bank-notes in circulation.

The fall in deposits does not adequately reflect the decline in the volume of business transactions. In addition to a fall in their absolute amount, there was an even greater decline in the rapidity of turnover of bank deposits. This is brought out in the following statement, which shows the movements of bank clearings and bank debits to individual accounts by years since 1920

Year	$ (000,000's)	
	Bank clearings	Bank debits
1929	25,105	46,670
1930 . . .	20,092	37,491
1931	16,827	31,586
1932	12,914	25,844

The much higher figures for bank debits than for bank clearings are another reflection of the branch banking system. In 1932, exactly half the cheques drawn on accounts of Canadian banks were paid into branches of the same bank on which they were drawn. The total volume of business transactions financed by cheque (bank debits) was over $20,000 million lower in 1932 than in 1929. Bank clearings fell by almost 50 per cent and bank debits to individual accounts by 45 per cent. The monthly average of bank deposits was 16 per cent lower in the latter than in the former year. The average rate of turnover of bank deposits must therefore have fallen by some 30 per cent between 1929 and 1932.

The aggregate figures shown above for the decline in loans and investments conceal, of course, marked variations in the behaviour of particular items A more detailed analysis is made in the following statement.

	Loans and investments $ (000,000's)		Change between end of 1929 and end of 1932		Percentage ratio to deposits and note circulation	
	End of 1929	End of 1932	$ (000,000's)	%	End of 1929	End of 1932
1. *Total loans*	*2,290*	*1,463*	*-827*	*—36*	*79 7*	*61 7*
(a) Call and short loans in Canada	262	103	— 159	—61	9 1	4 3
(b) Other current loans in Canada	1,403	964	—439	—31	48 8	40 6
(c) Call and short loans elsewhere than in Canada.	245	91	—154	—63	8 5	3 8
(d) Other current loans elsewhere than in Canada.	251	152	— 99	—40	8 7	6.4
(e) Loans to provincial Governments	25	28	+ 3	+12	0 9	1 2
(f) Loans to municipalities, etc.	97	112	+ 15	+15	3.3	4.7
(g) Non-current loans	7	13	+ 6	+86	0 3	0 5
2. *Total investments*.	*448*	*778*	*+330*	*+74*	*15 6*	*32 8*
(a) Dominion and provincial Government securities. .	297	562	+265	+89	10 3	23 7
(b) Municipal securities. . . .	94	167	+ 73	+78	3 3	7 0
(c) Other securities	57	49	— 8	—14	2 0	2 1
3. *Total loans and investments*. . . .	*2,738*	*2,241*	*—498*	*—18*	*95 3*	*94 5*

As already observed, a sharp decline in loans, amounting to 36 per cent of the amount outstanding at the end of 1929, was partly offset by a very marked increase in total investments. The ratio of aggregate loans to the total of deposits and note circulation amounted to almost 80 per cent at the end of 1929 and only slightly more than 60 per cent at the end of 1932. The sharpest percentage decline occurred in the case of call and short loans in Canada and elsewhere, which together fell by some $300 million, or over 60 per cent, and represented only 8 per cent of deposits, etc., at the end of 1932, as compared with 17½ per cent in 1929. These loans are chiefly used to finance security speculation ; call and short loans elsewhere than in Canada represent chiefly loans to the New York Stock Exchange. The sharp decline in these items is a reflection of the fall in security quotations and Stock Exchange activity.

The most important absolute decline in bank credit outstanding between the end of 1929 and the end of 1932 was in current loans in Canada, which fell by $440 million, or more than 30 per cent, between the dates mentioned These loans

represent the bulk of genuine commercial credit extended by the Canadian banks and their decline is indicative of the reduced volume of business and the lower level of prices prevailing.

Non-commercial loans — *i.e.*, loans to provincial Governments and municipalities - rose somewhat and accounted for almost 6 per cent of total deposits at the end of 1932, as compared with slightly over 4 per cent at the end of 1929. Public and semi-public bodies (such as school boards) encountered serious difficulties in balancing their budgets during these years and frequently had recourse to the banks for assistance.

Although the Canadian banks did not make any direct advances to the Dominion Government during the depression, they purchased Government bonds in large quantities. Investments in Dominion and provincial Government securities increased by $265 million, or almost 90 per cent in this period. The rise in the banks' holdings of municipal securities was almost as marked, while railway bonds and other securities were lower in 1932 than in 1929.

In the preceding statement, the various credit items of the Canadian banks have been compared with the total of deposits and notes. Different types of deposits experienced quite different movements, however, as is brought out in the following statement :

	End of 1929	End of 1932	Decline	
			Amount	%
	$ (000,000's)			
Demand deposits in Canada. . .	729	466	263	36.1
Time deposits in Canada	1,434	1,378	56	3 9
Dominion Government deposits. .	60	53	7	11.7
Provincial Government deposits. . .	32	19	13	40 6
Deposits elsewhere than in Canada .	442	329	113	39.1
Total. . .	2,697	2,245	452	16 8

The bulk of the decline in deposits in Canada took place in current accounts, which largely arise from loans granted by the banks. These accounts fell by $260 million, or 36 per cent. The fall in savings and time deposits, which represent largely funds awaiting investment, was much more moderate — $55 million, or less than 4 per cent. This moderate decline is even more striking when account is taken of the fact that the Canadian public purchased substantial amounts of Government bonds during this period with funds formerly held on deposit with banks. The relative maintenance of these deposit accounts partly explains how the Canadian banks were able to increase their holdings of public securities to the extent indicated above. Deposits elsewhere than in Canada, which represent deposits of branches operating abroad, declined even more, proportionately, than demand deposits in Canada. No distinction is made in the official statistics between current and time accounts in the case of this item.

During the course of the depression, substantial amounts of short-term capital were withdrawn from Canadian banks and converted into foreign currencies, particularly into American dollars. In part, these balances with Canadian banks were owned by foreigners and in part by Canadians. It is not possible to state accurately the amounts involved, but some indication of the scope and direction of the movement is afforded by the following statement, which shows the net balance of sums due to (—) and from (+) foreign banks at the end of each year since 1929 :

End of year	$ (000,000's)		
	Banks in United Kingdom	Banks elsewhere	Total foreign banks
1929	—21.5	+15.1	— 6 4
1930 . .	+ 3 2	+21 5	+24 7
1931	+ 0 2	+62.4	+62 6
1932	+ 0.4	+63.5	+63 9

The last column shows that, between the end of 1929 and the end of 1932, the net balance of foreign correspondent accounts changed from a passive balance of over $6 million to an active balance of $64 million, representing a net outflow of $70 million. A movement towards the United Kingdom took place during 1930, but it was not so large as the movement of funds towards banks elsewhere (chiefly in the United States of America) which occurred during 1931. This latter outflow of capital was largely responsible for the depreciation of the Canadian exchange in relation to the American dollar, which touched its highest point (24 per cent) in December 1931. There was practically no net movement during 1932. During the first two months of 1933, there was a net inflow of funds from the United States to Canadian banks ; the balance due from banks elsewhere than in the United Kingdom fell to $43 million. This movement represented chiefly American deposits seeking safety in Canadian banks. When the financial crisis in the United States was overcome, the movement was again reversed.

Advances of Dominion notes to the chartered banks under the Finance Act reached their maximum (over $110 million) in November 1929.

With the slump in business and speculation, they declined steadily thereafter, reaching the low figure of $6½ million at the end of August 1931. During the period of financial crisis, from September to the end of 1931, they rose to $46½ million. The tendency during the first ten months of 1932 was again downward; but, in November of that year, the Government arranged with the banks for them to buy its two-year notes bearing interest at 3½ per cent to the amount of $35 million, and use these notes as security for advances (at 2½ per cent) of an equivalent amount under the Finance Act. The purpose of this transaction was officially stated to be to increase the banks' cash reserves and swell their loaning capacity.

Although this operation succeeded in its first object of increasing the banks' cash reserves, it did not result in any appreciable increase in the total volume of credit outstanding. The banks used the initial increase in their cash resources largely to retire earlier indebtedness under the Finance Act. They continued to purchase Government securities, which reached the record figure of $660 million at the end of September 1933, being $100 million higher than at the end of 1932. Current loans and discounts in Canada, on the other hand, fell by $60 million. Sight deposits in Canada increased by $25 million during the first nine months of 1933, while time deposits fell by $5 million. In May 1933 the rate of interest paid by the chartered banks on savings accounts was reduced to 2½ per cent from 3 per cent, at which it had stood for some thirty years.

The chartered banks of Canada are the chief recipients of savings deposits in the Dominion. There are, however, other public and private savings institutions. The evolution of deposits in these banks is compared with that in the chartered banks in the following table:

End of	$ (000,000's)							
	Chartered banks			Savings banks				Grand total
	Current accounts	Savings and time deposits	Total	Dominion Government[1]	Provincial Governments[2]	Private	Total	
1929	729.3	1,434.4	2,163.7	28 4	58 3	70.8	157 5	2,321 2
1930	641.7	1,425.8	2,067 5	26 1	49 3	68 8	144.2	2,211.7
1931	566 6	1,360 0	1,926 6	24 8	51 2	69 9	135 9	2,072.5
1932	466 2	1,377 5	1,843 7	23 9	32 3	66.7	122 9	1,970.6

[1] End of March.
[2] End of October.

Savings deposits in Canada were not transferred from private to public institutions in the course of the economic depression, as they were in many other countries. Savings deposits in the chartered banks fell by about $55 million, or 4 per cent, from the end of 1929 to the end of 1932, while deposits in savings institutions declined by $35 million, or almost 25 per cent. The fall appears to have been particularly marked in the case of the provincial savings banks in 1932. In February of that year, however, the offices of the Provincial Savings Bank of Manitoba were discontinued and the depositors' accounts taken over by the chartered banks.

No official profit and loss statistics are published for the chartered banks of Canada. Net profits, as published in their annual reports, fell from $28 million in 1929 to $21 million in 1932, but it is not known whether full allowance is made for the depreciation of assets before the figure for net profits is struck. The dividend rate of all banks except the Banque Canadienne Nationale was reduced during the course of the depression.

No changes have been made in Canadian banking legislation since the publication of the first issue of this memorandum, where a summary is given of the legal regulations at present in force. The Bank Act is, however, now due for regular decennial revision. On July 31st, 1933, a Royal Commission was appointed, under the chairmanship of Lord Macmillan, to enquire into the Canadian banking and monetary system.

The Commission's terms of reference declare it desirable that the approaching periodic revision of the Bank Act, which will precede the enactment of a measure to continue the charters of the established banks, which expire on July 1st, 1934, shall be based on a complete and detailed examination of the provisions of the Act and of the functions and operations thereunder of the banking system. It is also desirable that such examination should include a study of the facilities now afforded by the Finance Act and a careful consideration of the advisability of establishing in Canada a central banking institution, and, if so established, of the relation of such central bank to existing banks and its proper authority and function in the operation of the banking system of the country.

The report of the Commission was published in November 1933. The chief recommendations of the report are (1) that a central bank be forthwith established in Canada and (2) that an enquiry be

instituted by the Dominion Government to investigate the existing organisations for the provision of rural credit with a view to the preparation of a scheme for the consideration of Parliament. It is proposed that the capital of the central bank should be $5 million, offered for public subscription ; the State is to name the first Governor, Deputy Governors and directors. It is recommended that the bank should have the sole right of note issue, and that the commercial banks' issue should be redeemed over a period of years. A minimum deposit of, say, 5 per cent of its deposit liabilities in Canada should be maintained by each commercial bank with the central bank. The latter should act as banker for the Dominion Government and also, possibly, the Provincial Governments ; it should also take over the issue and management of the public debt. It is recommended that the central bank maintain a proportion of 25 per cent in gold and foreign exchange against its outstanding note issue and sight liabilities.

The report contains but few recommendations of changes in commercial banking practice. One of these is that the statutory limitation (7 per cent) on the rate of interest charged by the commercial banks on loans and discounts should be repealed. The Commission strongly urges upon the Canadian banks the advisability of refraining from dealing in, or distributing for their own account, any but the highest-class securities available in the country, and more particularly those issued by Governments, municipalities and other public and semi-public bodies. As regards trading in stocks, the view is expressed that the banks should not act otherwise than as agents for their customers to place such orders as they may receive through the regularly constituted channels.

Up to the time of writing, no legislation has been introduced to give effect to the Commission's recommendations.

Balance-sheet Summary.

1 *Cash.*

The sums shown under cash in the summary table include the amounts held on deposit with the Minister of Finance for the security of the note circulation, *i.e.* the Circulation Redemption Fund (5% of average circulation) and also the Central Gold Reserves, *i.e.* the deposits in gold and dominion notes which the banks make with the Canadian Bankers' Association, acting as an agent of the Government, against the issue of equal amounts of bank-notes in excess of their paid-up capital. The part of the cash shown in the summary table which is earmarked for the specific security of bank-notes is shown opposite.

The amounts shown under *(a)* in the summary table include the gold held in the Central Gold Reserves and the current gold and subsidiary coin held by the banks at home and abroad. The amounts shown under *(b)* consist of Dominion notes either in the hands of the chartered banks or deposited by them in the Central Gold Reserves, or in the Circulation Redemption Fund, and of foreign (chiefly United States) notes. The composition of "cash" was therefore as follows in the years under review :

	$ (000,000's)		
	Circul Redemp Fund	Central Gold Reserves	Total
1925	5 8	71 1	76.9
1929	6 4	56.6	63.0
1930	6 8	32.6	39 4
1931	6 8	25 7	32.5
1932	6 6	19.9	26.5

	$ (000,000's)				
	Current gold and subsidiary coin in hands of banks			Gold deposits in Central Gold Reserves	Total Metallic Reserve 1 *(a)*
	At home	Abroad	Total		
1925	49.9	18.8	68.7	18.9	87.6
1929	46.9	26 4	73.3	14 6	87.9
1930	47.4	36.6	84.0	13.7	97.7
1931	46.0	19.8	65.8	10.7	76.5
1932	38.0	15 2	53.2	11.1	54 3

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1925	1929	1930	1931	1932
Number of Banks	11	11	11	10	10
Branches and Sub-Branches	3,840	4,069	4,083	3,970	3,772
ASSETS.	Dollars (000,000's omitted)				
1. Cash	333 9	290.4	272.5	242 0	250.9
(a) Gold, silver and small coins	87 6	87 9	97 7	76 5	64 3
(b) Inland notes and balances with Central Bank	246.3	202 5	174 8	165 5	186 6
2. Other Items of a Cash Nature	146.1	172 2	142 2	114.0	92.6
3. Bills discounted and bought	—	—	—	—	—
(a) Treasury bills	—	—	—		—
(b) Commercial bills, Inland	—	—	—		—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	549.6	448 4	604.1	694.0	778.2
(a) Government	489.7	391 0	536 7	632 0	729 3
(b) Other	59 9	57 4	67 4	62 0	48 9
5. Participations	5.1	9 8	12.0	14.3	13 2
6. Due from Banks (Correspondents)	79.4	107 9	94.4	113.8	117 0
(a) At home	5.6	6.3	4 6	4 1	4 3
(b) Abroad	73 8	101 6	89 8	109 7	112 7
7. Loans and Advances	1,613.1	2,282 5	1,839 7	1,659.6	1,450 2
(a) On current account	—	—	—	—	—
(b) Other	—	—	—	—	—
8. Cover for Acceptances	69.9	112 6	78.4	55.5	42.6
9. Premises, etc	72.6	75.2	78.6	79.8	78.7
10. Sundry Assets	26.4	22 1	21 0	24 7	28.7
11. Total Assets	**2,896.1**	**3,521.1**	**3,143.8**	**2,997.7**	**2,852.1**
LIABILITIES.					
12. Capital paid up	116.2	142.9	145.0	144.5	144 5
13. Reserve Funds	125 4	158.1	162.2	162 0	162.0
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	13 3	17 7	15.4	15 9	10.1
15. Notes in circulation	173 9	175.5	148.0	141.0	127.1
16. Cheques and Drafts, etc., in circulation	14.5	8.2	5.3	3.2	0.6
17. Due to Banks (Correspondents)	51.4	122.9	77.9	58 5	61.1
(a) At home	11 8	14 9	12 8	11 4	12 3
(b) Abroad	39 6	108 0	65 1	47 1	48 8
18. Deposits	2,314 7	2,696 9	2,487.3	2,367.6	2,244.5
(a) Current accounts and sight deposits	642 0	820 9	689 2	697.5	538 3
(b) Savings accounts	—	—	—	—	—
(c) Time or fixed deposits	1,318 9	1,434 4	1,425 8	1,360.0	1,377 5
(d) Other deposits	353 8	441 6	372 3	310 1	328 7
19. Rediscounts and other Borrowings	14.8	81.7	20.5	46.5	57 0
20. Acceptances and Endorsements	69 9	112 6	78.4	55.5	42.6
21. Sundry Liabilities	2.0	4.6	3.8	3.0	2.6
22. Total Liabilities	**2,896.1**	**3,521.1**	**3,143.8**	**2,997.7**	**2,852.1**
23. Value of currency in cents of a U.S. dollar at the end of each year	100.0	99.2	99.8	96.3	88.1

	$ (000,000's)				
	Dominion Notes in hands of banks	Dominion Notes dep in Central Gold Res	Bank circulation Redemption Fund	U S and other foreign notes	Total holdings of Dominion notes, etc., 1 *(b)*
1925	156.7	52 2	5 8	31.6	246 3
1929	130 9	41 5	6 4	23 7	202.5
1930	126 9	18 9	6 8	22 2	174 8
1931	128 9	15 1	6.8	14 7	165 5
1932	153 2	8 8	6 6	17 9	186 5

2. *Other Items of a Cash Nature*

This item consists of notes of, and cheques on, other Canadian banks which have not yet been presented for clearing. It does not, of course, include the banks' holdings of cheques on their own branches The detailed composition of the item in each of the years under review is given below .

	$ (000,000's)		
	Notes of other banks	Cheques on other banks	Total
1925	16 2	129.9	146 1
1929	20 0	152 2	172 2
1930	15 0	127 2	142 2
1931	11.9	102 1	114 0
1932	12 2	80 4	92 6

3. *Bills discounted and bought.*

The Canadian official statistics do not show discounts separately from loans. They are therefore included under advances in group (7) of the summary table.

4 *Investments and Securities*

The sums shown for Government securities (item *(a)* of present group) consist of (1) Dominion Government and provincial securities and (2) Canadian municipal securities and British, foreign and Colonial public securities other than Canadian to the following amounts.

The other investments *(b)* consist of railways and other bonds, debentures and stocks.

	$ (000,000's)		
	Dom and Prov Gov Securities	Mun and other Public Securities	Total
1925	351.6	138 1	489.7
1929	297.0	94 0	391.0
1930	408.6	128 1	536.7
1931	477 9	154 1	632.0
1932	562 4	166 9	729.3

5. *Participations.*

The figures given in the summary table represent the chartered banks' shares in, and long-term loans to, controlled companies The latter are frequently loan or trust companies.

6 *Due from Banks (Correspondents).*

The division of foreign correspondents between amounts due from banks in the United Kingdom and sums due from banks elsewhere in the years under review was as follows .

	$ (000,000's)		
	U. K	Elsewh.	Total
1925	10 2	63 6	73 8
1929	5 2	96 4	101.6
1930	9 0	80 8	89 8
1931	5 0	104 7	109 7
1932	7 8	104 9	112 7

7 *Loans and Advances.*

The sums given in this group of the summary table are composed of the following items shown separately in the official statistics :

	$ (000,000's)				
	1925	1929	1930	1931	1932
(1) Call and short (up to 30 days) loans					
In Canada	135 7	262 3	204 8	134 7	103 2
Elsewhere	258 6	245.1	145 9	83 1	91 5
Total (1)	394 3	507 4	350.7	217 8	194 7
(2) Other current loans and discounts					
In Canada	903 3	1,402 8	1,149.2	1,082 1	964 0
Elsewhere	238 5	250 6	213 9	188 4	151 7
Total (2)	1,141 8	1,653 4	1,363 1	1,270 5	1,115 7
Total (1 + 2)	1,536 1	2,160 8	1,713 8	1,488 3	1,310 4
(3) Loans to Public Bodies					
Provincial Governments	24 3	25.0	29.7	45 6	28 3
Others	52.7	96.7	96 2	125 7	111.5
Total (3)	77 0	121 7	125 9	171 3	139 8
Grand Total (1+2+3)	1,613.1	2,282.5	1,839.7	1,659.6	1,450 2

Some banks include part of their call loans in Canada among " other current loans and discounts" which are shown under (2) in the above statement. Call loans abroad are made chiefly in New York, and being very fluid are regarded by the banks as partof their cash reserves against sight liabilities.

No distinction is made in the official statistics between current loans and discounts ; both items are accordingly included in the present group of the summary table and are shown under (2) in the statement above The amounts there shown for loans and discounts elsewhere than in Canada represent the total credit extended by foreign branches of Canadian banks.

The grand total of loans and advances as shown in the statement above and in group (7) of the summary table does not include overdue debts, classified in the official statistics as " non-current loans " ; these are included in sundry assets (see note to group (10) below).

The amount of credit extended by the chartered banks to their own directors or firms in which the directors are partners and loans for which they are guarantors is shown below :

	$ (000,000's)
1925	11.9
1929	23.3
1930	22.0
1931	22.4
1932	19.1

9. *Premises.*

The sums shown in this group of the summary table represent premises in actual use in the business of the banks. Other real estate and mortgages on real estate sold are included under sundry assets and shown separately in the following note.

10 *Sundry Assets.*

This item includes overdue debts, real estate other than bank premises, mortgages on real estate sold and various transitory accounts. The detailed composition of this account in the years under review was as follows :

	$ (000,000's)				
	Overdue debts	" Other Real Estate "	Mortgages on Real Estate sold	Other assets	Total
1925	9.5	8.3	5.0	3.6	26.4
1929	7.2	5.3	7.3	2 3	22.1
1930	7.4	5.8	7.1	1.6	21.9
1931	10.3	6.6	6.2	1.6	24.7
1932	13.3	7.5	6.4	1.5	28.7

The chartered banks are not authorised to make loans on the direct security of real estate ; they may, however, acquire a mortgage on real property as additional security for loans already contracted. The sums shown under columns (2) and (3) in the above table refer almost entirely to property which passed into the possession of the banks as a result of foreclosure for non-payment of debt.

14. *Profit and Loss, Undivided Profits, etc.*

No official profit-and-loss statistics of the banks are published in Canada. The balance of the profit-and-loss accounts is not included in the returns of the chartered banks and has been calculated by taking the difference between total assets and total liabilities (including capital and reserves), which are shown in the official returns. From the annual reports of individual banks it is seen that this difference represents the year's net profits and balance brought forward from the preceding year. The banks publish figures for dividends declared and unpaid. These are included in the sums shown in this group of the summary table

15. *Notes in Circulation.*

The amounts shown in the summary table constitute the gross note circulation of the chartered banks—*i.e.*, they include both notes in the hands of the public and the notes of other banks held by the banks themselves. The banks' holdings of each other's notes have been included in assets under "other items of a cash nature" (see note to group (2) above). To determine the net note circulation, these sums must be deducted from the gross circulation as shown in the summary table. The net circulation in the years under review was as follows :

	$ (000,000's)				
	1925	1929	1930	1931	1932
Gross circulation	173.9	175 5	148 0	141 0	127 1
Less notes in tills of other banks	16.2	20 0	15 0	11 9	12.1
Net circulation	157 7	155 5	133 0	129 1	115 0

16. *Cheques and Drafts in Circulation.*

Cheques issued by the banks are not shown separately in the official statistics, but are included in Correspondent accounts (group (17) of summary table). The amounts shown in the present group are designated in the official statistics as "bills payable"; they consist presumably of three-month and other drafts issued by the banks.

17. *Due to Banks (Correspondents).*

The sums due to banks and banking correspondents abroad are divided in the official statistics between banks in the United Kingdom and elsewhere as follows :

	$ (000,000's)		
	U. K.	Elsewh.	Total
1925	3 7	35 9	39 6
1929	26 7	81.3	108.0
1930	5 8	59.3	65.1
1931	4 8	42 3	47.1
1932	7.4	41 4	48.8

18. *Deposits*

The detailed composition of the amounts shown under current accounts (*a*) in the summary table is given below .

	$ (000,000's)				
	Sight Deposits made by the Public in Canada	Balances due to Governments			Grand Total
		Dom. Govt.	Prov. Govt.	Total	
1925	597 4	22 3	22 3	44.6	642.0
1929	729.3	60.0	31.6	91.6	820 9
1930	641.7	26.9	20.6	47.5	689 2
1931	566.6	111.1	19.8	130 9	697.5
1932	466.2	53.1	19 0	72.1	538.3

Savings deposits are not shown separately from other time deposits in the official statistics, but the great bulk of the sums shown in the summary table under *(c)* represent savings deposits. Theoretically, they are generally subject to 15 days' notice, but in practice they are payable on demand

The deposits shown under *(a)* and *(c)* in the summary table are all held in Canada.

"Other deposits" *(d)* represent deposits made in the foreign branches of Canadian banks. The official statistics do not subdivide these deposits into sight and time deposits.

19 *Rediscounts and Other Borrowings.*

The sums shown in this group of the summary table are given in the official statistics under the heading "Advances under the Finance Act" and represent borrowings by the banks from the Dominion Government under the Finance Act of 1914

UNITED STATES OF AMERICA.

Introductory Note.

The origin of the commercial banking system of the United States of America and its development up to 1929 have been described in the first edition of this *Memorandum.* [1] The system is composed of four groups of banks — national banks, State banks, trust companies and private banks National banks are those chartered by the Federal Congress and operating under its jurisdiction , State banks and trust companies operate under the legal jurisdiction of one of the forty-eight individual States ; and private banks are not generally subject to specific banking laws National banks have the right to issue notes against certain Government bonds up to the amount of their paid-up capital and surplus (reserve funds). The trust companies carry on all the banking functions performed by the State (commercial) banks and, in addition, they exercise fiduciary functions. Most of the business of the private banks[2] is with recent immigrants, and these institutions have steadily declined in number and importance in recent years.

The following statement sets out the number, capital and reserve funds and aggregate resources of these four classes of institution for 1922, 1925 and 1929-1932

Table 1. COMMERCIAL BANKS, BY GROUPS · NUMBER, CAPITAL AND RESERVES, AND AGGREGATE RESOURCES, 1922, 1925 AND 1929-1932.

End of June	National Banks			State Banks			Trust Companies			Private Banks			Total		
	No.	Capital and reserves [1]	Aggregate resources	No.	Capital and reserves [1]	Aggregate resources	No.	Capital and reserves [1]	Aggregate resources	No.	Capital and reserves [1]	Aggregate resources	No.	Capital and reserves [1]	Aggregate resources
		$(000,000's)			$(000,000's)			$(000,000's)			$(000,000's)			$(000,000's)	
1922 .	8,249	2,356	20,706	18,232	1,575	13,064	1,550	1,095	8,534	673	26	186	28,704	5,052	42,490
1925.	8,072	2,548	24,351	16,983	1,707	15,979	1,680	1,367	11,566	523	20	155	27,258	5,642	52,051
1929	7,536	3,106	27,440	14,437	1,960	16,824	1,608	2,396	16,155	391	19	156	23,972	7,481	60,575
1930.	7,252	3,335	29,117	13,582	1,828	15,270	1,564	2,680	17,703	361	16	115	22,759	7,859	62,205
1931	6,805	3,182	27,643	12,259	1,622	13,110	1,469	2,588	16,861	284	12	82	20,817	7,404	57,696
1932.	6,150	2,828	22,368	10,455	1,332	9,479	1,235	2,238	13,119	227	11 .	55	18,067	6,409	45,021

[1] Not including amounts reserved for taxes, contingencies, etc

Though the total number of commercial banks in the United States declined steadily after 1922, there were still 24,000 banks in existence at the middle of 1929, and more than 18,000 at the middle of 1932. The large number of unit banks is, indeed, a distinctive feature of the American banking system , in 1929, there was one commercial bank to every 5,000 inhabitants of the United States : the ratio of commercial banks to population was higher than for any other country in the world [3]

At the middle of 1929, 22 per cent of all banks in the United States had a capital stock of less than $25,000 and 84 per cent of all American banks had a capital stock of $100,000 or less This 84 per cent of the banks, however, accounted for less than 40 per cent of total banking resources , the 250 largest banks, about 1 per cent by number, accounted for half the total resources of the American banking system.

The counterpart of the system of small independent unit banks is, of course, the absence of any wide pread system of branch banking The law relating to branch banking has been summarised in the first edition of this *Memorandum.* The most important recent change is contained in

[1] See *Memorandum on Commercial Banks*, 1913-1929, pages 324 to 331.

[2] The private banks referred to in the text should not be confused with private investment bankers, such as J P. Morgan and Co

[3] See *Memorandum on Commercial Banks*, 1913-1929, Introduction, page 11

the Glass Banking Act of 1933,[1] under which national banks are authorised to establish branches throughout the territory of States which permit State-wide branch banking The legislation governing branch banking differs considerably from State to State. According to a recent study of the Federal Reserve Board,[2] in May 1932, nine States permitted banks operating under their jurisdiction to establish branches anywhere in their territory, fourteen restricted the establishment of branches to the home city of the parent bank, eighteen definitely prohibited the establishment of branches and seven had no special legislation on the subject. At the middle of 1930, 817 banks (including 165 national banks, 583 State banks, 66 mutual savings banks and 3 private institutions) were operating 3,618 branches, of which two-thirds were located in five States California, New York, Michigan, Ohio and Pennsylvania. Since 1905, systems known as group and chain banking have been developed, under which a number of banks are brought under unified control In June 1930, the loans and investments of banks in chain or group systems exceeded $12,000 million, or about one-fifth of the total loans and investments of all banks in the country.

The decentralised character of American commercial banking is further brought out by the diversity of the laws to which the banks are subject. There are forty-nine separate legal and supervisory authorities in the continental American banking system — Federal Congress and the forty-eight individual States

Some centralisation in the system is achieved through the existence of a system of widespread and important correspondent relationships. Banks in small centres retain balances with city institutions and borrow from them. In many States, non-member banks are authorised under State law to count their balances with city correspondents as legal cash reserves. The close network of correspondents has, of course, led to a considerable concentration of liquid funds in the large city banks, more particularly in the New York institutions.

The Federal Reserve system itself is the most important unifying factor in the American banking system. National banks are legally required to be members of the Federal Reserve system Membership for State banks is optional. On June 30th, 1932, 6,980 of the 18,067 commercial banks in the United States were member banks These institutions, constituting less than 40 per cent by number, account for over three-quarters of the total resources of all commercial banks in the United States, and over 60 per cent of the resources of all banks, including savings institutions.

The last issue of this memorandum gave figures showing the general movement of commercial banking accounts in the United States up to 1929 Between June 1922 and June 1929 the total volume of commercial bank credit outstanding (total loans and investments) increased by $15,000 million or by 45 per cent. More important, however, than the increase in volume were the marked changes that occurred in the relative importance of the different types of bank credit. This is illustrated in Table 2 below.

Table 2. — ALL COMMERCIAL BANKS.[1] LOANS AND INVESTMENTS, BY CLASSES, 1922 AND 1929.

Class of Credit	$ (000,000's)			
	June 30th, 1922	June 30th, 1929	Increase	
			Amount	Per cent
Security loans	6,521	11,518	4,997	77
Real-estate loans	1,989	4,540	2,551	128
All other loans	15,194	18,367	3,373	22
Investments	9,215	13,191	3,976	43
Total	32,919	47,816	14,897	45

[1] Including national banks, State banks, trust companies and private banks

Security loans accounted for the greatest absolute increase in credit outstanding between 1922 and 1929. They were over 75 per cent higher at the end than at the beginning of the period. The greatest percentage increase was for real-estate loans (over 125 per cent) ; investments just about kept pace with the expansion of bank credit as a whole, while " all other " loans increased at only half the general rate.

The changes which these divergent movements caused in the character of bank assets is well illustrated by Table 3 below which shows, for

[1] See page 261 below
[2] *Federal Reserve Bulletin*, July 1932

national banks, the percentage which each of the more important credit items was of the total of loans and investments outstanding at the two dates mentioned.

Table 3. — NATIONAL BANKS : PERCENTAGE DISTRIBUTION OF LOANS AND INVESTMENTS, 1922 AND 1929.

Class of Credit	All national banks		Central reserve cities		Other reserve cities		"Country" districts	
	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929
1 Total loans	71 1	68 9	74 6	77 2	74 7	71.0	67.5	64 6
(a) Loans on securities	18 4	25 5	28.9	44 8	20.9	27 4	12 0	17 2
(b) Real-estate loans	2.3	6 5	0 1	0 5	1.1	8 1	4 1	7 8
(c) All other loans	50 4	36 9	45 6	31 9	52 8	35 5	51 4	39 6
2 Total investments	28 9	31 1	25.4	22 8	25.3	29 0	32 5	35 4
(a) U. S. Government securities	14 5	13 1	15 5	13 2	14 4	16 1	14 0	11 0
(b) Other securities	14 4	18 0	9 9	9 6	10 9	12 9	18 5	24 4
Total loans and investments (1+2)	*100 0*	*100.0*	*100 0*	*100.0*	*100.0*	*100.0*	*100 0*	*100 0*
Thereof :								
3 Eligible assets	37 1[2]	26 9	39.0[2]	27.5	39 2[2]	30 1	35.1[2]	25 4
(a) Eligible paper	21 1[2]	13 9	20 4[2]	12 5	23 3[2]	14 1	20 1[2]	14 4
(b) U S Government securities[1]	16 0[2]	13.0	18 6[2]	15.0	15.9[2]	16 0	15 0[2]	11 0
Eligible paper (3*(a)*) as % of "all other loans" (1*(c)*)	41 9[2]	37 7	44 8[2]	39.2	44.1[2]	39.7	39.1[2]	36.4

[1] Excluding United States securities pledged as collateral for national bank-note circulation
[2] June 30th, 1923

This shift in the composition of assets was common to all groups of national banks ; the increase in the importance of security loans [1] was most marked in the case of the central reserve city institutions, while the increase in the importance of direct investments was greatest for the "country" banks. On the whole, the banks' assets were of a more speculative nature, and less liquid in 1929 than in 1922. Not only did "all other" loans, which largely represent self-liquidating commercial transactions, decrease in importance (constituting over 50 per cent of total credit extended in 1922 and less than 37 per cent in 1929), but their average quality deteriorated, as is shown in the last line of the above table ; the proportion of commercial loans eligible for discount at the Federal Reserve banks dropped from 42 per cent in 1922 to 38 per cent in 1929. The increase in the importance of security loans and direct investments in securities other than Government obligations (which together represented 33 per cent of total earning assets of national banks in 1922 and 44 per cent in 1929) represents a fundamental change in the banks' method of financing industry ; instead of providing industry directly with working capital through the discount of commercial paper, they enabled industry to raise its capital requirements through security issues by providing the credit to take up these issues either through direct purchase or through the granting of loans on the basis of security collateral. In this way, the banks became involved in (indeed, helped to finance) security speculation ; a high and increasing proportion of their assets ceased to represent self-liquidating commercial transactions.

The speculative character of most of these security loans is reflected in the very great increase which took place in their relative importance in the accounts of the central reserve city banks. In New York and Chicago, which were the chief centres of speculation during this period, security loans accounted for less than 30 per cent of total credit extended in 1922 and almost 45 per cent in 1929. Direct investments in securities other than Government obligations increased most rapidly in the case of the "country" banks ; in 1929, they were almost twice as important in the balance-sheets of these institutions as in those of the reserve

[1] Security loans are made to dealers pending distribution to investors ; to brokers and individuals pending resale at a higher price ; for commercial or industrial purposes, the security being taken to protect the bank against loss ; and for consumption or other purposes The second group (pending resale) was of chief importance in the period under review, particularly in the latter years. According to information supplied the United States Senate Committee on Banking and Currency, some 75 to 80 per cent of the security loans of New York City banks were made for the sole purpose of carrying securities, while the percentage for banks outside New York City appears to have been somewhat lower.

city banks and three times as important as in the balance-sheets of the central reserve city banks. There is, moreover, reason to believe, in view of the decline in earnings from commercial loans, that high-yield securities (largely of second-rate quality) were preferred by the country banks.

More evidence of the declining liquidity of American commercial banks during the period under review is to be found in the increased importance of real-estate loans, which accounted for 2.3 per cent of the total loans and investments of all national banks in 1922 and 6.5 per cent in 1929. The increase is most marked in the case of the "other" reserve city banks and is largely accounted for by the MacFadden Bank Act of 1927, which authorised national banks to make loans on the security of urban real estate up to the extent of their unimpaired paid-up capital and reserve funds, or half their time deposits.

The effect of these changes on the liquidity of the national banks may be briefly indicated. The decreased importance of commercial loans caused a roughly corresponding decline in the proportion of their total earning assets consisting in paper eligible for rediscount at the Federal Reserve ; Government securities also declined in relative importance, so that the proportion of total earning assets against which the national banks could borrow at the Federal Reserve banks [1] fell from 37 per cent in 1922 to 27 per cent in 1929. The increased importance of loans on securities and investments other than Government securities made the national banks more dependent on the stability of security markets. [2] Finally, their liquidity was further impaired on account of the increased importance of real-estate loans, which are characteristically of long maturity.

State banks and trust companies show much the same development between 1922 and 1929 as the national banks : commercial loans fell from 50 to 40 per cent of total credit outstanding, while security loans rose from 13 to 23 per cent Real-estate loans also increased in importance and constituted 12 per cent of the State banks' total credit outstanding at the middle of 1929. Both Government securities and other classes of investment dropped somewhat in importance between 1922 and 1929, though even at the latter date securities other than Government bonds constituted over 21 per cent of total loans and investments, or almost as high a figure as that found for the national "country" banks. Government bonds were of very slight importance in the case of the State institutions.

It has been shown above that the total security loans of all commercial banks increased by $5,000 million [3] or over 75 per cent between the middle of 1922 and the middle of 1929. These figures do not include loans to brokers on the security of stocks and bonds These latter loans are made exclusively for the purpose of carrying securities. Statistics of loans made to brokers by and through reporting member banks in New York City are available in detail since 1926 The growth of these loans up to October 1929 is shown in Table 4.

Table 4. — LOANS TO BROKERS BY REPORTING MEMBER BANKS IN NEW YORK CITY, 1926-1929.

	$(000,000's)			
	Total	For own account	For out-of-town banks [1]	For others
January 1926	3,126	1,259	1,281	585
July 1926	2,607	960	1,000	646
January 1927	2,778	933	1,104	741
July 1927	3,096	1,032	1,188	877
January 1928	3,802	1,342	1,470	990
July 1928	4,232	929	1,543	1,760
January 1929	5,408	1,173	1,801	2,434
July 1929	5,841	1,198	1,651	2,992
October 2nd, 1929 (maximum)	6,804	1,071	1,826	3,907

[1] Member and non-member banks outside New York City (domestic banks only) ; includes unknown amount for customers of these banks.

[1] Assets of a speculative character are not eligible for this purpose

[2] It may be pointed out that a security loan or a direct investment constitutes a liquid (in the sense of readily marketable) asset from the point of view of an individual bank, and even from that of the commercial banking system as a whole, provided the total of such collateral or investments is not great ; if however, the total security holdings of the banking system, whether in the form of collateral or in that of direct investment, are large, the attempt to liquidate them within a short space of time may not be feasible without such a depreciation in their value as would involve the banks in substantial loss.

[3] In fact, this figure probably understates the increase, as the statistics of security loans for 1922 include some credit extended on security other than shares and bonds.

Between January 1926 and the beginning of October 1929, the loans made to brokers by or through New York City banks on the security of stocks and bonds increased by almost $3,700 million or over 115 per cent. It will be noted that the loans made to brokers by New York City banks for their own account did not increase, while those made for account of out-of-town banks rose by almost $550 million, or over 40 per cent over the above period. The greater part of the increase in loans to brokers, however, was made for account of "others" — *i.e.*, non-banking lenders ; in these transactions, the New York City banks acted as agents rather than as principals.

Another symptom of the close connection between commercial banks and security markets in the period under review is the organisation of *security affiliates* by many commercial banks.[1] The purpose of these security affiliates is the underwriting and distribution of securities on behalf of issuing concerns. In this connection, they act as both wholesalers and retailers, purchasing entire or part offerings and distributing the securities through salesmen to institutions and private investors. In addition, they sometimes act as holding companies, for control or other purposes, carrying securities which the parent bank is not authorised or does not wish to have among its investments ; as investment trusts, buying and selling securities for investment or speculative purposes , as assets realisation companies, taking over from the parent bank loans and investments which prove doubtful or illiquid ; as real-estate holding companies and as a medium for supporting the bank's own stock. The capital of the affiliate is subscribed either directly by the parent bank or by its shareholders ; in some cases, the parent bank declares a cash dividend on its own stock and, with the consent of its shareholders, uses this fund to constitute the capital stock of the security affiliate so that the shareholders of the bank and the affiliate are identical ; frequently, the officers of the two institutions are the same.

The relationship between the bank and its security affiliate is, of course, very close. Until the passing of the Glass Banking Act[2] of 1933, the only restriction on national banks[3] loans to affiliates was that arising from the provision that loans to no single interest should exceed 10 per cent of the bank's capital and reserve funds.

Until 1930, security affiliates were not subject to examination on the part of banking superintendents. In that year, the New York legislature passed an Act authorising the Superintendent of Banks to examine and report on the condition of security affiliates The Glass Banking Act of 1933 required that the security affiliates of national banks should be divorced from parent banks within a period of five years and gave the Comptroller of the Currency immediately supervisory power over such affiliates.

Over the period here considered (1922-1929), the increase in commercial banks' total deposits, $13,000 million or 45 per cent, is roughly similar to the increase in total loans and investments. The different classes of deposits did not increase at uniform rates ; time deposits grew much more rapidly than demand deposits and constituted a considerably higher proportion of the total in 1929 than in 1922. Table 5 below shows that, for the national banks as a whole, demand deposits dropped from 69 per cent of the total in 1922 to 56 per cent in 1929.

Table 5. — NATIONAL BANKS · PERCENTAGE DISTRIBUTION OF DEPOSITS, 1922 AND 1929.

	All banks		Central reserves cities		Other reserve cities		"Country" districts	
	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929	June 30th, 1922	June 30th, 1929
Demand	69 0	55 8	88 6	81 7	78 2	58 2	56 0	46 1
Time	31 0	44 2	11.4	18 3	21 8	41 8	44 0	53.9
Total	*100 0*	*100 0*	*100 0*	*100 0*	*100 0*	*100 0*	*100 0*	*100 0*

All types of banks shared in this shift from demand to time deposits, but it was most marked in the case of the reserve city banks. The growth in the relative importance of time deposits is approximately matched by an increase in the relative importance of investments and real-estate loans in total credit outstanding. Thus, for the national banks as a whole, time deposits rose from

[1] The first American bank to organise a security affiliate appears to have been the First National Bank of New York, which organised the First National Company in 1908 ; the National City Bank followed with the National City Company in 1911 and, since then, most large banks in New York and Chicago and many in smaller places have organised security affiliates

[2] See page 261 below

[3] Many States have similar provisions in their banking laws.

31 to 44 per cent of the total between 1922 and 1929, while the long-term credit items mentioned rose from 31 to 38 per cent of the total. In part, of course, the increase in time deposits represents an increase in real savings which the banks felt justified in investing in long-term assets. In part, however, it represents merely a change in classification : the banks classified an increasing proportion of their deposits as time accounts in order to take advantage of the lower reserve requirements [1] against such deposits.

In so far as the expansion of bank credit in this period resulted in a growth in time rather than demand accounts, the cash reserve requirements of the commercial banks were relatively diminished, and consequently their dependence on the central banking system was reduced. Another factor tending in the same direction was the considerable increase in the velocity of circulation of bank deposits, particularly from 1927 to 1929. According to official estimates [2] the turnover of deposits in member banks increased from 32 times a year in 1925 to 45 times a year in 1929, notwithstanding the fact that 41 per cent of deposits were classified as time accounts in 1929, as compared with only 36 per cent in 1925. This increase in the velocity of circulation of bank deposits was particularly marked in New York City, though it is also to be observed in other places , it reflects chiefly the increased use of bank credit for speculative purposes.

The net demand and time deposits of member banks were $75 million lower in September 1929, when the stock-market boom was at its peak, than in December 1927 (and their cash reserve requirements were also lower) despite the fact that, in the intervening months, the demand for stock-exchange loans was sufficient to require brokers to increase their borrowings by $4,000 million at rates which, in some months, averaged nearly 10 per cent. This situation arose because corporations and other non-banking lenders drew upon their balances with member banks and loaned funds in large volume directly to brokers, permitting an extraordinary demand for credit to be met without any increase in the deposits against which member banks were required to maintain reserves. The demand was met entirely by an increase in the velocity of circulation of bank deposits.

In addition to the above factors, there occurred an actual increase in the basic reserves of the commercial banking system in the form of gold and Federal Reserve credit. By the middle of 1922, the liquidation of bank credit consequent upon the slump of 1920-21 had virtually ceased ; the banks had used the imports of gold and the return of currency from circulation which had been taking place since the beginning of 1921 to repay part of their indebtedness to the Federal Reserve without affecting their aggregate volume of reserves. The influx of gold continued from 1922 through 1924 ; at first, part of this influx was offset by additional demands for currency, but the commercial banks' reserve balances and their deposits liabilities grew gradually in 1922 and 1923 and very rapidly in 1924 There was a slight outflow of gold in 1925 which retarded slightly the growth in the cash reserve basis, but this was offset by an expansion of Federal Reserve credit effected by open-market purchases of Government securities made in order to overcome the business recession of that year. Gold continued to flow in from 1925 to the middle of 1927, and the cash basis was further increased through an expansion in treasury credit, chiefly in the form of silver certificates. In 1927, the Federal Reserve banks lowered their discount rates and enlarged the credit basis by buying Government securities , foreign securities were marketed in the United States in increasing volume, the gold inflow stopped and was replaced by an outflow, and commercial bank credit expanded very rapidly. This expansion took the form chiefly of loans on securities for stock-market speculation, and loans on real estate. At the end of 1927, the Federal Reserve banks stopped buying Government securities, and, at the beginning of 1928, they reversed their former policy and tried to contract the basis of credit by selling Government securities and raising their discount and acceptance buying rates. The commercial banks, however, counteracted these efforts by selling acceptances to the Federal Reserve banks and by increasing their rediscounts with them. Moreover, from the middle of 1928 there was a renewed inflow of gold into the United States, which enabled the member banks to maintain, though not to increase, their reserve balances. It has already been shown that the stock-market speculation of the last stages of the boom was largely financed through an increase in the velocity of turnover of bank deposits and not through an increase in their volume.

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Table 6 below shows the decline of bank credit (*i.e.*, loans and investments) for all banks in the United States between October 4th, 1929, and December 31st, 1932.

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[1] Legal cash reserve requirements for member banks of the Federal Reserve system are 13, 10 and 7 per cent against demand deposits, depending on whether the bank is located in central reserve city, other reserve city or elsewhere, and 3 per cent against all classes of time deposits.

[2] *Federal Reserve Bulletin*, January 1933

Table 6 — ALL BANKS[1] : TOTAL LOANS AND INVESTMENTS, 1929 AND 1932.

	$(000,000's)				
	All Banks	Member Banks			
		Total	New York city banks	Other reserve city banks	"Country" banks
October 4th, 1929	58,835	35,914	8,150	13,983	13,780
December 31st, 1932	44,946	27,469	7,327	10,535	9,607
Decline October 4th, 1929, to December 31st, 1932	13,889	8,445	823	3,448	4,173
Per cent decline October 4th, 1929, to December 31st, 1932	*24*	*24*	*10*	*25*	*30*

[1] Including, in addition to national banks, State banks, trust companies and private banks (which are regarded in this *Memorandum* as commercial banks), stock savings banks and mutual savings banks.

The liquidation of bank credit in the period October 4th, 1929, to December 31st, 1932, amounted to almost $14,000 million, or three fourths of the total expansion in the period 1922-1929.[1] The rate of decline was the same for member banks of the Federal Reserve system and non-member banks, but considerably less for the banks of New York City than the other reserve cities, and greatest of all for the "country" banks. The various classes of bank credit did not, of course, decline at a uniform rate. Table 7 shows the decline for member banks according to class of loan and investment from October 4th, 1929, to December 31st, 1932.

Table 7. — ALL MEMBER BANKS : LOANS AND INVESTMENTS, BY CLASSES, 1929 AND 1932.

Accounts	October 4th, 1929	December 31st, 1932	Difference		Percentage distribution of loans and investments	
	$(000,000's)		$(000,000's)	%	October 4th, 1929	December 31st, 1932
1. *Total loans*	*26,165*	*15,204*	*—10,961*	*—41 9*	*72 9*	*55 3*
(a) Loans to customers	23,249	13,905	— 9,344	— 40 2	64 7	50 6
(i) Security loans	8,109	4,848	— 3,261	— 40 2	22.6	17 6
(ii) Real-estate loans	3,152	2,862	— 290	— 9 2	8 8	10 4
(iii) All other loans	11,988	6,195	— 5,793	— 48 3	33 3	22 6
(b) Loans to banks	670	444	— 226	— 33 7	1 9	1 6
(c) Open-market loans	2,275	855	— 1,420	— 62 4	6 3	3 1
2 *Total investments*	*9,749*	*12,265*	*+ 2,516*	*+ 25.8*	*27 1*	*44 7*
(a) U S. Government securities	4,022	6,540	+ 2,518	+ 62 6	11 2	23 8
(b) Other securities	5,727	5,726	— 1	—	15 9	20 9
Total loans and investments Thereof	*35,914*	*27,469*	*— 8,445*	*— 23 5*	*100 0*	*100 0*
3. Eligible assets	7,979	8,009	+ 30	0 4	22 2	29 2
(a) Eligible paper	4,598	2,246	— 2,352	51.2	12.8	8 2
(b) U S Government securities[1]	3,381	5,763	+ 2,382	+ 70.5	9.4	21 0
3*(a)* as % of 1*(a)*, *(iii)*	—	—	—	—	38 4	36 3

[1] Excluding about $650 million of Government securities pledged against national bank-note circulation

The $8,500 million decline in total loans and investments of member banks over this period is accounted for by a decline of $11,000 million in loans compensated in part by an increase of $2,500 million in investments. The increase in investments was entirely due to increased holdings of Government securities, which were over 60 per cent higher at the end of 1932 than in October 1929; other investments showed no net change over this period.

The very sharp decline in commercial ("all other") loans reflects partly the reduced demand for such loans inevitable in a period of business depression and partly, more particularly in the last two years covered by the above table, the pressure brought to bear by banks on commercial borrowers to repay such loans in order to enable the banks to meet extraordinary demands for funds through large-scale withdrawals of deposits. The liquidation of customers' security loans is connected with the sharp decline in security prices and shows the falling-off in the commercial banks' indirect provision of credit to industry and trade through the security markets. The moderate

[1] The total amount of loans and investments of all these institutions outstanding on June 30th, 1922, was $40,304 million

decline in real-estate loans is due to the long maturity of such loans and the virtual absence of any market for real-estate or real-estate mortgages in this period. The large fall in open-market loans is entirely accounted for by the contraction in loans to brokers ($1,500 million), as the banks' holdings of acceptances and commercial paper increased somewhat over the period.

The last two columns of Table 7 show that, during the period covered, the share of investments in total credit outstanding rose from 27 to 45 per cent, chiefly as a result of a large increase in the banks' holdings of Government securities. "All other" loans, which are chiefly commercial in character, accounted for a third of the total volume of member-bank credit outstanding in October 1929, and less than 23 per cent at the end of 1932. As a result, the banks' holdings of paper eligible for rediscount (shown at the foot of the table) also fell sharply; but this decline was more than offset by a rise in the relative importance of Government securities, so that member banks were in a position to borrow at the Federal Reserve banks against over 29 per cent of their credit portfolio at the end of 1932, as compared with only 22 per cent in October 1929. The quality of the commercial paper held by the banks was somewhat worse at the later date, as shown in the last line of the table.

The figures given in Table 7 for open-market loans, which show a decline of $1,400 million (62 per cent), greatly understate the drop in the total volume of funds borrowed in the open market, as a very large proportion of the funds loaned to brokers in 1929 was derived from non-banking sources. Table 8 shows the decline in the total of open-market loans outstanding from the end of September 1929 to the end of December 1932.

Table 8. — OPEN-MARKET LOANS OUTSTANDING, 1929 AND 1932.

	September 30th, 1929	December 31st, 1932	Per cent decline, September 30th, 1929, to December 31st, 1932
	$(000,000's)		
Stock-Exchange loans.			
From New York banks and trust companies	7,977	279	96 1
From other sources	1,472	68	95 4
Total	8,549	347	95 9
Commercial loans			
Open-market commercial paper	265	81	69 4
Prime bankers' acceptances	1,272	710	44.2
Total	1,537	791	48 4
Grand total	10,086	1,138	88.7

The stock-exchange loans from New York banks, as shown in the first line of Table 8, include, not only loans on own account and for the account of out-of-town banks, but also loans for the account of "others" — *i.e.*, non-banking lenders. This last group declined from almost $4,000 million at the end of September 1929 to $4 million at the end of 1932.

Table 9 shows the degree to which member banks in various areas took part in the general credit liquidation over the period under review.

Table 9. — MEMBER BANKS, BY GEOGRAPHICAL CLASSIFICATION TOTAL LOANS AND INVESTMENTS, 1929 AND 1932

CLASS OF CREDIT	$(000,000's)											
	NEW YORK CITY				OTHER RESERVE CITIES				COUNTRY BANKS			
	October 4th, 1929	Decem. 31st, 1932	Change Amount	Change %	October 4th, 1929	Decem. 31st, 1932	Change Amount	Change %	October 4th, 1929	Decem. 31st, 1932	Change Amount	Change %
Total loans	6,343	3,538	— 2,805	— 44	10,595	6,173	— 4,422	— 42	9,226	5,767	— 3,459	— 37
Security loans	1,944	1,247	— 697	— 36	3,869	2,169	— 1,700	— 44	2,295	1,432	— 863	— 38
Real-estate loans	176	160	— 16	— 9	1,491	1,398	— 93	— 6	1,485	1,304	— 181	— 12
All other loans	2,726	1,214	— 1,512	— 56	4,415	2,312	— 2,103	— 48	4,847	2,669	— 2,178	— 45
Acceptances and commercial paper	100	364	+ 264	+ 264	114	103	— 11	— 10	177	31	— 146	— 82
Loans to brokers	1,096	337	— 759	— 69	413	12	— 401	— 97	376	8	— 368	— 98
Loans to banks	302	216	— 86	— 29	494	178	— 316	— 64	45	50	+ 5	+ 11
Total investments	1,807	3,789	+ 1,982	+ 110	3,388	4,302	+ 974	+ 29	4,554	4,114	— 440	— 10
U. S Government securities	989	2,603	+ 1,614	+ 163	1,671	2,462	+ 791	+ 47	1,361	1,474	+ 113	+ 8
Other securities	817	1,186	+ 369	+ 45	1,717	1,900	+ 183	+ 11	3,193	2,640	— 553	— 17
Total loans and investments	*8,150*	*7,327*	*— 823*	*— 10*	*13,983*	*10,535*	*— 3,448*	*— 25*	*13,780*	*9,607*	*— 4,173*	*— 30*

The decline in the total volume of bank credit outstanding after October 4th, 1929, was most marked in the case of the "country" banks and least marked in the case of the New York City banks. The "country" banks account for about half the total credit contraction between these dates, their total loans and investments fell by 30 per cent, while those of the New York City banks fell by 10 per cent and those of the other reserve city banks by 25 per cent. These divergences are accounted for by the fact that the decline in total loans, though relatively more severe for the New York banks (44 per cent) than for either reserve city (over 42 per cent) or "country" banks (38 per cent), was offset to a considerable extent by a large increase in the investment portfolio of the New York banks, particularly their holdings of Government securities. The decline in loans of the other reserve city banks was also offset in part by an increase in investments, while the total security holdings of the "country" banks fell during the course of this period, the decline in other securities being greater than the increase in their holdings of Government obligations.

The contraction of bank credit between October 1929 and December 1932 indicated above was, of course, accompanied by a corresponding reduction in the volume of bank deposits. In part, this latter reduction was determined by the contraction in credits outstanding; and, in part, particularly during the period of financial crisis, it was due to the withdrawal of bank deposits for currency hoarding. The total decline in net demand and time deposits of all member banks from October 1929 to December 1932 was $7,000 million. Of this amount, the "country" banks account for $4,000 million, their deposits falling by 32 per cent, the provincial reserve city banks account for $2,700 million, their deposits falling by 21 per cent, and the New York City banks for $250 million, their deposits falling by 3 per cent.

The proportion of demand deposits to total deposits rose, during this period, from 81 to 86 per cent in the case of the New York banks; fell from 59 to 55 per cent for other reserve city banks and from 47 to 42 per cent for "country" banks.

More striking even than the contraction in the volume of bank deposits which took place during the depression is the decrease in the efficiency with which the deposits were used — *i.e.*, the decrease in their rate of turnover. The volume of business payments is reflected in the bank debits to individual accounts, which represent chiefly transfers by cheque. It is officially estimated[1] that bank debits to individual accounts fell off by $700,000 million between 1929 and 1932, or by 70 per cent. Two-thirds of this decline is accounted for by New York City banks and reflects chiefly the decline in the volume of security transactions and the lower level of security prices. In places outside New York, the decline reflects chiefly the slump in business activity and the lower levels of prices and wages. The total volume of bank debits to individual accounts, both in and outside New York City, was at a lower level in 1932 than in any year since 1920.

According to estimates of the Federal Reserve Board,[1] the rate of turnover of bank deposits in reporting member banks in leading cities dropped from 45 times a year in 1929 to less than 20 times a year in 1932 and 16 times a year in the last quarter of that year. Outside New York City, the decline was from a rate of turnover of 22 times a year in 1929 to about 13 times a year in 1932.

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The foregoing analysis has given a general picture of the evolution of commercial bank credit in the United States from October 4th, 1929, two weeks before the break of the New York stock market, to December 31st, 1932, the last date for which complete returns for all member banks are available. The analysis is, however, incomplete as, on the one hand, very important developments have taken place in American banking since the end of 1932, and, on the other hand, the three-year period covered includes several distinct phases which require separate analysis. Accordingly, the following periods are considered separately below. October 1929 to June 1931, a period characterised chiefly by declining business activity, falling prices, and moderate credit liquidation; June 1931 to June-July 1932, a period characterised chiefly by financial crisis and sharp credit liquidation, June-July 1932 to January 1933, a period of relative stability in both business and credit, February to March 1933, a period of intense financial panic, culminating in a short-lived but general banking moratorium after March 4th; and, from the latter date to the time of writing, a period of recovery from the disorganisation of the credit system.

A general view of the development of all bank credit outstanding in the United States during the first period may be had from Table 10, which shows the movements of loans and investments and of deposits of all banks from October 4th, 1929, to the middle of 1931:

[1] See *Federal Reserve Bulletin*, January 1933.

Table 10. — ALL BANKS[1]: (A) LOANS AND INVESTMENTS AND (B) DEPOSITS,[2] 1929, 1930 AND 1931.

	$(000,000's)					
	Total		Member banks		Non-member banks	
	A	B	A	B	A	B
October 4th, 1929	58,835	55,180	35,914	33,004	22,922	22,176
June 30th, 1930	58,109	54,954	35,656	33,690	22,453	21,264
June 30th, 1931	55,022	51,782	33,923	31,566	21,099	20,218
Decline,						
October 4th, 1929, to June 30th, 1931 — *Amount*	3,813	3,398	1,991	1,438	1,823	1,960
Per cent	6 6	6 2	5 6	4 3	7 9	8 8

[1] Including mutual savings banks and stock savings banks in addition to national banks, State banks, trust companies and private banks

[2] Exclusive of inter-bank deposits.

The total decline in the loans and investments of all banks from October 1929 to June 1931 was $3,800 million, or less than 7 per cent and deposits fell rather less. The credit contraction represented by these figures, though considerable, does not appear to have been greater than that experienced in previous periods of intense depression, such, for example, as 1920-21 or 1894. It will be observed in Table 10 that aggregate loans and investments declined comparatively little and aggregate deposits hardly at all from October 1929 to June 1930; deposits with member banks, indeed, increased by $700 million or over 2 per cent in that period. During the next twelve months, the decline in bank credit was more rapid.

Both the loans and investments and the deposits of non-member banks fell more drastically than those of member banks. Non-member institutions include both commercial and savings banks. From October 1929 to June 1931 deposits in savings banks rose by some $750 million and their loans and investments increased by about $400 million. The decline in the loans and deposits of non-member commercial banks was therefore even greater than that indicated in the Table 10. The total decline in the loans and investments of commercial banks during the period mentioned was $4,200 million, or 9 per cent, and the decline in their deposits was $4,150 million. There was moreover some tendency for time deposits to increase in importance relatively to demand deposits. For member banks of the Federal Reserve system as a whole, time deposits rose from 41.3 per cent of the total in October 1929 to 42.5 per cent in June 1931; this rise was entirely due to the country and provincial reserve city banks.

In the months following the break on the New York stock market, the Federal Reserve banks tried to restore confidence and ease the situation by a policy of cheap money. Discount rates were progressively reduced and the credit basis was expanded through purchases of Government securities. The first effect of the break of the New York stock market was to free a large amount of bank credit which had formerly been directed to speculative channels. This is reflected in a rapid reduction in member bank indebtedness to the Federal Reserve banks, borrowings fell from over $1,000 million in August 1929 to $250 million in June 1930. Large masses of loans, particularly those made on securities, became frozen as a result of the decline in values, and, during this period, the liquidation was almost entirely confined to commercial loans. As the depression continued, the Federal Reserve adopted a more passive policy and, from the middle of 1930, the liquidation of bank credit became more general and extended to all classes of loans.

All classes of loan were, however, not affected with equal severity. A comparison of the first columns of Table 7 above and Table 15 below will show that the most important decline was in "all other" loans, representing the bulk of genuine commercial credit, which dropped by over $3,000 million or 25 per cent. Security loans fell by $1,000 million or 12 per cent. Investments, on the other hand, increased by $2,350 million, of which over $1,300 million was due to purchases of Government securities. The increase in the banks' holdings of Government securities more than offset the decline in the amount of commercial paper eligible for discount, so that a somewhat higher proportion of their total loans and investments were available for borrowing at the Federal Reserve banks at the end than at the beginning of the period. Commercial paper, in addition to declining in relative importance, also deteriorated in average quality; only 35 per cent of "all other" loans were eligible for rediscount in 1931, as compared with 38 per cent in 1929.

A detailed examination of the figures for various groups of member banks shows that the decline in commercial loans was fairly uniform, but that the New York City and Chicago banks' loans on stocks and bonds were about the same at the middle of 1931 as in October 1929, while those of the other

reserve cities and the country banks were considerably lower. The increase in investments was most marked in the central reserve city banks ; the investment portfolio of the country banks was no higher in June 1931 than in October 1929. The country banks, in fact, show a liquidation of credit all along the line ; they account for $1,600 million of the $2,000 million reduction in member bank credit outstanding in the period under review. In part, this liquidation of country bank credit is due to the elimination of banks through suspensions ; but it reflects chiefly the diminished activity of trade in rural areas and a decline in deposits resulting from diminished sales of agricultural products and a drastic decline in the prices of principal crops.

In short, the period from October 1929 to June 1931 may, for the member banks as a whole, be characterised as one of relatively moderate liquidation of commercial bank credit, la considerable decline in loans being party offset by a large increase in investments. During the period of the stock-market crisis, the Federal Reserve banks purchased large quantities of Government securities in the open market ; they further assisted the commercial banks in 1930 and 1931 by standing ready to buy acceptances at stated rates and by lowering their discount rates. A large inflow of gold and a sharp decline in the amount of money in circulation enabled the member banks to reduce their indebtedness at the Federal Reserve ; member bank borrowings fell from over $1,000 million in August 1929 to $185 million in June 1931 and their excess cash reserves increased by over $90 million. Federal Reserve credit outstanding declined from $1,750 million in October 1929 to less than $950 million in June 1931 — the lowest level since 1926.

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Although the decline in the amount of commercial bank credit outstanding in the United States from October 1929 to June 1931 partook of the nature of a gradual and orderly liquidation, rather than of a rapid deflation, there were, nevertheless, certain disquieting features in the general banking situation, even at that date. The most important of these was the large number of bank failures. Suspensions took place, indeed, with considerable frequency long before the depression.

Of the 30,000 banks of all kinds in existence at the beginning of 1922, over 10,000 banks, or one in every three, had gone out of business by the end of 1932 ; deposits in these institutions amounted to about $5,000 million. Five thousand of these bank suspensions occurred in the period of high business activity from 1922 to 1929 ; the great majority represented failures. In the last three months of 1929, 163 banks failed ; in 1930 the number was 1,345, and, in the first six months of 1931, 687. In all, 2,295 banks, with deposits aggregating over $1,300 million, closed their doors in this period. As the total decline in deposits of all banks in the United States between October 4th, 1929, and June 30th, 1931, amounted to $3,400 million, bank suspensions are seen to account for a substantial proportion of this decline.

Another disquieting feature was the appearance of a tendency to hoard currency out of distrust of the safety of banking institutions. Currency hoarding became a factor of major importance only during the financial panic ; but, even at this period, it was not without significance. The total amount of money in circulation in the United States increased by $400 million in the last two months of 1930, when bank suspensions were very numerous, and, after declining by almost $300 million in the first quarter of 1931, again increased by over $200 million in the second quarter of that year.

With the impact of the financial crisis in the summer of 1931, the American banks (whose liquidity, moreover, had already been impaired by the fall in commodity prices, security and real-estate values and personal incomes) were faced with the necessity of meeting large withdrawals of deposits on the part both of foreigners and of American citizens. During this period, the fear of bank failures and the consequent withdrawals of currency for hoarding were major factors in the banking situation, a great many banks were unable to realise their assets in sufficient amount to meet the extraordinary demands for currency ; the attempt on the part of the banking system to convert large holdings of investments into cash appears to have dominated security markets and to have caused a drastic fall in bond prices, which had hitherto been relatively well maintained.

A general view of the development of bank credit during the financial panic may be secured from Table II, which shows the movement of loans and investments and of deposits in all banks in the United States from the end of June 1931 to the end of June 1932 ; for purposes of comparison, figures for October 4th, 1929, are also shown.

Table II. — ALL BANKS : (A) LOANS AND INVESTMENTS AND (B) DEPOSITS,[1] 1929, 1931 AND 1932.

		$(000,000's) (A) Loans and investments	(B) Deposits
October 4th, 1929		58,835	55,180
June 30th, 1931		55,022	51,782
June 30th, 1932		46,071	41,963
Decline, June 30th 1931-1932	*Amount.*	*8,951*	*9,819*
	Per cent.	*16.3*	*19.0*

[1] Exclusive of inter-bank deposits

From the middle of 1931 to the middle of 1932, deposits in all American banks declined by almost $10,000 million or by nearly 20 per cent ; loans and investments fell somewhat less. This fall in bank credit outstanding was about three times as great as in the previous fifteen months, and was as great as the entire expansion of bank credit in the United States from the middle of 1925 to the middle of 1929.

The main features of the financial crisis need only be briefly indicated here. American monetary gold stocks increased without interruption from the middle of 1928 to the middle of 1931, when they reached their high point of $5,000 million. Against this gold reserve, the United States had foreign short-term obligations officially estimated [1] at over $2,700 million at the end of 1930. In part, these obligations represented the dollar balances of central banks , in part deposits of foreign capitalists and commercial banks , in part, foreigners' holdings of acceptances and short-dated Treasury bills. When the United Kingdom suspended gold payments in September 1931, a general feeling of insecurity developed in the international financial market ; a large part of the realisable short-term balances of the world were held in the United States, and foreigners, influenced partly by the numerous bank failures in that country, withdrew large amounts of their deposits in American banks and converted them into other currencies. These deposits were chiefly concentrated in the large New York City institutions, which were, accordingly, the first to be affected by their withdrawal in October and November 1931. Net demand and time deposits of member banks in New York City, which were $300 million higher on October 2nd, 1931, than on October 4th, 1929, declined by $1,000 million, or almost 15 per cent, between the former date and the end of 1931 ; of this amount, at least three-quarters would appear to be due to foreign withdrawals. A fresh withdrawal of foreign short-term balances took place in May and June 1932, the amount involved this time being about $500-$750 million. In all, therefore, the American foreign short-term debt would appear to have been reduced by some $1,500-$1,750 million between June 1931 and June 1932. This was accomplished in part by a corresponding reduction of American short-term assets held abroad, but mainly by the export of gold. Between the end of June 1931 and the end of June 1932, the total monetary gold stock of the United States declined by $1,100 million.

The liquidation of foreign short-term balances in the United States, which took the form chiefly of a withdrawal of sight deposits in American commercial banks, was accompanied by a withdrawal of deposits on the part of domestic depositors. The amount of currency hoarded can only be estimated indirectly. Table 12 shows the amount of money in circulation in the United States (outside the Treasury and Federal Reserve Banks) from the end of June 1931 to the end of June 1932.

Table 12 MONEY IN CIRCULATION, JUNE 1931 TO JUNE 1932.

End of	$(000,000's)
1931 :	
June	4,821
July	4,837
August	5,052
September	5,246
October	5,540
November	5,536
December	5,647
1932 :	
January	5,642
February	5,603
March	5,459
April	5,465
May	5,480
June	5,695

The amount of money in circulation in the United States was $875 million higher at the middle of 1932 than at the middle of 1931. But, during this year, there was a great contraction in the volume of business transactions , both prices and production fell considerably. Therefore, less currency was required for business purchases at the middle of 1932 than at the middle of 1931. The drop in the amount of currency actually required may be conservatively estimated at some $400-$450 million, which is slightly more than the decline in the amount of money in circulation during the first year of depression – *i.e.*, October 1929 to October 1930. Therefore, the amount of currency hoarding which took place during the year of financial crisis is seen to be at least $1,300 million. Currency hoarding, however, had already begun in the winter of 1930 ; between then and June 1931 some $300-$400 million would appear to have been hoarded. The actual amount of hoarding in June 1932 was therefore at least $1,600 million and probably more.

Another indication of the widespread distrust

[1] United States Department of Commerce, *Trade Information Bulletin*, No. 803 " The Balance of International Payments of the United States in 1931 "

in American banks characteristic of this period is the rapid increase in the United States Postal Savings deposits. These deposits, which are a direct liability of the United States Government, fluctuated between $140 and $155 million from the beginning of 1927 to the middle of 1929 ; they showed a steady tendency to increase after the beginning of the depression, a tendency which became very marked during the outbreak of bank failures in the winter of 1930-31 and again during the period of financial crisis. By the end of 1932, they had risen to over $900 million, and, by the end of July 1933, to almost $1,200 million.

Under the influence of large gold withdrawals, currency hoarding, and the breakdown of the capital market and consequent impairment of the banks' investment portfolios, the pace of bank failures was greatly accelerated in the summer of 1931 In the twelve-month period ending June 1932, 2,429 banks with deposits aggregating $1,750 million failed in the United States. During the same period, 259 banks with deposits aggregating $150 million were able to reopen. The decline in deposits due to bank failures during this year was therefore $1,600 million.

Table 13 below gives a classification of bank suspensions from 1929 to 1932 by groups of banks.

Table 13. - BANK SUSPENSIONS : NUMBER AND DEPOSITS, BY GROUPS OF BANKS, 1929-1932.

YEAR	NUMBER				DEPOSITS $(000,000's)			
	All banks	Member banks		Non-member banks	All banks	Member banks		Non-member banks
		National	State			National	State	
1929	642	64	17	561	234 5	37.0	20 1	177 4
1930	1,345	161	26	1,158	864 7	173 3	207 2	484 3
1931	2,298	409	108	1,781	1,691 6	439 2	294 4	958 0
1932	1,453	276	54	1,123	730.4	215 3	555 0	459 6

Bank suspensions were much more frequent among the State banks which are not members of the Federal Reserve system than among the member banks. Of the 5,738 banks which failed in 1929-1932, 4,623, or over 80 per cent, were non-member banks ; they accounted for about 60 per cent of the deposits of the institutions failing. Average deposits in member banks failing in this period were $1,300,000 per bank as compared with $450,000 for non-member banks. Bank failures were most frequent among small institutions operating with a minimum of own funds. More than half of the American banks which failed in the period 1929-1932 had a capital of $25,000 or less, 80 per cent of less than $100,000 and only 1 per cent of $1,000,000 or more. Almost a third of bank suspensions in the period 1929-1932 occurred in places with population of less than 500 persons and one-half in places with population of less than 1,000.

The effects of the three aspects of the financial crisis which have been outlined above — namely, gold exports, currency hoarding and bank failures— on the total volume of bank credit outstanding may be summarised at this point. Table 14 shows in round figures the amount of credit contraction imposed on the banks from June 30th, 1931, to June 30th, 1932, by each of these factors.

Table 14. — ALL BANKS FACTORS IN DECLINE IN CREDIT OUTSTANDING, JUNE 30TH, 1931, TO JUNE 30TH, 1932

	$(000,000's)
Gold exports	1,100
Deposits involved in bank failures.	1,600
Currency hoarding	1,300
Total	4,000

These three special factors alone account for $4,000 million of bank credit contraction If it is borne in mind that the total decline in loans and investments of all banks during this period was $8,900 million (in deposits $9,800 million), it will be seen that some 40 to 45 per cent of the total deflation of bank credit from June 30th, 1931, to June 30th, 1932, was directly due to the extraordinary incidence of bank failures and financial panic.

Table 15 shows in detail the changes which took place in the volume of credit extended by banks members of the Federal Reserve system from June 1931 to June 1932.

Table 15 -- MEMBER BANKS : LOANS AND INVESTMENTS, BY CLASSES, JUNE 30TH, 1931, AND JUNE 30TH, 1932

ACCOUNTS	June 30th, 1931	June 30th, 1932	Difference		Percentage distribution of loans and investments	
	$(000,000's)		$(000,000's)	%	June 30th, 1931	June 30th, 1932
1. *Total loans*	*21,817*	*16,587*	*— 5,230*	*— 24*	*64.3*	*59 2*
(a) Loans to customers	19,257	15,267	— 3,990	— 21	56 8	54 5
(i) Security loans	7,117	5,292	— 1,825	— 26	21 0	18 9
(ii) Real-estate loans	3,218	2,894	— 324	— 10	9 5	10 3
(iii) "All other" loans	8,922	7,081	— 1,841	— 20	26 3	25 3
(b) Loans to banks	457	573	+ 116	+ 25	1 3	2 0
(c) Open-market loans	2,103	747	— 1,356	— 60	6 2	2 7
2 *Total investments*	*12,106*	*11,414*	*— 692*	*— 6*	*35 7*	*40 8*
(a) U S. Government securities	5,343	5,628	+ 285	+ 5	15 8	20.1
(b) Other securities	6,763	5,786	— 977	— 14	19 9	20 7
Total loans and investments	*33,923*	*28,001*	*— 5,921*	*— 17*	*100 0*	*100 0*
Thereof :						
3. Eligible assets	7,905	7,407	— 498	— 6	23 3	26 5
(a) Eligible paper	3,198	2,428	— 770	— 24	9 4	8 7
(b) U S Government securities	4,707	4,979	+ 272	+ 6	13 0	17 8
3*(a)* as % of 1*(a)*, *(iii)*.	—	—	—	—	35 8	31 3

The decline in total loans and investments of member banks in the twelve-month period from June 1931 to June 1932 amounted to about $6,000 million, or 17 per cent, as compared with a decline of $2,000 million, or 6 per cent, in the twenty-one-month period from October 1929 to June 1931. Unlike the earlier period, the liquidation from June 1931 to June 1932 was not concentrated on ordinary commercial (" all other ") loans ; the fall in these loans, though substantial ($1,850 million), was less than from October 1929 to June 1931 (over $3,000 million). The deflation during the financial crisis was most marked for security loans, which fell by $1,800 million (a 26 per cent drop, as compared with a 10 per cent drop in the earlier period), open-market loans, which fell by $1,350 million (60 per cent, compared with a decline of less than $200 million earlier), and investments in securities other than United States Government stock, which fell by almost $1,000 million (as compared with a rise of more than that amount from October 1929 to June 1931). Security loans investments in " other " securities and open-market loans account for over two-thirds of the total decline in loans and investments of member banks from the middle of 1931 to the middle of 1932

The last column of Table 15 shows that there was, during this period, a further increase in the relative importance of investments and decline in the relative importance of loans. The most marked change during this year was the decline in the importance of open-market loans, both loans to brokers and holdings of acceptances and commercial paper falling off very considerably. Real-estate loans continued to lag behind in the general liquidation.

One effect of the contraction of credit was to put a very great pressure on security markets. Banks threatened with a run and endeavouring to achieve as great liquidity as possible first called their loans to brokers. Loans to brokers declined from $1,217 to $278 million between the middle of 1931 and the middle of 1932 Brokers, thus cut off from banking assistance, were no longer able to carry customers' margin accounts, and the latter were accordingly forced to throw their stock on the market in order to meet their indebtedness to brokers A second line of defence for the banks was their security loans and their own investments. Credits granted to customers on the security of stocks and bonds were withdrawn, and customers were forced to dispose of their securities in order to meet their indebtedness to the banks Similarly, the banks sold large amounts of their own security holdings , in the last quarter of 1931 they sold $250 million of Government securities and $640 million of other securities ; but, in the first half of 1932, further sales of $200 million other securities were more than offset by $300 million purchases of Government bonds. The total volume of member-bank loans secured by stocks and bonds (including loans to banks and brokers) fell by $2,650 million between June 1931 and June 1932 and, in addition, the banks' own investment portfolio declined by $700 million.

The effect of the security sales involved in this type of credit contraction may be seen in the price movement of high-grade bonds on the New York Stock Exchange. The Standard Statistics Co. index number of sixty high-grade bonds, which stood at 99.4 per cent of par in June 1931, fell to 72.2 per cent in June 1932, a decline of 28 per cent. The effect of distress liquidation on the prices of various types of bonds is shown in Table 16 below

Table 16. BOND PRICES, OCTOBER 1929 TO JUNE 1932

MONTH	DOMESTIC ISSUES [1]					U. S. Government bonds [2]	Municipal bonds [3]	Foreign bonds [1]
	Total	Industrial	Public utilities	Rails				
				High grade	Second grade			
	Per cent of par value of 4 per cent bonds					Per cent of par value	October 1929 = 100	Per cent of par value
October 1929	78 2	74 9	73 3	86 7	79 4	102.2	100 0	88 4 [4]
June 1931	79 0	64 4	82 8	97 7	78 5	106 3	113 8	83 8
December 1931	53 2	47 4	65 8	75 3	39 1	98 2	89 8	45 6
June 1932	41 3	36 0	60 5	68 8	26 5	101 8	85 9	44 5

[1] Source : Dow-Jones
[2] Source : New York Trust
[3] Calculated from yields on twenty municipal bonds as published by *The Bond Buyer*
[4] December 1929

In June 1932, domestic bonds as a whole were almost 50 per cent lower in price than in June 1931, foreign bonds had fallen in similar proportion, municipal bonds were over 25 per cent lower and Government bonds 4 per cent lower. The effect of this breakdown of the capital market on the American banking system will become clear when it is pointed out that, at the middle of 1931, the banks in the United States held about $20,000 million of their resources in the form of investments. Detailed figures of the type of security held are available only for the national banks ; assuming that the distribution of investment holdings was the same for other classes of banks, it may be estimated on the basis of these figures that the losses to American banks due to the fall in bond prices from June 1931 to June 1932 amounted to at least $2,000 million, or enough to wipe out half the paid-up capital of all American banks in existence at the former date. In fact, the decline in the market value of the banks' investment holdings must have been considerably larger, as the national banks habitually keep a much higher proportion of their investment portfolio in the form of Government bonds than do the State institutions; and Government bonds fell least in price.

In the preceding analysis, the period June 1931 to June 1932 has been considered as a whole ; in fact, the greater part of the credit liquidation of that year was concentrated in the period from September 1931 to April 1932, while the decline in loans and investments was very much slower in subsequent months. This would appear to be due chiefly to the remedial measures taken to overcome the financial crisis, which may therefore be considered at this point.

The financial crisis was dominated by two factors: foreign withdrawals of gold and domestic hoarding of currency (with which is closely connected the outbreak of bank failures). Both factors tend to reduce the cash basis of credit, and the measures to be reviewed all aimed at preventing that reduction from taking place, or at actually widening the basis of bank credit. The remedial measures fall into three main groups . the establishment of the National Credit Corporation and, later, of the Reconstruction Finance Corporation with the object of checking the reduction in the basis of credit through hoarding by making loans to banks on the basis of slow assets and so enabling them to meet withdrawals and restore confidence ; the Glass-Steagall Banking Act, which aimed at checking the contraction in the basis of credit which would result from foreign gold withdrawals by widening the basis of eligibility for the note cover , and the open-market policy of the Federal Reserve banks, which aimed at increasing the cash resources of the commercial banks and thus widening the basis of credit.

The commercial banks met the first impact of the financial crisis through recourse to the Federal Reserve banks , member-bank indebtedness rose from $169 million in August to $613 million in October. The Federal Reserve banks raised their rediscount rates, but, at the same time, bought bills freely, their bill holdings rising by over $600 million in the period mentioned , their holdings of Government securities rose by $60 million. The total volume of reserve bank credit outstanding increased from $950 million in July to over $2,000 million in October. There was some abatement in domestic hoarding towards the end of October and, in order to strengthen this tendency and to assure depositors of the safety of their deposits, a group of large American banks, acting on the suggestion of President Hoover, organised in October 1931 the *National Credit Corporation* with the function of extending credit to banks in temporary difficulties on the basis of assets not eligible for discount at the Federal Reserve banks. The working funds of this institution were raised through the issue of bonds to the organising banks ; the nominal amount subscribed was $450 million ; but only one third of this amount was called, as the National Credit Corporation did not in fact extend more than $155 million of credit (to 575 banks)

during its lifetime. The fact of its organisation, however, appears to have had a temporary reassuring influence on public confidence in the banks, as suspensions, which had reached the record figure of 522 in October, dropped to 175 in November and currency hoarding also continued to fall off.

This alleviation was short-lived, however, for 800 new bank failures, involving $275 million in deposits, occurred in December 1931 and January 1932. In February 1932, the Reconstruction Finance Corporation was organised and took over the business of the National Credit Corporation. The *Reconstruction Finance Corporation* is a public body with a capital stock of $500 million subscribed and fully paid up by the Treasury. It is, moreover, empowered, with the approval of the Secretary of the Treasury, to issue its own notes, debentures, bonds, etc., up to $3,300 million. Bonds issued by the Reconstruction Finance Corporation are tax-exempt and are fully and unconditionally guaranteed as to interest and principal by the United States Government. The management of the Corporation is vested in a board of eight directors, consisting of the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Farm Loan Commissioner, who are *ex-officio* members, and five other persons appointed by the President of the United States. The administration is centred in Washington, but thirty-two branches have been established in various sections of the United States.

The original Act authorised the Reconstruction Finance Corporation to make loans to banks, to other specified financial institutions, including insurance companies, mortgage-loan companies, etc., and, with the approval of Interstate Commerce Commission, to railroads Loans made by the Corporation must be "fully and adequately secured" and may bear such rates of interest as the corporation may determine. They may be made for periods not exceeding three years, and may be renewed from time to time, but must be repaid in full within five years of the date of the original loan

The *Emergency Relief Act* of July 1932 authorises the Corporation, under certain conditions, to make available to States and territories for the relief of distress a total not to exceed $300 million, the amount advanced to bear interest at 3 per cent. It further provides for loans by the Corporation to States and other public bodies, and to private corporations, for self-liquidating projects of a public or semi-public nature, such as bridges, tunnels, docks and housing facilities in slum areas. In addition, the Corporation is authorised to make loans for the purpose of financing sales of surplus agricultural products in foreign markets ; to make loans to *bona-fide* institutions to enable them to finance the carrying and orderly marketing of agricultural commodities and live-stock produced in the United States ; and to create in any Federal land bank district a regional agricultural credit corporation with a paid-up capital of not less than $3 million subscribed by the Corporation.

The capital stock of the Reconstruction Finance Corporation has been entirely paid up by the United States Government, and the Corporation raised, up to the end of 1932, additional working funds of $825 million through the issue of its own 3½ per cent notes to the Government, the latter in turn raised these funds through issuing its own bonds and Treasury bills which were, as will be shown later, largely taken up by the Federal Reserve banks and, to a more limited extent, by the commercial and savings banks. With working resources of $1,325 million, the Reconstruction Finance Corporation authorised loans to the extent of slightly less than $2,000 million and disbursed $1,525 million in cash from its inception on February 2nd, 1932, to the end of that year. The distribution of loans by periods is shown below :

Table 17 — LOANS AUTHORISED BY THE RECONSTRUCTION FINANCE CORPORATION, 1932.

Period.	$(000,000's)
Prior to July 21st, 1932	1,172
July 21st to July 31st.	50
August	190
September.	139
October.	163
November.	95
December	127
Total authorisations.	1,936

Of this amount, about $1,250 million was outstanding at the end of 1932. During the first ten months of 1933, new loans to the extent of $1,900 million were authorised and, on October 31st, 1933, a total of $2,250 million was outstanding.

The greater part of the cash disbursements of the Reconstruction Finance Corporation were made to banks and trust companies to meet withdrawals or anticipated withdrawals of deposits, to pay indebtedness, to replenish reserves and to strengthen their cash position , some loans were also made to receivers or liquidating agents of closed banks to pay a liquidating dividend to depositors and to assist in reorganisation. In all, loans authorised to banks and trust companies amounted to $950 million in the course of 1932 and an additional $700 million in the first ten months of 1933, of which $650 million remained outstanding on October 31st, 1933. 5,582 banks, or one in every four, received loans from the Reconstruction Finance Corporation during 1932 About 4,000 of these banks were located in places of less than 5,000 population ; but these small banks accounted for only 18 per cent of total loans made. Many loans were made to large city institutions, the largest being a loan of $90 million to a Chicago bank.

The next largest group of borrowers were the railroads, whose bonds are widely held by banks and other financial institutions They received cash disbursements in excess of $380 million up to the end of October 1933 for the purpose of providing funds for additions and betterments ; meeting maturing obligations, principal and interest , paying accrued expenses, auditors' vouchers, wages, etc. ; and paying other indebtedness.

The *Glass-Steagall Act*,[1] the other most important piece of American banking legislation in the period under review, sought to prevent the withdrawals of short-term credits from the United States from causing a corresponding deflation of bank credit by increasing the amount of "free gold" available in the American banking system and enabling the Federal Reserve banks to increase the basis of credit through purchasing Government securities in the open market.

Under the Federal Reserve Act, the Federal Reserve banks must maintain a 35 per cent reserve in gold or lawful money against their deposit liabilities and a reserve of 40 per cent in gold against their notes. The Federal Reserve agent must, however, hold 100 per cent collateral against all the Federal Reserve notes issued by him to the Federal Reserve bank and this collateral must consist of gold or gold certificates or eligible paper in the form of discounts or acceptances purchased in the open market. On February 24th, 1932 — *i.e.*, just before the enactment of the law under discussion — the amount of notes issued by Federal Reserve agents to Federal Reserve banks was $2,908 million Against these, the agents held all the eligible paper discounted by the Federal Reserve banks, amounting to $921 million. Deducting this from the total note issue of the Federal Reserve agents, it is seen that almost $2,000 million in gold had, under the old law, to be held against notes, instead of merely 40 per cent ($963 million), on February 24th, 1932 In addition, deposits in the Federal Reserve banks amounted to almost $2,000 million against which a 35 per cent gold backing ($691 million) was held. Moreover, the Federal Reserve banks maintain in gold with the American Treasury a special redemption fund consisting of 5 per cent of that portion of their notes not covered by gold , on February 24th, 1932, this amounted to $46 million. In order to calculate the amount of free gold in the Federal Reserve system at the date mentioned, it is therefore necessary to deduct from their gold reserves of $3,140 million, first, $1,987 million required as collateral against notes , second, $691 million held as reserve against deposits , and third, $46 million required for the redemption fund, leaving $416 million of gold entirely free, not being required either as reserves or as collateral.

Free gold, as defined above, indicates neither the extent to which the Federal Reserve banks can make advances to member banks nor the extent to which gold can be withdrawn for export without infraction of the law. A demand for gold for export, resulting from a withdrawal of foreign sight balances in commercial banks, will cause member banks to rediscount eligible paper with their Federal Reserve bank, which will proceed to substitute this eligible paper for gold as collateral against Federal Reserve notes, thus releasing an exactly equal amount of gold for export The amount of free gold does, however, limit the extent to which the Federal Reserve banks may, through open-market operations, enable member banks to meet an external demand for gold or an internal demand for currency without increasing their indebtedness at the Federal Reserve banks When the member banks have to borrow in order to secure gold or currency, this becomes an element of tightness in the credit situation and constrains the commercial banks to reduce their own credits outstanding If acceptances were sold to the reserve banks for gold or currency, there would be no inroad into the amount of free gold available, as acceptances are eligible as collateral for Federal Reserve notes. The amount of bankers' acceptances outstanding had, however, sunk to a very low figure as a result of the decline in the volume of trade, and a substantial portion of these instruments was held by the big city institutions who were reluctant to part with their most liquid earning asset. At the end of 1931, bankers' acceptances outstanding amounted to less than $1,000 million, of which over $550 million were already held by Federal Reserve banks and some $250 million by accepting banks

Under the Glass-Steagall Act, the Federal Reserve banks are authorised to use Government securities as collateral against Federal reserve notes. This measure resulted, of course, in a very large increase in the amount of "free gold" in the Federal Reserve system and made it possible for Reserve banks to carry on open-market operations on a much larger scale than would otherwise have been the case

Other sections of the Glass-Steagall Act provide means whereby, in unusual circumstances, member banks that are without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient accommodation from the Federal Reserve banks under other provisions of the Federal Reserve Act may receive assistance on other security under definite restrictions and at a higher rate of discount. This legislation does not appear to have been passed on account of any shortage in the supply of eligible assets in the hands of member banks as a whole. At the end of 1931, these reported $2,573 million of eligible paper as

[1] This Act entered into force for a period of one year in March 1932 , it was extended for a year in March 1933

well as $4,964 million of Government securities, making a total of nearly $7,300 million against which they could borrow at the Federal Reserve banks, or nearly ten times their actual indebtedness at that time. These eligible assets, moreover, appear to have been well distributed throughout the country. No official information is available, however, regarding their distribution among individual banks. The Act is intended to apply in exceptional cases where an individual bank faced with a loss of deposits is under the necessity of disposing at a loss of some of its sound but ineligible assets or else closing its doors. During the year 1932, loans aggregating $33 million were authorised under these provisions to 50 member banks; $14 million were outstanding at the end of the year.

The *Emergency Relief Bill* of July 1932 introduced a new element into the operations of the Federal Reserve system by extending the power of the Reserve banks to make discounts, previously limited to member banks, to individuals and corporations. In unusual circumstances, the Federal Reserve Board may, by the affirmative vote of five members, authorise any Reserve bank to discount paper directly for individuals and business firms. The paper so discounted must conform to the requirements of eligibility laid down in the Federal Reserve Act and must be endorsed and otherwise secured to the satisfaction of the Federal Reserve bank. Before discounting paper under this amendment, the Federal Reserve bank must obtain evidence that the firm offering it is unable to secure adequate credit accommodation from other banking institutions. In the course of 1932, less than $1 million was advanced under these provisions.

Another change in American banking legislation during the period under review was the granting to the national banks, in a rider to the *Federal Home Loan Bank Act* of July 1932, for three years, of the right to issue notes against cover consisting of any bond of the United States bearing interest at not more than $3\frac{1}{4}$ per cent, instead of against only certain limited issues of 2 per cent bonds as hitherto. The new law adds $3,000 million to the volume of bonds qualifying as cover for national bank-notes. The limiting factor in the issue of these notes, which was formerly the availability of bonds which might legally serve as cover, now becomes the provision that the note-issue shall not exceed the paid-up capital of the issuing banks. Table 18 shows the distribution of the potential issue of national bank-notes among various classes of banks under the new Act, as at June 30th, 1932.

Table 18 — UNUSED ISSUING POWER OF NATIONAL BANKS, UNDER ACT OF JULY 1932, AS AT JUNE 30TH, 1932.

	$(000,000's)		
	Paid-in capital	Notes in circulation	Unused issuing power
New York City banks	305	33	272
Chicago banks	32	1	31
Other reserve city banks	538	177	360
"Country" banks	695	442	253
All national banks	1,569	652	917

It will be seen that the New York City and Chicago banks had the power to issue a relatively large volume of notes under the new Act, other reserve city banks also had a relatively small issue outstanding. The new Act, in addition to widening the circulation-cover privilege, also widened the margin of profit by allowing bonds bearing higher rates of interest to serve as cover. Up to the present, however, the national banks have by no means made full use of the additional note-issuing power granted by the Act. The total national bank-note issue which, as shown above, was $652 million at the end of June 1932 was $820 million at the end of the year, and $909 million at the end of September 1933. It may be pointed out that the issue of notes by national banks does not increase general currency requirements and therefore tends to result in the retirement from circulation of other forms of currency.

The open-market operations of the Federal Reserve banks from March to June 1932, though falling into a different category from the legislative measures of defence described above, are none the less intimately connected with the same. It has been shown that the Reconstruction Finance Corporation raised its entire working funds through Government subscriptions or loans and that the Government in turn raised these funds through issuing its own securities. It was desired that this increased issue of Government securities should be taken up by the Federal Reserve banks. But their power to purchase Government securities was limited by the amount of free gold available, which, as stated above, amounted to about $400 million in February 1932. The passage of the Glass-Steagall Act greatly increased the free gold at their disposal and hence their power to purchase Government securities. The purchase of Government securities not only provided the Government with funds to advance to the Reconstruction

Finance Corporation, but it was hoped that, by increasing the amount of Federal reserve credit outstanding, the basis of commercial bank credit would be widened.

Table 19. — FEDERAL RESERVE BANKS: HOLDINGS OF UNITED STATES GOVERNMENT SECURITIES, FEBRUARY TO JUNE 1932.

1932: End of	$(000,000's)
February	740
March	872
April	1,228
May	1,549
June	1,784

Table 19 shows the Federal Reserve banks' holdings of United States Government securities by months from the end of February to the end of June 1932.

The most intensive purchases took place in April, May and June; the net result of the purchases was that the Reserve banks' holdings of Government securities were over $1,000 million higher at the end of June than at the end of February 1932. This expansion of Federal Reserve credit was not used as the basis of a credit expansion, but in the ways shown in Table 20.

Table 20. - DESTINATION OF EXPANSION OF FEDERAL RESERVE CREDIT, FEBRUARY TO JUNE 1932.

1932 End of:	$(000,000's)					
	Federal Reserve banks' holdings of		Monetary gold stock	Money in circulation	Bills discounted by Federal Reserve banks	Member-bank reserve balances
	United States securities	Bills				
February	740	109	4,353	5,604	828	1,849
June	1,784	67	3,919	5,695	440	1,982
Change	*+ 1,044*	*— 42*	*— 434*	*+ 91*	*— 388*	*+ 133*

The Federal Reserve banks' large purchases of Government securities was accompanied by a moderate sale of bills, so that the total expansion of Federal reserve credit outstanding between the end of February and the end of June 1932 on account of bill and security holdings amounted to almost exactly $1,000 million. Table 20 shows what happened to this credit. The sum of $434 million was withdrawn in the form of gold and almost $100 million of the Federal Reserve credit issued was nullified by an increase in monetary circulation. Over $500 million, or about half the expansion of Federal Reserve credit, did find its way into member banks, who used almost $400 million to reduce their indebtedness at the Federal Reserve banks by retiring rediscounts, and over $100 million to increase their reserve balances with the Reserve banks. Although member-bank credit continued to decline during this period, its rate of contraction was greatly reduced. Net time and demand deposits of member banks were almost $5,000 million lower in February 1932 than in September 1931, while from February to June 1932 they fel by only $640 million, the decline being largely concentrated in June, a month of large gold withdrawals, bank failures and currency hoarding

The effect of the various emergency measures outlined above is also evident in the decline in the number of bank failures, shown in Table 21.

Table 21. — BANK SUSPENSIONS AND BANKS RE-OPENED, SEPTEMBER 1931 TO DECEMBER 1932.

	BANKS SUSPENDED		BANKS RE-OPENED	
	Number	Deposits $(000,000's)	Number	Deposits $(000,000's)
1931:				
September	305	234	6	4
October	522	471	22	5
November	175	68	21	13
December	358	277	31	19
1932:				
January	342	219	19	11
February	121	57	43	15
March	48	15	38	20
April	74	32	22	11
May	82	34	23	33
June	151	133	21	12
July	132	49	24	70
August	85	30	25	33
September	67	14	16	14
October	103	20	27	38
November	95	44	18	12
December	153	83	14	6

It will be noted that the number of bank suspensions fell off considerably after February, when the Reconstruction Finance Corporation began its operations, and during the next three months, when the Federal Reserve banks were pursuing their purchases of Government securities. There was a fresh wave of bank failures in June and July, with the recrudescence of the financial panic ; but, in the latter month, the banks which failed were in general very small institutions, and the deposits in banks which were able to reopen were greater than in those which failed. This is also true of the next three months. In November and December, however, bank suspensions again became both numerous and important, and fewer banks were able to resume operations.

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The total volume of commercial bank credit outstanding did not change appreciably between June-July 1932, when the financial panic came to an end, and the beginning of 1933. Net demand and time deposits of all member banks rose by $400 million, a $900 million increase in the deposits of New York banks being compensated in part by a fall in the deposits of "country" banks. Total loans and investments fell by $550 million, a $1,350 million decline in loans (commercial loans $900 million and security loans $450 million) more than outweighing a $900 million increase in holdings of Government securities.

During the period June to December 1932, the relationship of the member banks to the Federal Reserve banks underwent marked changes. As is brought out in Table 22, there was a substantial reduction in the indebtedness of member banks to the central institutions and the accumulation of large excess cash reserves on the part of the member banks.

Table 22. — EXCESS RESERVES OF MEMBER BANKS AND BILLS DISCOUNTED BY FEDERAL RESERVE BANKS, JUNE 1931 TO DECEMBER 1932.

MONTH	$(000 000's) (averages of daily figures)				
	Excess reserves				Bills discounted
	Total · all member banks	New York City	Other reserve cities	"Country" banks	All Federal Reserve banks
1931 June	128 9	71 4	21 0	30 5	188
1932 February	43 8	7 2	11 3	25 3	848
June	234 4	89 4	111 4	33 6	495
July	204 4	75 0	91 6	37 9	523
August	269 0	127 71	108 9	33 3	451
September	345 5	193 4	119 6	32 4	387
October	435 9	241 6	160 5	33 7	328
November	482 2	266 8	181 8	33 7	313
December	525 8	283 2	206 9	35 7	282

A comparison between the first two lines of Table 22 will show the extent to which the American banks met the financial crisis of 1931-32 by drawing on their excess reserve balances and increasing their borrowings from the Federal Reserve banks. The remedial measures taken in the early months of 1932 made their effects felt through an increase in the unused cash reserves of member banks and a reduction in the volume of their indebtedness to the reserve banks In December 1932, excess cash reserves of member banks amounted to $525 million. The accumulation of excess reserves was particularly marked in the case of the New York City banks which were, moreover, entirely free of debt to the Federal Reserve banks from April 1932 until the end of February 1933.

***

The first six weeks of 1933 marked a continuance of the tendency to moderate credit liquidation, already in evidence since November 1932. Total loans and investments of reporting member banks,[1] which stood at $18,800 million at the end of 1932, fell by $230 million between then and February 8th, 1933 ; this decline was confined to loans, holdings of Government securities being somewhat higher. Reporting member banks' borrowings from the Federal Reserve at the latter date stood at $70 million, practically the same as at the end of the year. The New York City banks were still free of debt to their Federal Reserve bank, as they had been since April 1932. Total bills discounted by

[1] These banks account for about two-thirds of the total loans and investments of all member banks

all Federal Reserve banks stood at $250 million, the lowest level since August 1931. Maturing Government securities held by the Federal Reserve banks were allowed to run off without being replaced by fresh purchases in the open market and holdings were $70 million lower than at the end of the year. The monetary gold stock was about $30 million higher. The discount rate of the Federal Reserve bank of New York stood at 2½ per cent and call money was 1 per cent.

Conditions of considerable monetary ease thus obtained during this period. The banks in the interior accumulated large balances on deposit with their New York City correspondents At the beginning of February, amounts due by New York City banks to inland correspondents exceeded $1,650 million and were twice as high as a year earlier. The net demand deposits of the New York City banks amounted to $5,860 million and their time deposits to $860 million. They held cash and liquid assets at the beginning of February 1933 amounting to over 70 per cent of their net demand and time deposits and almost 60 per cent of their net demand and time deposits *plus* bankers' balances

In spite of the ease prevailing in money markets and the relatively moderate character of bank credit liquidation, there were, none the less, some disquieting features in the banking situation during the first six weeks of 1933 Bank failures continued to increase, during the month of January over 200 banks with deposits exceeding $150 million went into liquidation, and, during the first half of February, another 125 This fresh wave of bank failures was primarily due to the withdrawal of deposits on a large scale in various parts of the country. Until the first week in February, these withdrawals represented chiefly the transfer of accounts from banks in which the depositors had lost confidence to other institutions; but, after that date, withdrawals became general and resulted in currency hoarding. Towards the end of the month, the withdrawals of currency included substantial amounts of gold.

The troubles began to come to a head in the middle of February, certain important banks in Michigan were subjected to serious runs, and, when bank plans for assistance fell through, the Governor of that State proclaimed that all banks should remain closed for a week. An effect of this proclamation outside of Michigan was to increase the movement of funds from weaker to stronger banks and also the hoarding of currency in many parts of the country. As the panic spread, the declaration of bank holidays or extensive limitations of bank operations became general. By March 4th, each of the forty-eight States of the Union had declared "bank holidays" for shorter or longer periods, or limited withdrawals of deposits to specified proportions of deposits, in few cases exceeding 5 per cent; and, on the date mentioned, the new President, acting on the authority of the Couzens Amendment to the National Bank Act passed by Congress on February 25th, declared a complete national banking moratorium.

The extent of the public demand for currency may be judged from Table 23, which shows the volume of money in circulation from the beginning of February to the beginning of March.

Table 23. - MONEY IN CIRCULATION, FEBRUARY 1ST TO MARCH 4TH, 1933.

	$(000'000's)
February 1st. . . .	5,652
February 8th. . . .	5,705
February 15th . .	5,854
February 21st	5,988
March 1st. .	6,720
March 2nd. . . .	6,960
March 3rd . . .	7,415
March 4th.	7,485

Between February 1st and March 4th, 1933, the total volume of money in circulation in the United States increased by over $1,830 million; a detailed examination of the daily figures shows that three-fourths of this increase took place during the week beginning February 27th and one half was concentrated in the first three days of March.

As already mentioned, the drain was first felt by the banks in the interior, and they attempted to meet the run by drawing on their balances with New York banks; balances due by New York banks to banks in the interior fell by $800 million from the beginning of February to March 4th The New York City banks had built up large excess reserves during the preceding period of easy credit conditions, these excess reserves, which had amounted to some $300 million during the greater part of January were entirely wiped out during the last week of the crisis. In addition, the New York City banks, which had been out of debt to the Federal Reserve banks for the preceding twelve months, borrowed $630 million from the central institution in the first three days of March; moreover, between February 1st and March 4th, they sold Government securities to the extent of over $400 million. Through these sources alone, the New York City banks mobilised resources to the extent of over $1,300 million, which they placed at the disposal of their country correspondents and their own depositors.

The country banks also borrowed heavily from the Federal Reserve banks, which, moreover, made credit available through the purchase of bills and Government securities. The variations in the volume of Reserve bank credit outstanding from the beginning of February to the culmination of the crisis are shown in Table 24.

Table 24. — FEDERAL RESERVE BANK CREDIT OUTSTANDING, FEBRUARY 1ST TO MARCH 4TH, 1933.

	$(000,000's)			
	Bills discounted	Bills bought	United States Government securities	Total Reserve bank credit outstanding[1]
February 1st	269	31	1,764	2,075
February 8th	253	31	1,784	2,085
February 15th	286	31	1,809	2,136
February 21st	327	174	1,834	2,351
March 1st	712	384	1,836	2,936
March 4th	1,414	417	1,881	3,644

[1] Including small items not shown separately

Bills discounted by the Federal Reserve banks increased by $1,150 million to reach their highest level since 1921, the Reserve banks bought bills to the extent of $385 million and Government securities to the extent of $120 million. The increase in Federal Reserve credit outstanding during these five weeks amounted to almost $1,600 million, and, at $3,650 million, the total volume of Reserve bank credit outstanding stood at the highest figure reached since the establishment of the Federal Reserve system.

Between the beginning of February and March 4th, the gold holdings of the Treasury and Federal Reserve banks dropped from $3,477 million to $2,853 million, or by over $600 million. At least half of this amount was withdrawn for domestic hoarding as the volume of gold coin and gold certificates in circulation each increased by about $150 million.

The effect of all these changes on the position of the Federal Reserve banks may now be briefly summarised: On February 1st, before the banking crisis had developed, the Reserve banks had reserves of $1,476 million in excess of legal requirements and the reserve ratio of the twelve Federal Reserve banks combined was 65.6 per cent. As a result of the run on banks in all parts of the country, member banks in need of additional cash presented paper for discount to the extent of $1,150 million and, in addition, the Reserve banks furnished funds through the purchase of acceptances and Government securities in the open market, amounting to over $500 million. The greater part of this expansion was due to an increase in the amount of Federal Reserve notes in circulation, which require a 40 per cent backing in gold, at the same time, however, there were withdrawals of gold which reduced the reserves of the Federal Reserve banks by $300 million. Consequently, the reserves of the Federal Reserve banks in excess of legal requirements were reduced to $416 million on March 4th, and the reserve ratio of the system as a whole dropped to 45.1 per cent.

The Federal Reserve bank of New York felt the strain even more than the other Reserve banks, as it had to meet, not only the demand for currency originating within the district, but also the liquidation of the large volume of bankers' balances held by interior banks with their New York correspondents. The reserve ratio of the New York bank fell to 41.4 per cent, and it was able to maintain the legal ratio only by rediscounting a substantial amount of its paper with other Reserve banks in the last stages of the crisis and by selling them, in addition, some Government securities.

The climax of the crisis was reached on March 4th, 1933, when the Governors of New York and Illinois proclaimed a "banking holiday" for all banks operating in their States, and the New York Stock Exchange also declared a temporary holiday. The President of the United States proclaimed a general banking holiday until after the meeting of the special session of Congress summoned for March 10th and imposed an embargo on the export of gold and silver. On March 6th, further paying out by banks of gold coin and gold certificates was prohibited by proclamation and the Federal Reserve banks were requested to prepare lists of persons who had recently withdrawn gold and who did not return it within a specified time-limit. The special session of Congress approved emergency proposals giving the President complete control over all banks for the protection of depositors and creditors, authorising the opening of such banks as had already been ascertained to be in a sound condition and the reorganisation of such banks as might be found to require reorganisation before opening. In addition, amendments to the Federal Reserve Act were passed permitting direct loans to corporations and individuals against collateral in the form of United States obligations, and extending broad powers to the Federal Reserve banks to lend to member banks on "sound assets" not formerly eligible as collateral for such borrowing. Moreover, the Federal Reserve banks were authorised to issue Federal Reserve bank-notes against obligations of the United States, against notes of corporations, partnerships, or individuals secured by United States Government obligations and against notes of member banks

secured by sound assets.[1] At the end of November 1933, about $200 million of these notes were outstanding.

The re-opening of the banks was begun on March 13th and continued steadily throughout that and subsequent months. By the end of March, 12,800 banks out of 18,000 in operation before the crisis had been licensed to open on an unrestricted basis. By the end of September, 5,758 of the 6,712 member banks in existence at the end of 1932 had received licences to re-open, the licensed banks accounted for about 95 per cent of the deposits of all member banks on December 31st, 1932.

The period following the re-opening of the banks was characterised by a very rapid passing of the crisis, there was a great return flow of currency to the commercial banks, which enabled them to retire their rediscounts with the Federal Reserve banks, to liquidate maturing acceptances held by the Reserve banks and to increase reserve balances with the central institution. Some of the relevant figures are shown below.

Table 25. — MONEY IN CIRCULATION, FEDERAL RESERVE CREDIT OUTSTANDING AND MEMBER BANK RESERVE BALANCES, MARCH TO NOVEMBER 1933.

	Money in circulation	Federal Reserve credit outstanding			Member bank reserve balance
		Bills discounted	Bills bought	United States Government securities	
	$(000,000's)				
March 4th	7,485	1,432	417	1,856	1,904
March 15th	7,269	1,232	403	1,899	1,964
March 29th	6,353	545	310	1,838	1,987
April 12th	6,147	428	247	1,837	2,096
April 26th	5,994	385	177	1,837	2,136
May 10th	5,892	338	113	1,837	2,089
May 24th	5,795	312	43	1,862	2,219
June 7th	5,767	277	11	1,912	2,204
June 21st	5,696	222	9	1,955	2,205
July 5th	5,752	182	23	1,995	2,219
July 19th	5,708	163	10	2,017	2,289
August 2nd	5,618	164	8	2,038	2,319
August 16th	5,612	166	7	2,059	2,371
September 1st	5,592	153	7	2,129	2,427
September 14th	5,602	133	7	2,203	2,542
September 28th	5,595	133	7	2,274	2,596
October 12th	5,673	119	7	2,314	2,567
October 26th	5,608	115	7	2,400	2,693
November 9th	5,673	112	7	2,430	2,978
November 23rd	5,654	112	20	2,431	2,687

Between the re-opening of the first banks on March 13th and the end of that month, there was a return flow of over $1,100 million of currency from circulation, the greater part of which was used for the retirement of indebtedness by the member banks. This return flow of currency continued in spite of an expansion in the volume of business in subsequent months, and, by the first week in August, the amount of money in circulation stood at about the same level as before the banking crisis. By the end of November, rediscounts had been reduced to about $110 million, the lowest level since the first months of the Federal Reserve system. Member banks, moreover, liquidated practically all of their maturing acceptances held by the Federal Reserve banks. From the middle of May, the Federal reserve banks renewed their purchases of Government securities; between May 17th and August 16th, the reserve banks increased their holdings by over $200 million. During the last fortnight of August, the Federal Reserve system increased the pace of open-market purchases, adding $70 million to its holdings of Government securities in that period. The programme of open-market purchases at the rate of $35 million a week was continued up to the middle of October. It was then slowed down, and purchases ceased completely after the second week

[1] These Federal Reserve bank-notes, which should be clearly distinguished from Federal Reserve notes, were analagous to the national bank-notes in legal position before the passing of the Emergency Banking Bill in March 1933 — *i.e.*, they were a bond-secured currency against which no special gold reserve had to be kept; the Federal Reserve banks might issue them up to the par value of United States bonds held for the purpose; but the amount of issue was not, as in the case of the national banks, limited to the capital stock of the issuing bank. Considerable use was made of Federal Reserve bank-notes during and immediately after the great war; thus, the amount of such notes outstanding at the end of 1920 exceeded $200 million. These were gradually withdrawn, however, and, at the end of 1932, only $3 million were outstanding.

of November. Federal Reserve banks' holdings of Government securities then stood at the highest level ever attained. The chief result of these open-market operations was to reduce member banks' rediscounts and to increase their excess reserves, which, at the beginning of November, reached the record figure of $850 million. Open-market rates were reduced still further, the rate on call loans to the Stock Exchange being reduced early in September to ¾ per cent, the lowest official figure since 1908. On October 19th, the Federal Reserve bank of New York reduced its rediscount rate from 2½ to 2 per cent, and on the following day the Reserve banks of Cleveland and Chicago made similar reductions from 3 to 2½ per cent.

During this nine-month period (from the beginning of March to the end of November), member-bank reserve balances increased by almost $800 million ; moreover, the gold reserves of the Federal Reserve banks increased by $900 million, representing chiefly a return of gold coin and gold certificates from circulation. The reserve ratio of the twelve Federal Reserve banks, which had touched the low level of 45 1 per cent on March 4th, stood at 64.8 per cent on December 1st, and their excess reserves amounted to about $2,000 million.

The development of member-bank credit during this period may be estimated from Table 26, which shows the loans and investments of reporting member banks in ninety leading cities.

Table 26. — REPORTING MEMBER BANKS IN NINETY LEADING CITIES : LOANS AND INVESTMENTS, MARCH TO NOVEMBER 1933.

	Total loans and investments	Loans on securities	All other loans	Investments	
				Total	United States securities
			$ (000,000's)		
March 1st	15,900	3,727	4,554	7,619	4,631
March 8th	15,728	3,759	4,551	7,418	4,427
March 22nd.	16,021	3,725	4,665	7,631	4,578
April 5th.	15,927	3,617	4,640	7,670	4,585
April 19th	15,876	3,583	4,627	7,666	4,635
May 3rd	16,288	3,698	4 706	7,884	4,909
May 31st.	16,426	3,713	4,772	7,941	4,948
June 28th	16,665	3,748	4,704	8,213	5,254
July 26th	16,662	3,789	4,772	8,101	5,117
August 30th	16,607	3,766	4,787	8,074	5,131
September 27th.	16,529	3,687	4,853	7,987	5,056
October 25th.	16,467	3,584	4,959	7,924	4,956
November 29th	16,672	3,569	4,999	8,104	5,114
			NEW YORK CITY		
March 1st	6,512	1,640	1,439	3,433	2,338
March 8th	6,412	1,668	1,453	3,291	2,186
March 22nd.	6,484	1,626	1,525	3,333	2,210
April 5th.	6,439	1,548	1,515	3,376	2,215
April 19th	6,439	1,538	1,535	3,366	2,236
May 3rd.	6,753	1,676	1,615	3,462	2,353
May 31st.	6,933	1,733	1,694	3,506	2,429
June 28th	6,913	1,791	1,609	3,513	2,438
July 26th	6,731	1,790	1,579	3,362	2,293
August 30th	6,726	1,794	1,591	3,341	2,293
September 27th.	6,698	1,731	1,613	3,354	2,297
October 25th.	6,670	1,636	1,741	3,293	2,194
November 29th	6,804	1,651	1,790	3,303	2,225

The difference between the first two lines of Table 26 indicates the extent of the credit contraction during the last days of the crisis During the first four days of March 1933 (the figures shown for March 8th refer in reality to March 4th, as all the banks were closed at the first date mentioned), the total loans and investments of reporting member banks dropped by $200 million ; it will be seen that this decline was entirely due to the sale of Government securities. An examination of the figures relating to reporting member banks in 101 leading cities shows that, between February 1st and March 1st, 1933, their total loan and investments dropped from $18,725 to $17,825 million, or by $900 million. The greater part of this decline was due to a contraction of "all other" (commercial) loans, which fell by over $500 million. United States securities fell by $350 million. Most of this credit contraction ($700 million) was borne by the customers of New York City banks.

The increase in most of the columns shown above for March 22nd is partly due to the fact that, on March 9th, a member bank in Chicago took over assets and assumed deposit liabilities of a non-member bank aggregating approximately $135

million. A genuine upward movement in the total loans and investments of reporting member banks was in evidence for several weeks after April 19th, the date on which the United States officially abandoned the gold standard by placing an embargo on the export of gold, but between the end of May and the end of November there has been no marked trend in either direction. The increase in total loans and investments of the banks covered by Table 26 between April 19th and November 29th exceeds $750 million. The greater part of this increase is due to purchases of Government securities ($500 million), although the total held by the banks has been reduced since the end of June. Investments in non-Government securities declined somewhat ($40 million). The greater part of the increase in security loans by the New York City banks is accounted for by a rise in their loans to brokers consequent upon the increase in security speculation which followed the American abandonment of the gold standard ; their loans to brokers for own account amounted to $363 million on April 19th and to $608 million on November 29th. The return flow of bankers' balances to New York City which followed the re-opening of the banks is shown in the increase in amounts due from New York banks to other banks from $898 million on March 1st to $1,474 million on June 14th ; but after the passage of the Glass Banking Act of 1933, which, *inter alia*, prohibited member banks from paying interest on demand deposits, there was a marked reduction in bankers' balances with New York city banks, which fell to $1,148 million on November 29th.

It is clear from Table 26 that the business revival which took place in the United States in the spring and summer of 1933 was not accompanied by any striking increase in the volume of commercial bank credit outstanding, as measured in total loans and investments. The increased volume of transactions was, indeed, not financed by an expansion of bank credit, but by a more active use of bank credit already outstanding. This is illustrated in Table 27 below, which shows the total of net demand and time deposits in member banks and their velocity of circulation by months since the beginning of 1933.

Table 27. — DEPOSITS IN MEMBER BANKS AND THEIR VELOCITY OF CIRCULATION, JANUARY TO NOVEMBER 1933.

1933	NET DEMAND AND TIME DEPOSITS IN MEMBER BANKS		VELOCITY OF CIRCULATION OF DEMAND DEPOSITS[1]	
	New York City	Outside New York City	New York City	Outside New York City
	$(000,000's)		1919-1925 = 100	
January	7,050	18,591	44	73
February	6,722	18,256	52	72
March[2]	—	—	—	—
April[2]	6,120	15,591	52	72
May[2]	6,517	15,992	52	73
June[2]	6,669	16,304	62	78
July[2]	6,424	16,736	75	90
August[2]	6,282	16,757	60	80
November[3]	6,289	17,197	51	72

[1] Source : Federal Reserve Bank of New York.
[2] Figure not available.
[3] Licensed banks only.

The figures for months after April refer only to licensed member banks ; a comparison of the April and February figures for deposits suggests that some $3,000 million remained immobilised in unlicensed banks in the latter month. Between April and June, the rise in net demand and time deposits was of modest proportions for both New York City banks and those outside New York City. For the former, it was $550 million, or 9 per cent, and for the latter $700 million, or less than 5 per cent. Between June and November, deposits in New York City banks fell almost as much as they had risen in the preceding months, while deposits elsewhere continue their moderate increase.

The second part of Table 27 shows that, in spite of the relative stability of bank deposits during these months, there was a very substantial increase in the efficiency with which they were used. Their velocity of circulation in New York City banks rose from 52 per cent of the 1919-1925 level in April to 75 per cent in July. For deposits in banks outside New York City, which are not influenced to nearly the same extent by purely financial transactions, the rise was somewhat less. Between April and July 1933, however, the

velocity of circulation in the banks mentioned increased by the very striking figure of 25 per cent. Since July, however, there has been a further sharp contraction in the velocity of circulation of bank deposits both in New York City and elsewhere.

On June 16th, 1933, the Presidential sanction was given to the Glass Banking Act of 1933. Its most important feature is the provision for the insurance of bank deposits. For this purpose, a corporation is set up (Federal Deposit Insurance Corporation) whose stock shall be subscribed to by the Treasury to the amount of $150 million, by the Federal Reserve banks to an amount equal to one-half their surplus (also about $150 million) and by member and non-member banks certified to be solvent at the rate of ½ of 1 per cent of their deposits During the six months beginning January 1st, 1934, a temporary fund will be in operation insuring in full deposits up to $2,500. After July 1st, 1934, deposits up to $10,000 will be insured in full, amounts in excess of that and up to $50,000 at the rate of 75 per cent and all above $50,000 at 50 per cent. Provision is made for assessment against the stock-holder banks in the event of depletion of the fund. After July 1st, 1936, all stock-holder banks must be members of the Federal Reserve system

The Act increases the powers of the Federal Reserve Board over member banks in checking speculative operations It authorises the board to withhold Reserve bank credit from a bank when undue speculative use is made of its funds, and to fix the percentage of a bank's capital and surplus which may be represented by stock and bond collateral. If a bank borrowing from its Reserve bank increases its loans on such collateral in spite of official warning, its obligations to the Federal Reserve bank become immediately due and payable. Member banks are forbidden to act as agents for non-banking corporations in making loans to brokers and dealers on the security of stocks and bonds. The Board may remove officers and directors of member banks from office.

The Act requires the divorce by member banks of their security affiliates within one year, and prohibits any person or institution engaged principally in a security business from receiving deposits.

National banks are authorised to establish branches throughout the limits of States which permit institutions chartered by them to engage in State-wide branch banking, provided that on bank with a capital of less than $500,000 may establish a branch outside its own city.

Finally, banks members of the Federal Reserve system are prohibited from paying interest on demand deposits and the Federal Reserve Board is directed to limit by regulation from time to time the rate of interest which may be paid by member banks on time deposits Member banks may not pay time deposits before maturity nor waive any requirement of notice before payment of any savings deposit.

UNITED STATES OF AMERICA. COMMERCIAL BANKS[1] **Table 26 *(a)* I.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF JUNE:					
	1922	1925	1929	1930	1931	1932
Number of : Banks	28,704	27,258	23,972	22,759	20,817	18,067
Branches	—	—	—	—	—	—
ASSETS.	$ (000,000's omitted)					
1. Cash	3,065	3,568	3,910	4,133	4,124	3,307
(a) Gold, silver and small coins	57	89	71	71	91	66
(b) Inland notes and balances with Central Bank	3,008	3,479	3,839	4,062	4,033	3,241
2. Other Items of a Cash Nature	1,567	2,164	1,680	2,880	1,941	976
3. Bills discounted and bought	—	—	—	—	—	—
(a) Treasury bills						
(b) Commercial bills, Inland	—	—	—	—	—	—
(c) Commercial bills, Foreign						
4. Investments and Securities	9,215	11,619	13,191	13,694	15,220	13,679
(a) Government	3,726	4,322	4,975	4,838	7,220	7,524
(b) Other	5,489	7,297	8,216	8,856	8,000	6,155
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	2,804	3,730	3,323	3,712	3,768	2,544
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
7. Loans and Advances	23,704	28,209	34,625	33,695	28,398	21,356
(a) On current account	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
8. Cover for Acceptances	176	177	450	586	938	528
9. Premises, etc.	985	1,269	1,601	1,656	1,652	1,521
10. Sundry Assets	974	1,315	1,796	1,847	1,655	1,110
11. Total Assets	**42,490**	**52,051**	**60,576**	**62,203**	**57,696**	**45,021**
LIABILITIES.						
12. Capital paid up	2,864	3,086	3,735	3,829	3,618	3,274
13. Reserve Funds	2,188	2,555	4,034	4,403	4,229	3,644
14. Profit-and-Loss Account, Undivided Profits, etc.	873	920	936	986	833	555
15. Notes in circulation	726	648	649	652	639	652
16. Cheques and Drafts, etc., in circulation	552	698	837	1,614	1,083	566
17. Due to Banks (Correspondents)	3,243	4,366	3,621	4,331	4,823	3,207
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	30,088	37,791	42,985	43,288	39,713	30,597
(a) Current accounts and sight deposits	14,875	17,201	24,032	23,960	21,208	16,322
(b) Savings accounts	9,485	11,903	18,654	19,000	18,042	13,845
(c) Time or fixed deposits	5,728	8,687	299	328	463	430
(d) Other deposits	1,041	916	1,624	661	449	1,214
19. Rediscounts and other Borrowings	176	177	450	586	939	528
20. Acceptances and Endorsements	739	894	1,705	1,853	1,370	784
21. Sundry Liabilities	**42,490**	**52,051**	**60,576**	**62,203**	**57,696**	**45,021**
22. Total Liabilities						

[1] Abstract of combined reports of : National, State (Commercial) and Private banks, and Loan and Trust Companies

UNITED STATES OF AMERICA. NATIONAL BANKS **Table 26 *(a)* II.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF JUNE:					
	1922	1925	1929	1930	1931	1932
Number of Banks	8,249	8,072	7,536	7,252	6,805	6,150
ASSETS.	$ (000,000's omitted)					
1. Cash	1,478	1,686	1,643	1,764	1,787	1,490
(a) Gold, silver and small coins	60	56	51	49	53	39
(b) Inland notes and balances with Central Bank	1,418	1,638	1,592	1,715	1,734	1,451
2. Other Items of a Cash Nature	895	1,139	785	1,298	854	427
3 Bills discounted and bought	—	—	—	—	—	—
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—
4. Investments and Securities	4,563	5,730	6,656	6,888	7,675	7,197
(a) Government	2,700	3,131	3,561	3,546	4,253	4,384
(b) Other	1,863	2,599	3,095	3,342	3,422	2,813
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	1,598	1,967	1,854	2,353	2,354	1,569
(a) At home	—	—	1,777	—	—	—
(b) Abroad	—	—	77	—	—	—
7. Loans and Advances	11,258	12,684	14,811	14,897	13,185	10,286
(a) On current account	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
8. Cover for Acceptances	176	177	393	511	442	279
9. Premises, etc.	452	585	748	788	796	760
10. Sundry Assets	286	383	550	617	550	360
11. Total Assets	**20,706**	**24,351**	**27,440**	**29,116**	**27,643**	**22,368**
LIABILITIES.						
12. Capital paid up	1,307	1,369	1,627	1,744	1,688	1,569
13. Reserve Funds	1,049	1,179	1,634	1,765	1,687	1,458
14. Profit-and-Loss Account, Undivided Profits, etc.	527	516	488	546	444	393
15. Notes in circulation	726	649	649	652	639	652
16. Cheques and Drafts, etc., in circulation	451	560	373	738	531	241
17. Due to Banks (Correspondents)	2,502	2,886	2,176	2,680	2,746	1,800
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	13,333	16 429	19,049	19,851	18,920	15,419
(a) Current accounts and sight deposits	8,779	9,674	10,504	10,926	10,106	7,941
(b) Savings accounts	4,075	5,812	8,317	8,753	8,579	7,265
(c) Time or fixed deposits	479	943	228	172	235	213
(d) Other deposits	509	479	714	229	154	597
19. Rediscounts and other Borrowings	176	177	393	511	443	279
20. Acceptances and Endorsements	126	107	337	400	391	140
21. Sundry Liabilities	**20,706**	**24,351**	**27,440**	**29,116**	**27,643**	**22,368**
22. Total Liabilities						

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS:					
	1922	1925	1929	1930	1931	1932
Number of Banks	8,246	8,070	7,536	7,252	6,805	6,150
	$ (000,000's omitted)					
Capital paid up	1,307.2	1,369 4	1,627.4	1,744.0	1,687.7	1,569.0
Reserve Funds	1,049.2	1,119.0	1,479.0	1,591.3	1,493.9	1,259.4
1. Gross Profits	**767.3**	**776.1**	**970.4**	**973.3**	**894.6**	**787.9**
To be deducted.						
2. Expenses	391.2	411.1	497.2	513.4	498.5	427.1
(a) Salaries, etc.	198.4	218 1	271.8	276.1	275.6	239 2
(b) Other working expenses	113 4	127 2	159 4	171 2	158 8	139 8
(c) Taxes, etc.	79.4	65 8	66 0	66.1	64 1	48.1
3. Reserved for Pension Funds, etc.	—	—	—	—	—	—
4. Amounts written off on (Depreciation Accounts)	192 4	141 1	171 4	213 6	343 5	500 5
(a) Premises, etc.	—	—	25.1	28 8	18.4	17.7
(b) Investments and securities	170.7	123 2	130.5	165 4	306 4	464.1
(c) Other assets	21 7	17 9	15.8	19 4	18 7	18 7
5. Remaining Net Profit	**183.7**	**223.9**	**301.8**	**246.3**	**52.6**	**-139.7**
6. Carried forward from preceding year	—	—	—	—	—	—
7. Taken from Reserves or Capital	—	—	—	—	158.7	308.9
8. Total Amount disposed of for Dividends, etc.	**183.7**	**223.9**	**301.8**	**246.3**	**211.3**	**169.2**
9. Dividends	165 9	165 0	222 7	237 0	211.3	169.2
10. Carried to Reserves						
11. Directors' Fees, etc	17.8	58.9	79.1	9.3	—	—
12. Carried forward to following year						
13. Total as above	**183.7**	**223.9**	**301.8**	**246.3**	**211.3**	**169.2**

Balance-sheet Summary.

Unless otherwise indicated, the following notes refer to Table 26 (a) I, showing the combined accounts of national banks, State banks, trust companies and private banks.

1. *Cash.*

The amounts shown in the summary table for gold, silver and small coins are composed in the years under review as follows:

	$ (000,000's)				
	1922	1929	1930	1931	1932
Gold coin	30	25	25	23	23
Gold certificates	18	46	46	68	43
Total (1 (a))	57	71	71	91	66
Paper currency	402	444	470	564	520
Cash not classified	298	256	274	177	136
Reserve with Federal Reserve Banks or reserve agents	2,308	3,139	3,318	3,292	2,585
Total (1 (b))	3,008	3,839	4,062	4,033	3,241
Grand Total: (1(a)+(b))	3,065	3,910	4,133	4,124	3,307

2. *Other Items of a Cash Nature.*

The amounts shown under this heading in the summary table consist of cheques on other banks and exchanges for the clearing house.

3. *Bills discounted and bought.*

Discounts are included under "Loans and Advances" in group 7 of the summary table (see note to that group).

4. *Investments and Securities.*

The amounts shown in the summary table are composed as follows in the years under review :

	$ (000,000's)				
	1922	1929	1930	1931	1932
Government (public) securities					
United States bonds.	3,002	3,744	3,616	5,471	5,832
State, county or municipal bonds.	724	1,231	1,222	1,749	1,692
Total (4 *(a)*). . .	3,726	4,975	4,832	7,220	7,524
Other securities					
Railroad and other public service bonds	1,348	1,907	2,069	2,490	2,075
Other bonds, stocks, warrants, etc	4,141	6,309	6,787	5,510	4,080
Total (4 *(b)*) . .	5,489	8,216	8,856	8,000	6,155
Grand Total (4 *(a)*+*(b)*) .	9,215	13,191	13,694	15,220	13,679

6 *Due from Banks.*

Sums due from foreign correspondents are not shown separately in the official summary balance-sheets ; separate figures available for national banks for the end of June, 1929 and 1932, are shown below .

	$ (000,000's)	
	1929	1932
Items with Federal Reserve banks in process of collection	444	265
Due from banks and trust companies in the United States.	1,333	1,238
Total due from banks at home (6*(a)*)	1,777	1,503
Balances payable in dollars from foreign branches of American banks	1	—
Due from banks and bankers in foreign countries	76	67
Total due from banks abroad (6*(b)*)	77	67
Grand Total	1,854	1,570

7. *Loans and Advances.*

The composition of this item in the years under review is as follows :

	$ (000,000's)			
	1929	1930	1931	1932
1 Commercial paper, etc., bought in the open market. . .	2,729	836	1,057	638
2 Overdrafts . . .	57	50	46	15
3 Loans to banks	372	347	369	489
4 Loans secured by United States and other bonds . .	11,146	11,459	9,043	5,956
5 Loans secured by real estate. . . .	4,549	4,452	4,315	3,979
Whereof.				
Farm land. . . .	*1,855*	*407*	*440*	*495*
Other real estate	*2,684*	*4,005*	*3,875*	*3,484*
6. All other loans. .	15,781	16 593	13,508	10,279
Grand Total (1 to 6)	34,625	33,697	28,398	21,356

Loans and discounts, as shown in the summary tables and above, include paper rediscounted at Federal Reserve banks and other institutions , liability on account of rediscounts is shown separately in the note to group 19 below.

9. *Premises.*

The amounts shown in the summary table refer only to buildings, furniture, fixtures, etc., used in the business of the banks. Other real estate held by them is included under "Sundry Assets".

10. *Sundry Assets.*

This item includes real estate other than bank premises owned by the banks and other unspecified assets.

15. *Notes in Circulation.*

This item shows the gross note circulation of the national banks and includes notes held in the Treasury and by banks as well as those in circulation.

16. *Cheques and Drafts in Circulation.*

This item consists of certified cheques and cashiers' cheques, and, since 1929, dividend cheques, cash letters of credit and travellers' cheques outstanding.

17. *Due to Banks (Correspondents).*

In the years under review, about two-thirds of the amounts due to banks were reported by national banks.

No distinction is made in the official summary balance-sheets between sums due to banks at home and abroad. In a separate statement for national banks, however, the composition of this item in 1929 and 1932 is shown as follows :

	$ (000,000's)	
	1929	1932
Due to Federal Reserve banks (deferred credits)	37	29
Due to other banks and trust companies in the United States	1,935	1,676
Due to banks in foreign countries	204	95
Total	2,176	1,800

18. *Deposits.*

The composition of the amounts shown in the summary table in the years under review is as follows :

	$ (000,000's)				
	1922	1929	1930	1931	1932
Individual deposits subject to check.	14,275	21,281	20,955	18,565	14,249
Demand certificates of deposits. .	600	409	402	367	248
State, county and municipal deposits.	.	1,873	1,912	1,849	1,538
Other demand deposits.	.	469	691	427	287
Total *(a)*, sight deposits . . .	14,875	24,032	23,960	21,208	16,322
Savings account deposits.	7,026	14,045	13,859	12,714	9,760
Time certificates of deposit . . .	2,415	3,063	3,030	2,881	2,069
Other time deposits	.	906	1,150	1,543	1,006
Postal savings deposits.	44	89	139	261	647
State, county and municipal deposits.	.	418	509	484	310
Deposits of other banks	.	133	313	160	53
Total *(b)*, time deposits . .	9,485	18,654	19,000	18,043	13,845
United States deposits. . .	125	281	246	444	421
Unclassified deposits.	5,603	18	82	19	9
Total *(c)*, other deposits..	5,728	299	328	463	430
Grand Total	30,088	42,985	43,288	39,713	30,597

19. *Rediscounts and Other Borrowings.*

The amounts shown in the summary table include bills payable as well as rediscounts with the Federal Reserve and other banks.

Summary of Profit-and-Loss Accounts.

The attached summary table of profit and loss accounts refers to national banks ; similar data with regard to State banks, trust companies and private banks are not published in the reports of the Comptroller of the Currency.

1. *Gross Profits.*

The composition of gross profits since 1920 has been as follows :

	$ (000,000's)			
	1929	1930	1931	1932
Net interest and discount earned	747.6	740.4	660 9	584 3
Exchange and collection charges	18.1	18.3	15.2	12.1
Foreign exchange	12.4	13.5	15.3	18.2
Insurance and real estate loans	0 9	0.0	0.7	0.6
Trust department	20.6	22,8	26.7	22 4
Profits on securities sold	35.1	41.7	50.3	24.9
Recoveries on assets previously written down	35.6	31.6	35.3	42.3
Other earnings	100.1	104.1	90.2	83.1
Total	970.4	973.3	894.6	787.9

4. *Amounts written off*

The composition of the amounts charged against investments and securities is given below :

	$ (000,000's)				
	1922	1929	1930	1931	1932
Loans and discounts	135.2	86 8	103 8	186.9	259 5
Bonds, securities, etc	33 4	43.5	61 4	119.3	201 8
Foreign exchange	2.1	0.2	0.2	0.2	2.8
Total	170.7	130 5	165 4	306 4	464.1

6. *Carried forward from preceding Year.*

The amounts carried forward from preceding year are not shown separately in the official statistics.

10, 11 and 12. *Carried to Reserves. Directors' Fees. Carried forward to following Year.*

The official statistics give no indication of the disposal of the net profits in excess of the declared dividends.

7. *Taken from Reserves, etc.*

The amounts shown in the summary table are not given in the official statistics, but represent the difference between net profit or loss and dividends declared.

ARGENTINE.

Introductory Note.

The structure of the Argentine credit system and its development up to 1928 were described in the last edition of this *Memorandum*. Attention was there directed, in particular, to the diverse functions of the Caja de Conversión, an autonomous body responsible for the note-issue, the Banco de la Nación Argentina, an official commercial bank having close relations with the Government and rediscounting for the private banks, and the ordinary commercial banks. Since 1928, the outstanding developments affecting the banking position have been : (1) the heavy gold losses suffered by the Caja de Conversión and the commercial banks, leading finally to the suspension of gold payments, a substantial depreciation of the Argentine peso and the institution of foreign exchange control ; (2) the rediscount operations carried out by the Banco de la Nación Argentina at the Caja de Conversión ; (3) a large contraction in the use of bank credit consequent upon the general economic depression, and (4) the report of Sir Otto Niemeyer on the financial and banking system of the Argentine, recommending *inter alia* the establishment of a Central Bank.

Like other agricultural States which had borrowed heavily abroad in the period preceding the depression, the Argentine Republic was forced to export gold in order to balance her international accounts when capital imports ceased and the prices of her raw products fell. The total visible gold supplies and their distribution among the various groups of institutions mentioned above since 1928 are shown in the following statement.

End of ·	Millions of paper pesos at par			
	Caja de Conversión	Banco de la Nación	Other banks	Total
1928.	1,112 9	317.7	26 3	1,456 9
1929.	953.7	68 5	25 3	1,047.5
1930.	967.7	2.9	19.0	989.6
1931.	592 9	2 3	4.9	600.1
1932.	583.9	4.8		588.7
June 1933 . .	583.9	4.8		588.7

Between the end of 1928 and the end of 1931, the visible gold stocks of the Argentine were reduced by over 850 million pesos, or almost 60 per cent. The Caja de Conversión was closed in 1929 and the exchange was supported chiefly by exports of the gold by the Banco de la Nación. In the course of 1930, the Banco de la Nación exported practically the whole of its remaining gold stocks and the other banks also lost gold, but the amounts thus made available were not sufficient to supply the whole demand for foreign currencies and the peso depreciated in value. In 1931, the Banco de la Nación was authorised to control the foreign exchange market and to withdraw gold from the Caja de Conversión to the extent which it deemed expedient. It will be observed from the above table that 375 million pesos were withdrawn in the course of 1931. After the British abandonment of the gold standard, the pressure on the peso increased and, towards the end of 1931, the exchange control was made more rigid and a Committee of Exchange Control set up to collaborate with the Banco de la Nación. Since the beginning of 1932, no further gold has been exported and the official rate of the peso has been maintained at a level equivalent to a depreciation of about 40 per cent in relation to its gold parity.

In order to prevent the loss of gold from resulting in a contraction of the volume of circulating media (notes issued by the Caja de Conversión) in the country, the Banco de la Nación was authorised in April 1931 to rediscount commercial paper with the Caja de Conversión (operating with the advice of a Rediscount Commission) and secure notes in exchange. Before this date, the Banco de la Nación had itself extended substantial rediscount · and other credits to the ordinary banks · its active rediscounts rose from 80 million pesos at the end of 1928 to 160 millions in April 1931, and its advances to banks against Government bills from 190 to over 250 million pesos.

At the end of 1931, the Banco de la Nación's rediscounts at the Caja de Conversión reached a total of 359 million pesos. The bank used the funds so acquired partly (145 million pesos) to

increase its rediscount and other credits to the ordinary banks, which rose from a total of 410 million pesos in April 1931 to 555 million pesos at the end of 1931, partly (160 million pesos) to meet withdrawals of deposits, and partly (65 million pesos) to increase its cash holdings. By the end of 1932, the Caja de Conversión's rediscounts of commercial paper had fallen to 295 million pesos, but it made additional advances to the Government against the Patriotic Loan of May 1932 to the amount of 166 millions, representing an increase of 100 million pesos in the total credit extended by it in the course of the year.

The effect of these rediscount operations is partly reflected in the following statement, which indicates the total volume of notes in circulation and the gold reserve proportion at the end of each year since 1928 :

End of	Paper pesos (000,000's)	
	Note circulation	Gold reserve %
1928	1,405.9	79.2
1929	1,246.8	76.5
1930	1,260.7	76 8
1931	1,245.1	47.6
1932	1,338.8	43.6

The contraction of the note circulation was confined to the year 1929. There was some expansion in the note circulation and (as will be seen from the attached summary table) in the total volume of credit outstanding in 1930 The volume of sight and other deposits and of most credit items fell quite sharply in 1931. There was some recovery in 1932, however, and, on the whole, the volume of deposits was only about 8 per cent lower and the total volume of credits outstanding only 3 per cent lower at the end of that year than at the end of 1929 These figures understate the real diminution in the effective use of bank credit · this is more clearly reflected in the following figures showing the total volume of bank clearings by years since 1929

	Paper pesos (000,000's)		
	Federal capital	Rest of country	Total
1929	40,890	8,113	49,003
1930	36,361	5,921	42,302
1931	32,205	5,375	37,580
1932	24,808	4,903	29,711
Percentage decline 1929-1932	39 3	39 6	39 4

At the beginning of 1933, Sir Otto Niemeyer visited the Argentine Republic, at the invitation of the Government, to report on the financial and banking position. He recommended the establishment of a Central Bank to take over the functions of the Caja de Conversión and the Rediscount Commission , the assets held by the Caja de Conversión, thus liberated, should be used to cancel part of the Government indebtedness to the Banco de la Nación. All central banking functions exercised by this institution should also be absorbed by the new bank of issue. With regard to commercial banks, the report contains various recommendations concerning minimum cash ratios, nature of investments, limitation of savings accounts and of interest on deposits, publication of balance-sheets, etc. Up to the time of writing, none of the recommendations of the report have been carried into effect

The summary balance-sheet here presented is based upon statistics published in the *Economic Review* of the Banco de la Nación Argentina. It is not completely comparable with that published in the last edition, which was based upon annual balance-sheets of the individual banks. The publication referred to does not give full balance-sheets, but only a statement of principal accounts. Total assets and liabilities therefore do not balance in the summary table. Double counting of certain items as between the Banco de la Nación and the ordinary banks has been eliminated. The figures given are fully representative of the commercial banking position and they are comparable over the whole period. The figures shown for the end of 1925 refer to January 1926, the earliest month for which data are available.

Balance-sheet Summary.

1. *Cash.*

The amounts shown under *(a)* consist entirely of gold. Those shown under *(b)* consist of notes held by the Banco de la Nación and the ordinary banks and clearing-house balances held by the ordinary banks to the following amounts :

ARGENTINE. COMMERCIAL BANKS **Table 25 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF :				
	1925[1]	1929	1930	1931	1932[1]
Number of Banks	26	26	26	26	26
ASSETS.	Pesos (000,000's omitted)				
1. Cash	616	470	467	514	640
(a) Gold, silver and small coins	53	94	22	7	5
(b) Inland notes and balances with Central Bank	563	376	445	507	635
2. Other Items of a Cash Nature	128	93	136	77	121
3. Bills discounted and bought	1,671	1,684	1,699	1,710	1,558
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	137	208	233	259	262
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	—	92	—	—	—
(a) At home	—	—	—	—	—
(b) Abroad	—	92	—	—	—
7. Loans and Advances	1,578	2,032	2,220	2,018	1,933
(a) On current account	—	—	—	—	—
(b) Other	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc.	—	—	—	—	—
10. Sundry Assets	—	—	—	—	—
11. Total Assets	**4,130**	**4,579**	**4,755**	**4,578**	**4,514**
LIABILITIES.					
12. Capital paid up	513	522	537	554	557
13. Reserve Funds	159	169	174	176	178
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	2	2	3	3
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	4	—	25	46	27
(a) At home	—	—	—	—	—
(b) Abroad	4	—	25	46	27
17. Deposits	3,416	3,945	4,029	3,555	3,554
(a) Current accounts and sight deposits	1,207	1,218	1,263	1,009	1,112
(b) Savings accounts	1,332	1,771	1,713	1,648	1,570
(c) Time or fixed deposits	642	710	795	667	654
(d) Other deposits	235	246	258	231	218
18. Rediscounts	—	—	—	359	295
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	—	—	—	—	—
21. Total Liabilities	**4,092**	**4,884**	**4,767**	**4,693**	**4,614**
22. Other Borrowings	320	404	379	524	490
23. Value of currency in cents of a U.S. dollar at the end of each year	91.4	95.1	83.5	66.7	58.4

[1] Figures refer to January 1926.

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Notes	464	292	318	383	549
Banco de la Nación	(219)	(97)	(92)	(114)	(166)
Ordinary banks	(245)	(195)	(226)	(269)	(383)
Clearing-house balances of ordinary banks	99	84	127	124	86
Total	563	376	445	507	635

The amounts shown as clearing-house balances are held with the Banco de la Nación, which acts as clearing-house They are included by that bank as part of its own cash reserves in its published balance-sheet. To avoid double counting, however, they are not shown as part of the cash holdings of the Banco de la Nación in the present group and are likewise excluded from its deposit liabilities in group 17.

2. *Other Items of a Cash Nature.*

The amounts shown under this heading consist of sight deposits held by the ordinary banks in banks other than the Banco de la Nación.

3. *Bills discounted and bought.*

The sums shown in the summary table consist of bills discounted for the public. They do not include the Banco de la Nación's rediscounts for the ordinary banks, which are given outside the balance-sheet (see note to group 22 below). The amounts discounted by the Banco de la Nación and by the ordinary banks are shown below :

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Banco de la Nación	642	681	683	675	633
Ordinary banks	1,029	1,003	1,016	1,035	925
Total	1,671	1,684	1,699	1,710	1,558

4. *Investments and Securities.*

No distinction is made between Government and other securities ; the amounts given are shown under the title " bonds in portfolio ".

6 and 16. *Due from and to Banks (Correspondent Accounts).*

The basic statistics show only the net balance of sums due to or from foreign banks at the end of each year. The following statement shows in what proportions the Banco de la Nación and the other banks accounted for the sums shown in the summary table in the years under review. A plus (+) sign indicates balances held abroad and a minus (—) sign balances due abroad.

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Banco de la Nación	+ 6	+55	+72	0	+10
Ordinary banks	−10	+37	−97	−46	−37
Total	− 4	+92	−25	−46	−27

Sight balances of banks with other domestic banks are included in group 2 (see note to that group).

7. *Loans and Advances.*

The statistics published in the *Economic Review* do not distinguish between advances on current account and others. The following details are available for the years under review :

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Loans	869	1,058	1,072	752	650
Banco de la Nación	(183)	(143)	(108)	(126)	(130)
Ordinary banks	(686)	(915)	(964)	(626)	(520)
Advances on Government securities	354	528	657	691	673
Banco de la Nación	(80)	(197)	(205)	(247)	(248)
Ordinary banks	(274)	(331)	(392)	(444)	(425)
Other loans and advances	355	446	491	575	610
Banco de la Nación	(141)	(96)	(103)	(120)	(146)
Ordinary banks	(214)	(350)	(388)	(455)	(464)
Total loans and advances	1,578	2,032	2,220	2,018	1,933
Banco de la Nación	(404)	(436)	(476)	(493)	(524)
Ordinary banks	(1,174)	(1,596)	(1,744)	(1,525)	(1,409)

The figures given for the Banco de la Nación in the first two items exclude advances to the ordinary banks, but appear to include small amounts of credit granted to certain minor banks not included in the basic statistics on which the summary table is based. Advances on Government securities are generally made on current account; "Other loans and advances", as shown above, would appear to include long-term and overdue debts

It will be observed that the decline in total loans and advances since 1930 is entirely due to a sharp contraction in the loans of the ordinary banks outstanding All credit items of the Banco de la Nación included in this group have shown a continuous increase over the period covered.

Monthly averages of the interest rates charged by the private banks on various classes of loan are shown in the next column for December 1929-1932.

December	Commercial paper	Direct loans with guarantee of signed document	Advances
1929	7.84	7.97	8.20
1930	6.73	6.76	7.93
1931	7.91	7.89	8.26
1932	7.04	7.27	7.95

11 and 21. *Total Assets and Liabilities.*

These accounts are incomplete and, for the reasons stated in the introductory note, they do not balance.

12 and 13. *Capital and Reserve Funds*

The figures shown for 1925 and based on the 1927 accounts of the ordinary banks as earlier data have not been available.

17. *Deposits.*

The division of the various accounts among the Banco de la Nación and the ordinary banks in the years under review was as follows.

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Current accounts	1,207	1,218	1,263	1,009	1,112
Banco de la Nación	(422)	(448)	(452)	(320)	(363)
Ordinary banks	(785)	(770)	(811)	(689)	(749)
Savings deposits	1,332	1,771	1,713	1,648	1,570
Banco de la Nación	(780)	(956)	(882)	(847)	(805)
Ordinary banks	(552)	(815)	(831)	(801)	(765)
Time deposits	642	710	795	667	654
Banco de la Nación	(98)	(53)	(78)	(57)	(134)
Ordinary banks	(544)	(657)	(717)	(610)	(520)
Other deposits	235	246	258	231	218
Banco de la Nación	(102)	(112)	(111)	(103)	(162)
Ordinary banks	(133)	(132)	(147)	(128)	(116)
Total deposits	3,416	3,945	4,029	3,555	3,554
Banco de la Nación	(1,402)	(1,569)	(1,523)	(1,327)	(1,404)
Ordinary banks	(2,014)	(2,376)	(2,506)	(2,228)	(2,150)

There is probably a small amount of double counting involved in the above figures for current accounts, as the only inter-bank deposits excluded are the clearing-house deposits kept by the ordinary banks at the Banco de la Nación. The interest rates paid by private banks on deposits at ninety days' notice fell from an average of 5½ per cent at the end of 1929 to an average of 2½ per cent at the end of 1932. Other deposits, as shown in the above statement, include judicial and various miscellaneous accounts.

18. *Rediscounts.*

The amounts shown under this heading in the summary table represent rediscounts of commercial paper which the Banco de la Nación effected with the Caja de Conversión. Beginning in 1932, the latter institution also made direct advances to the Government on the security of the Patriotic Loan of 1932 ; the amount of such advances outstanding at the end of that year was 167 million pesos.

The ordinary banks rediscount commercial paper with the Banco de la Nación and borrow from it against Government securities As these borrowings represent neither a net asset nor liability of the commercial banking system as a whole, they have been excluded from the summary table and are shown separately outside the balance-sheet proper. See following note.

22. *Other Borrowings.*

As stated above, the Banco de la Nación's rediscounts of commercial paper for the ordinary banks and its advances to them against Government securities have been excluded from groups 3 and 7 under assets and from group 18 under liabilities. They are shown in the present group and were composed in the years under review as follows .

	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Rediscounts of commercial paper .	122	138	135	252	287
Borrowings against Government securities	198	266	244	272	203
Total	320	404	379	524	490

The Banco de la Nación's advances to the few small banks not covered by the basic statistics on which the summary table is based are not included in the above figures These amounted to 30 to 40 million pesos between the end of 1929 and the end of 1932.

BOLIVIA.

Introductory Note.

The earliest commercial banks were established in Bolivia around 1870 and several others were organised towards the beginning of the present century, but they were gradually absorbed by the "Banco Nacional", a private bank founded in 1871, and by the semi-official "Banco de la Nación Boliviana", which was established in 1911 for the purpose of centralising the note issue, promoting exchange stability and acting as banker to the Treasury. There is at present only one other bank [1] operating in the country — namely, the "Banco Mercantil", organised in 1906. This bank did not take part in the process of amalgamation, but extended its resources very rapidly through internal expansion. In 1929, the "Banco de la Nación" was re-organised under the name "Banco Central", with a view to providing the country with a central bank. The greater part of its business, however, continued to be transacted with the general public, and, in view of its mixed character, it has been included in the summary table of the present chapter.

The commercial banks have established branches in all parts of the Republic. Their operations are of the type generally known as deposit and discount banking. The Banco Central handles practically the whole note issue and most of the foreign exchange business of the country; since 1930, it has also made rediscounts on a limited scale. So far as purely commercial banking accounts are concerned, the Banco Nacional is at present the leading institution, while the Banco Mercantil is at least as important as the Banco Central, which is developing its central banking functions. The share of the Banco de la Nación in total deposits, loans and discounts and investments dropped very markedly after its re-organisation as the Banco Central. This is largely due to the liquidation of Government accounts. According to the organic law of the Banco Central, the total direct and indirect obligations of the National Government and other political subdivisions of the Republic may not exceed 25 per cent of the bank's paid-up capital and reserve funds, or 35 per cent in times of panic. The public obligations transferred to the Banco Central by the Banco de la Nación considerably exceeded this sum and, though a large part has been liquidated, Government obligations at the end of 1930 were still above the legal maximum.

In 1928, comprehensive banking laws were passed providing, *inter alia*, for the nomination of a Superintendent of Banks, whose function is to enforce the laws, to supervise the issue of bank-notes and mortgage bonds, and to submit an annual report on the condition of each bank to the Minister of Finance. Individuals wishing to establish a bank must first obtain the permission of the Superintendent, and his consent is also necessary for the setting-up of new branches or mortgage, savings and trustee departments. The law provides that at least 50 per cent of subscribed capital shall be paid in before a bank starts functioning, and prohibits institutions from extending credit on the security of their own shares. Banks are required at the close of each half-year to carry at least 10 per cent of net profits to a reserve fund until it is equal to 25 per cent of paid-up capital. All banks are required to keep on deposit with the Superintendent of Banks first-class securities to a value of 10,000 bolivianos (or, in the case of larger banks, 20,000) as a guarantee against infractions of the law. Banks other than the Banco Central are required to maintain cash reserves equal to at least 20 per cent of sight deposits and 10 per cent of time deposits in Bolivia. Certain State bonds may be regarded as cash reserves to the extent of 5 per cent of deposits. Included in legal cash reserves are, further: Bolivian, British, Peruvian and American gold currency, Bolivian silver and other metallic currency, notes of the Banco Central and deposits with that institution. The same proportionate cash reserves must be held against sight and time deposits payable in foreign currencies, but sight and three-day drafts on London and New York may be counted as cash for this purpose. The law provides that commercial banks shall have a capital of at least 1 million bolivianos in places with a population of 100,000 or more, and 500,000 bolivianos in places with smaller population. The paid-up capital and reserves may not be less than one-third of a bank's obligations to the public. The banks are authorised to purchase mortgage bonds; but they may not invest more than 10 per cent of their paid-up capital and reserves in the bonds of the same institution, or more than 30 per cent of this amount in mortgage bonds in general. They may also buy mortgage bonds issued by their own mortgage sections up to

[1] A fourth bank, the (foreign) "Banco Alemán Transatlántico", after functioning in Bolivia on a relatively small scale for several years, withdrew its offices in 1930.

20 per cent of their paid-up capital and reserves. No commercial bank may directly or indirectly make advances to any single individual or firm of amounts exceeding 20 per cent of its paid-up capital and reserves. Government loans and Government paper owned by an ordinary bank are likewise limited to a total of 30 per cent of capital and reserves. No commercial bank may accept more than 10 per cent of the capital stock of other banks or companies as security for advances. Such stock may, however, be taken as additional security for loans already contracted Loans on the security of real estate are limited to two-thirds the value of the estate and, in aggregate, to 15 per cent of the banks' paid-up capital and reserves.

Every domestic and foreign commercial bank in Bolivia is required to subscribe to the stock of the Banco Central to the extent of 15 per cent of its own paid-up capital and reserves. [1] In its direct dealings with the public, the Banco Central is subject to more severe restrictions than the ordinary commercial banks, the intention of the legislation being that this bank should ultimately become a purely central banking institution. Thus, it may only receive non-interest-bearing deposits, [2] and may not grant loans or discount paper with more than ninety days' maturity, or to an amount exceeding 1,500,000 bolivianos to any single individual or firm. Moreover, it was required to liquidate, within a period of three years -- subsequently extended to the end of 1935 — certain classes of loans which were considered incompatible with central banking functions On the other hand, its business extends over a wide range of operations of particular importance for the carrying out of these functions. It is the sole depositary of Government funds and, in general, acts as fiscal agent for the Government. It may buy and sell Government securities and, in addition, [3] mortgage bonds and certain other kinds of readily marketable securities. The total investment of the bank in this form of securities, domestic or foreign, may not exceed 30 per cent of its capital and reserves.

The notes of the Banco Central, which has enjoyed the exclusive privilege of note issue since the end of 1932, are legally redeemable in gold or specified foreign exchange, and the bank is required to keep a cash reserve of 50 per cent against its combined note and deposit liabilities. The bank pays to the Government specified proportions of its net profits in return for the monopoly of note issue and other privileges.

No uniform official banking statistics are published for the Republic of Bolivia. The summary table presented in the chapter is compiled from the balance-sheets of the individual banks.

Balance-sheet Summary.

1. *Cash*

The composition of the cash item in the years under review was as follows

	Bolivianos (000,000's)													
	1925			1926	1927	1928			1929	1930			1931	1932
	Banco de la Nación	Other banks	Total			Banco de la Nación	Other banks	Total		Banco Central	Other banks	Total		
Gold	16 8	4 2	21.0	21.9	22 0	17 8	4 1	21 9	13 6	2 8	3 6	6 4	7 0	8.0
Silver and nickel	1 1	—	1 1	1 3	1 4	1 4	—	1 4	1 4	1 3	—	1 3	1 4	1 2
Total (*a*)	17.9	4 2	22 1	23 2	23.4	19 2	4 1	23 3	15 0	4 1	3 6	7 7	8 4	9 2
Notes of the Banco de la Nación (Banco Central)	—	1 1	1 1	0 6	0 5	—	0 9	0 9	1 0	—	0 4	0 4	0 9	0 9
Deposits with Banco Central	—	—	—	—	—	—	1.8	1 8	4 9	—	0.8	0 8	1 8	4 3
Total (*b*)	—	1 1	1 1	0 6	0 5	-	2 7	2 7	5 9	--	1 2	1 2	2 7	5 2

Before its re-organisation, the Banco de la Nación held the bulk of the gold reserves of the Bolivian banking system. When the monetary reform adopting the gold exchange standard was put into effect in 1929, the greater part of the bank's gold holdings were converted into deposits in foreign credit institutions (see group 6 below).

[1] At the end of 1930, the share of the capital stock of the Banco Central held by the associated banks amounted to some 2 million bolivianos, while the shares held by the Government and the public represented 14 and 6 million respectively.

[2] Under the law, five years' exemption was granted from this restriction regarding the payment of interest on deposits received from the public.

[3] According to an amendment of October 1930.

BOLIVIA. COMMERCIAL BANKS **Table 28 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF							
	1925	1926	1927	1928	1929	1930	1931	1932
Number of Banks	3	3	3	3	3	3	3	3
ASSETS.	Bolivianos (000,000's omitted)							
1. Cash	23.2	23.8	23.9	26.0	20.9	8.9	11 1	14 4
(a) Gold, silver and small coins	22 1	23 2	23.4	23 3	15 0	7 7	8.4	9 2
(b) Inland notes and balances with Central Bank	1 1	0 6	0 5	2 7	5 9	1 2	2 7	5 2
2 Other Items of a Cash Nature	—	—	—	—	—	—	—	—
3. Bills discounted and bought	15.0	14.9	14.3	11 5	22.2	20.1	20.3	12.0
(a) Treasury bills	15 0	14.9	14.3	11 5	16.7	18.2	16 3	11.7
(b) Commercial bills, Inland								
(c) Commercial bills, Foreign	—	—	—	—	5 5	1 9	4 0	0 3
4 Investments and Securities	24.2	20.5	21.7	15.5	19.1	22.5	28.3	85.1
(a) Government	—	—	—	—	—	—	—	—
(b) Others	—	—	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	7.9	7.1	9.8	45 6	47 0	39.6	22.8	29.5
(a) At home	—	—	—	—	—	—	—	2.5
(b) Abroad	7 9	7.1	9 8	45 6	47 0	39 6	22 8	27.0
7. Loans and Advances	85.6	84.7	85.4	60 1	47.1	46.0	41.0	41.8
(a) On current account	64.1	60 0	56 5	37 9	26 1	22 1	20 5	16.5
(b) Other	21 5	24 7	28 9	22 2	21.0	23.9	20 5	25 3
8. Cover for Acceptances	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2
9. Premises, etc.	7.0	7.1	7.4	6.6	6.4	6.6	6.2	7 1
10. Sundry Assets	1.9	2.7	2.7	1.6	4.8	5.6	5.5	4.7
11 Total Assets	**165.3**	**161.3**	**165.7**	**167.4**	**168.0**	**149.8**	**135.7**	**194.8**
LIABILITIES.								
12 Capital paid up	45.7	45.7	45.7	45.7	45.6	46.5	46.5	47.3
13. Reserve Funds	20.3	21.0	22.5	22.2	20.3	21 3	19 7	20.1
14 Profit-and-Loss Accounts, Undivided profits, etc	3.1	3.2	2.9	2.8	3.1	3.2	2.7	4.5
15. Notes in Circulation	38.5	37.6	39 6	44.4	43.0	32.2	27,0	37.7
16. Cheques and drafts in Circulation	—	—	—	—	1.7	5.6	0 1	—
17. Due to Banks (Correspondents)	—	—	—	0.3	5.7	0.9	2.1	5.4
(a) At home	—	—	—	0.3	5.7	0 9	2.1	4.5
(b) Abroad	—	—	—	—	—	—	—	0.9
18. Deposits	54 9	51.8	52 8	49.4	45.3	38.0	35 0	60 2
(a) Current accounts and sight deposits	30 4	26.0	26.4	28 0	26.3	20.7	19 2	48.6
(b) Savings accounts	4 2	5.1	5.4	5.7	4.8	4.1	3 9	3 4
(c) Time or fixed deposits	18.2	19.7	19.2	14.5	12.9	12 0	10.8	7.3
(d) Other deposits	2.1	1.0	1.8	1 2	1 3	1.2	1.1	0 9
19 Rediscounts and Other Borrowings	—	—	—	—	—	—	—	—
20. Acceptances and endorsements	0 5	0.5	0.5	0.5	0.5	0.5	0.5	0.2
21. Sundry Liabilities	2.3	1.5	1.7	2.1	2 8	1.6	2.1	19.4
22. Total Liabilities	**165.3**	**161.3**	**165.7**	**167.4**	**168.0**	**149.8**	**135.7**	**194.8**
23 Value of currency in cents of a U.S. dollar	34.5	33.8	34.8	36.5	36.0	36.8	25.4	18.3

3. *Bills discounted and bought.*

The balance-sheets of the banks do not give Government paper separately from commercial paper; the classification of domestic bills is shown below.

	Bolivianos (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Bills discounted[1]	11.9	11 5	10 8	7 7	12 8	11 8	5 4	4 7
Bills overdue	2 6	2 9	2 0	2 5	1 4	2 2	6 2	3 9
Due bills at sight	0 5	0 5	0 6	0 4	0 2	0 2	0 4	0 4
Bills in process of collection	—	—	—	0 8	1 3	2 8	4 3	2 7
Bills in liquidation	—	—	—	0 1	1 0	1 2		
Total	15 0	14 9	14 3	11 5	16 7	18 2	16 3	11 7

[1] Excluding rediscounts at the Banco Central (see introductory note and the note to group 14 below)

4 *Investments and Securities.*

The banks do not in all cases distinguish between their holdings of Government and other securities In recent years, Government obligations appear to have constituted some 35 per cent of the total investment portfolio of the banks and have been held almost entirely by the Banco Central Of the other securities, the most important class would appear to be mortgage bonds

6 *Due from Banks (Correspondents).*

Amounts due from domestic banks are not shown separately in the balance-sheets, except for the Banco Mercantil in 1932. Deposits maintained with the Banco Central and other institutions are shown in the note to group 1 above

Sums shown for foreign correspondents consist of sight deposits held with banks abroad by the Banco Central as backing for its note circulation, and sight deposits and balances accruing to this and other banks in the ordinary course of business The increase in this item after 1927 is due to the conversion of gold into foreign assets by the Banco Central

7 *Loans and Advances*

The fall in the total shown for this group in the summary table between 1927 and 1929 was chiefly due to the progressive liquidation of the portfolio of the Banco de la Nación under the terms of the re-organisation law (see introductory note).

8. *Acceptances and Endorsements.*

These amounts consist of cover for letters of credit issued by the banks where shown separately.

9. *Premises, etc.*

The amounts given under this heading include real estate as shown below:

	Bolivianos (000,000's)		
	Real estate	Buildings, etc	Total
1925	6 3	0.7	7 0
1926	6.1	1.0	7.1
1927	6 3	1.1	7.4
1928	5 7	0.9	6.6
1929	5.5	0.9	6 4
1930	5 7	0 9	6 6
1931	5.4	0.8	6 2
1932	6.4	0.7	7.1

10 *Sundry Assets*

Consisting of various provisional, inter-branch and miscellaneous accounts.

11 and 22. *Total Assets and Liabilities.*

This item excludes *comptes d'ordre*, unpaid capital and the capital stock of mortgage sections of the commercial banks.

12. *Capital paid up.*

This account does not include the capital stock of the mortgage sections of the commercial banks, amounts so excluded are 0.8 million bolivianos in 1925-1928, 1.8 million in 1929-31, and 1 million in 1932. In preparing the summary table, it has not proved possible to eliminate inter-bank holdings of capital stock, the details of which are not shown in the bank balance-sheets. From

information available elsewhere, it would appear, however, that the consequent double counting involved in this item of the summary table amounted to some 10 millions in 1932, the capital stock thus counted twice also being included to corresponding amounts under securities in group 4 of the summary table. The bulk of the capital stock of the Banco Mercantil (12.5 million bolivianos actually paid up) is held by British financial houses.

13. *Reserve Funds.*

The amounts shown in the summary table include special funds for amortisation of furniture and buildings, reserves against doubtful debts, funds for dividend equalisation, etc

15. *Notes in Circulation.*

The Banco Central has a legal monopoly of note circulation ; but the Associated Banks were permitted to maintain small amounts in circulation until the end of 1932. The sums shown in the summary table consist of *net* circulation — *i.e.*, they exclude the banks' holdings of their own notes. They include, however, the portion of the note issues of the Banco Central held by the Associated Banks. The division of the note circulation among the Banco Central and the other banks, and the latter's holdings of Banco Central notes are shown below :

	Bolivianos (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Note circulation of :								
Banco Central	37 2	36 6	38 8	43.7	42 5	31 8	26 6	37 6
Associated Banks	1.3	1 0	0.8	0 7	0 5	0 4	0 4	0 1
Total net circulation	38 5	37 6	39 6	44 4	43 0	32.2	27 0	37 7
Notes of Banco Central held by Associated Banks	0.9	0 5	0.4	0 8	0 9	0.3	0 7	0 7
Net circulation in hands of public	37 6	37.1	39.2	43 6	42.1	31 9	26.3	37 0

16. *Cheques and Drafts in Circulation.*

This item, shown only for 1929-1931, consists of drafts payable by, and unpaid cheques issued by, the Banco Central

17. *Due to Banks (Correspondents).*

Mainly balances of associated banks with the Banco Central. Sums due to banks abroad are shown only in the case of one bank and for that bank only in 1932.

18. *Deposits.*

The amounts shown in the summary table are composed as follows in the years under review

	Bolivianos (000,000's)							
	1925	1926	1927	1928	1929	1930	1931	1932
Current accounts	27.5	23 1	24 1	26 2	23 6	18 7	17 2	46 7
Sight deposits	2 9	2 9	2 3	1 8	2 7	2 0	2.0	1 9
Total *(a)*	30 4	26 0	26 4	28 0	26 3	20 7	19.2	48 6
Ordinary savings deposits	3 0	3.7	4 2	4 5	3 6	3 1	2 9	2 5
Workmen's savings deposits	1 2	1 4	1.2	1 2	1 2	1 0	1.0	0 9
Total *(b)*	4 2	5.1	5 4	5.7	4 8	4 1	3.9	3.4
Time deposits *(c)*	18.2	19 7	19 2	14 5	12.9	12.0	10 8	7 3
Judicial deposits	2.1	1 0	1.8	1.2	1 2	1 1	0.8	0 8
Deposits in foreign money	—	—	—	—	0.1	0.1	0.3	0.1
Total *(d)*	2 1	1 0	1 8	1.2	1 3	1.2	1.1	0 9
Grand total	54 9	51 8	52 8	49.4	45 3	38 0	35.0	60 2

Current accounts arise from credits granted by the banks; sight deposits represent money lodged with them. The decline in total deposits in recent years is entirely due to the liquidation of a large part of its current accounts by the Banco Central in connection with the banking re-organisation.

Workmen's savings deposits represent special accounts in which the banks attempt to collect the savings of the lower-income groups of the population. Other deposits, (*d*), as shown above, include judicial deposits, deposits in foreign currencies and the deposits of the Associated Banks with the Banco Central. The latter amounts do not correspond exactly with the inter-bank deposits shown under the assets of the Associated Banks (see note to group 1 above), because these include small deposits with banks other than the Banco Central. The amount shown as deposited by the Associated Banks with the Banco Central in 1929 includes a small deposit of the Banco Alemán Transatlántico which was still functioning in Bolivia in that year.

19. *Rediscounts and Other Borrowings.*

As stated in the introductory note, the Associated Banks availed themselves of the privilege of rediscounting with the Banco Central for the first time in 1930. At the end of that year, their rediscounts outstanding were, according to their balance-sheets, 1.5 million bolivianos. As this item, however, is offset by the rediscount credit of the Banco Central and constitutes neither a net asset nor a net liability of the banking system as a whole, it has been excluded from the summary table. As the rediscount credit of the Banco Central is slightly (0 3 million bolivianos) larger than the rediscount liability shown by the Associated Banks in 1930, an amount corresponding to the difference has been deducted from sundry liabilities in that year. A small rediscount liability (0 1 million bolivianos) of the Chile branch of the Banco Mercantil is included in sundry liabilities in 1929

20. *Acceptances and Endorsements.*

See note to group 8 above

21. *Sundry Liabilities.*

Inter-branch and various miscellaneous and provisional accounts are grouped under this heading. It includes 0.1 million bolivianos rediscount liability in 1929.

BRAZIL.

Introductory Note.

The Banco do Brasil, the leading bank in Brazil, is a State-controlled institution combining central and commercial banking functions It does an unrestricted business with the public, but also rediscounts for other banks under normal conditions. Since the end of 1931, it has had a monopoly of transactions in foreign exchange. Its right of note-issue has, however, been taken over by the Treasury with the proviso that it may maintain 170 million milreis of its notes in circulation. The Banco do Brasil, being chiefly a commercial bank, is included in the official banking statistics which comprise all national banks and the Brazilian branches of all foreign banks operating in the country, and form the basis of the summary table here presented.

In a report submitted to the Brazilian Government in July 1931, Sir Otto Niemeyer recommended the establishment of an independent central bank with sole right to issue notes. The Banco do Brasil was to be relieved of its central banking functions, and to continue functioning as a commercial bank Although, as stated above, the right of note issue was taken away from the Banco do Brasil, no central bank has so far been established

The following statement gives an idea of the relative importance of national and foreign banks in 1932.

Item	Milreis (000,000's)					
	National banks		Foreign banks		All banks	
	Amount	%	Amount	%	Amount	%.
Cash	1,029	56	816	44	1,845	100
Bills discounted and bought	2,685	85	450	15	3,144	100
Loans and advances	2,896	77	885	23	3,781	100
Investments and securities	340	83	70	17	410	100
Capital paid up	720	84	138	16	864	100
Reserves	610	97	17	3	627	100
Sight deposits	3,521	74	1,211	26	4,732	100
Time or fixed deposits	1,243	78	358	22	1,601	100
Savings accounts	400	78	110	22	510	100

The balance-sheet summary is based on the official banking statistics (Movimento Bancario) published annually by the Bureau of Commercial Statistics of the Ministry of Finance These reports do not contain profit and loss accounts

The official banking statistics cover all commercial banks operating in the country, but the actual number of these institutions is not stated ; nor is the number of branches and agencies given. The statistics are prepared from obligatory returns which the banks submit to the Ministry of Finance on a common standard form.

Balance-sheet Summary.

1. *Cash.*

The sums under *(a)* do not include the gold reserve held in the note issue department of the Banco do Brasil This reserve, which was lent to the bank under a special convention in 1923, was taken over by the Government when the Treasury assumed responsibility for the note issue in 1931 See note to group 10 below

The sums shown under *(b)* are composed as follows :

	Milreis (000,000's)				
	1925	1929	1930	1931	1932
Bank and State notes	682	1,269	896	925	1,029
Balances with Banco do Brasil	203	264	252	273	814
Total	885	1,533	1,148	1,198	1,843

BRAZIL. COMMERCIAL BANKS **Table 29 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF: 1925	1929	1930	1931	1932
Number of : Banks					
Branches and Sub-Branches					
ASSETS.	Milreis (000,000's omitted)				
1. Cash	802	1,550	1,164	1,228	1,845
(a) Gold, silver and small coins	7	17	16	30	2
(b) Bank notes, State notes and balances with Central Bank	885	1,533	1,148	1,198	1,843
2. Other Items of a Cash Nature	147	204	191	166	114
3 Bills discounted and bought	2,351	3,070	2,619	2,538	3,144
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	
(c) Commercial bills, Foreign	—	—	—	—	—
4 Investments and Securities	320	254	352	398	410
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	470	677	667	401	459
(a) At home	123	108	88	73	98
(b) Abroad	347	569	579	328	361
7. Loans and Advances	1,876	3,588	3,690	3,609	3,781
(a) On current account	1,876	3,588	3,690	3,609	3,781
(b) Others	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc.	—	—	—	—	—
10 Sundry Assets	1,577	2,987	2,816	3,557	3,561
11 Total Assets	**7,633**	**12,330**	**11,499**	**11,897**	**13,314**
LIABILITIES.					
12 Capital paid up	595	851	788	848	864
13 Reserve Funds	335	509	562	587	627
14. Profits and Loss, undivided Profits, etc	20	21	25	30	35
15. Cheques and Drafts, etc., in circulation	47	45	34	49	285
16. Due to Banks (Correspondents)	417	706	685	402	991
(a) At home	92	78	74	86	872
(b) Abroad	325	628	611	316	119
17 Deposits	3,661	5,925	5,731	5,962	6,843
(a) Current accounts	2,420	3,487	2,856	3,490	4,732
(b) Savings accounts	320	431	394	451	510
(c) Time or fixed deposits	921	2,007	2,481	2,021	1,601
(d) Other deposits	—	—	—	—	—
18. Rediscounts	—	—	—	—	—
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	2,558	4,273	3,674	4,010	3,669
21. Total Liabilities	**7,633**	**12,330**	**11,499**	**11,897**	**13,314**
22. Value of currency in cents of a U.S. dollar at the end of each year	14.2	11.3	9.6	6 2	7.6

2. *Other Items of a Cash Nature.*

This item consists of funds " at call " in other banks.

3. *Bills discounted and bought.*

The composition of the sums shown in this group of the summary table is as follows :

	Milreis (000,000's)				
	1925	1929	1930	1931	1932
Bills discounted	1,089	2,488	2,272	2,284	2,916
Bills receivable for own account :					
Inland	247	429	274	196	217
Foreign	115	153	73	58	11
Total	2,351	3,070	2,619	2,538	3,144

7. *Loans and Advances.*

According to the nomenclature adopted in the official statistics, practically all the loans of the Brazilian banks would appear to be granted in the form of current account advances. In fact, a considerable proportion of the sums shown represent long-term credits.

In addition, some banks grant mortgage loans against the issue of mortgage bonds. But as these operations do not fall within the field of commercial banking proper, mortgage loans and corresponding bond issues, which as a rule are handled by separate mortgage departments, have been included under sundry assets and liabilities in the summary table.

10. *Sundry Assets.*

The sums shown in the table are composed as follows :

	Milreis (000,000's)				
	1925	1929	1930	1931	1932
Assets in liquidation	22	29	50	90	66
Mortgage loans	301	1,081	965	1,256	1,610
Net balance of collection guarantee and safe deposit accounts	158	-	318	160	275
Accounts of Note Issue Department of Banco do Brasil	383	353	53	54	—
Other accounts	713	1,524	1,430	1,988	1,610
Total	1,577	2,987	2,816	3,557	3,561

20. *Sundry Liabilities.*

The sums shown in the table are composed as follows :

	Milreis (000,000's)				
	1925	1929	1930	1931	1932
Mortgage bonds	405	943	973	1,275	846
Net balance of branches and agencies accounts	293	642	870	491	333
Net balance of collection guarantee and safe deposit accounts	--	200	—	-	—
Accounts of Note Issue Department of Banco do Brasil	673	715	170	170	170
Other accounts	1,187	1,764	1,661	2,074	2,320
Total	2,558	4,273	3,674	4,010	3,669

CHILE.

Introductory Note.

The introductory note on Chilian banking published in the first edition of this Memorandum contains a summary of the banking legislation of 1925, to which reference should be made. The relative importance of foreign banks in the Chilian banking system as measured by their share in the total balance-sheet of all private joint-stock banks was roughly the same in 1932 as that shown for 1929 in the special statement there published. The attached summary table is based on the last periodical census of bank accounts of each year (falling as a rule in November) as published by the "Superintendencia de Bancos" in the special series "Resumen de los Bancos del Pais".

Balance-sheet Summary.

1 *Cash.*

The sums given under *(a)* include gold and token coins as below:

	Pesos (000,000's)				
	1926	1929	1930	1931	1932
Gold	14	11	12	6	11
Token coins	5	3	3	2	6
Total	19	14	15	8	17

The sums given under *(b)* consist of notes and sight balances with the Central Bank, as shown below:

	Pesos (000,000's)				
	1926	1929	1930	1931	1932
Bank-notes	233	71	65	96	147
Balances with Central Bank		81	51	75	138
Total	233	152	116	171	285

2 *Other Items of a Cash Nature.*

The composition of this item is as follows

	Pesos (000,000's)				
	1926	1929	1930	1931	1932
Foreign bank-notes	18	25	16	9	9
"Exchange" (canjes)	—	39	30	18	21
Total	18	64	46	27	30

The second item presumably represents cheques on banks abroad.

4 and 5. *Securities and Participations.*

The commercial banks do not practise participation in industrial or other business undertakings.

The figures for Government securities also include municipal bonds. The greater part of "other securities" has in recent years consisted of shares in the Central Bank of Chile, as shown below:

ACCOUNTS	SUMMARY OF POSITION AT THE END OF				
	1926	1929	1930	1931	1932
Number of Banks	25	23	23	22	22
ASSETS.	Pesos (000,000's omitted)				
1. Cash.	252	166	131	179	302
(a) Gold, silver and small coins	19	14	15	8	17
(b) Bank-notes, State notes and balances with Central Bank	233	152	116	171	285
2. Other Items of a Cash Nature	18	64	46	27	30
3. Bills discounted and bought.	373	495	374	160	129
(a) Treasury bills.	—	—	-	-	-
(b) Commercial bills, Inland	325	462	355	155	124
(c) Commercial bills, Foreign	48	33	19	5	5
4. Investments and Securities.	189	129	129	120	125
(a) Government	93	16	14	32	25
(b) Other	96	113	115	88	100
5. Participations	-	—	-	-	
6. Due from Banks (Correspondents)	209	151	113	101	87
(a) At home.	30	14	11	15	11
(b) Abroad	179	137	102	86	76
7. Loans and Advances.	1,089	1,118	1,156	1,037	1,056
(a) On current account	654	578	635	450	433
(b) Other	435	540	521	587	623
8. Cover for Acceptances, etc	64	94	95	67	45
9. Premises, etc	77	80	85	90	100
10. Sundry Assets	525	422	301	121	144
11. Total Assets	**2,796**	**2,719**	**2,430**	**1,902**	**2,018**
LIABILITIES.					
12. Capital paid up	388	423	427	420	427
13. Reserve Funds	179	215	217	204	170
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	—	—		—
15. Cheques and Drafts, etc, in circulation	11	18	36	11	14
16. Due to Banks (Correspondents)	205	158	132	46	75
(a) At home.	33	6	8	15	7
(b) Abroad	172	152	124	31	68
17. Deposits	1,263	1,276	1,119	906	1,043
(a) Current accounts and sight deposits	724	512	434	400	601
(b) Savings accounts.	14	41	47	13	—
(c) Time or fixed deposits	525	709	630	490	439
(d) Other deposits	.	13	8	3	3
18. Rediscounts and other Borrowings	11	47	29	80	13
19. Acceptances and Endorsements, etc.	64	95	93	63	46
20 Sundry Liabilities	675	487	377	172	230
21. Total Liabilities.	**2,796**	**2,719**	**2,430**	**1,902**	**2,018**
22. Value of currency in cents of a U.S. dollar at the end of each year.	12.1	12.1	12.1	12.1	7.9

	Pesos (000,000's)				
	1926	1929	1930	1931	1932
Shares in Central Bank	39	62	65	64	63
Other shares and bonds	52	42	42	20	33
Securities in possession of "Superintendencia de Bancos"	5	9	8	4	4
Total	96	113	115	88	100

6 *Due from Banks.*

The sums under *(b)* include deposits with head offices and branches abroad

7. *Loans and Advances*

The detailed composition of the sums shown is given below

(a) *Advances on Current Account*	Pesos (000,000's)				
	1926	1929	1930	1931	1932
In national currency					
Against security	232	245	231	162	136
Without special security	212	205	194	149	119
	144	450	425	311	255
In foreign currency					
Against security	63	73	121	33	
Without special security	147	55	89	106	
	210	128	210		
Total *(a)*	654	578	635		

(b) *Other Loans and Advances.*	Pesos (
	1926
Loans in national currency	
Against security	238
Without special security	60
	298
Loans in foreign currency:	
Against security	36
Without special security	21
	57
Credits to directors and staff	25
Other loans	55
	80
Total *(b)*	435
Grand total	1,089
Thereof:	
In national currency	822
In foreign currency	267

8. *Cover for Acceptances, etc.*

The sums given in this group of the sum table represent documentary credits (Docum por boletas de garantía) in respect of whi banks act as intermediaries for their custom lending their guarantee. The liabilities incurred are shown in group (19) of the tab

11 and 21. *Total Assets and Liabilities.*

Collection accounts and other " comptes d'ordre " are excluded from the balance-sheet proper in the official statistics.

14. *Profit and Loss and Dividend Accounts*

The balance of these accounts is not shown separately in the official balance-sheet summaries, but is included in sundry liabilities.

16. *Due to Banks (Correspondents).*

The sums shown under *(b)* include certain amounts due to banks at home in foreign currency, which amounts are not shown separately in the official balance-sheet summary.

17 *Deposits.*

Sight deposits include deposits on less than one month's notice. The official statistics distinguish between deposits in national and in foreign currency. The figures are as follows :

	Pesos (000,000's)				
	1926	1929	1930	1931	1932
Sight deposits (less than 30 days)					
In national currency . .	577	464	382	335	530
In foreign currency	147	48	52	65	71
Total *(a)* . . .	724	512	434	400	601
Savings accounts in national currency *(b)*	14	41	47	13	—
Time deposits (more than 30 days)					
In national currency . . .	371	582	485	360	307
In foreign currency	154	127	145	130	132
(c)	525	709	630	490	439
National currency . .	—	13	8	3	3
	1,203	1,275	1,110	966	1,043
	962	1,100	921	712	840
	301	175	198	194	203

ie country are holds considerable amounts of other deposits, as
vhich als will be seen from the following comparison :

Pesos (000,000's)

SIGHT DEPOSITS			TIME DEPOSITS			GRAND TOTAL
nal gs k	Commercial banks	Total	National Savings Bank	Commercial banks	Total	
1	724	888	60[1]	525	585	1,643
	512	713	68	722	790	1,781
	434	609	77	368	445	1,329
	400	532	68	493	561	1,270
	601	794	59	442	501	1 494

Sundry Liabilities.

ie sums in this group of the summary table de, *inter alia*, interest and commission accounts, -branch accounts and various other accounts senting nominal liabilities. They also include ull amount of mortgage bonds

quently absorbed by National Savings Banks .

COLOMBIA.

Introductory Note.

The present organisation of the Colombian banking system dates from 1923, when a general banking law was passed in connection with the currency reform and the establishment of a central reserve system largely modelled on the United States Federal Reserve System, the member banks being shareholders of the Central Bank, the Banco de la República de Colombia (For a summary of the main provisions of the banking legislation, see the introductory note given in the first edition of this memorandum.) The commercial banking system comprises 11 domestic banks (with 40 branches) and 5 foreign banks (with 22 branches), the latter accounting in 1932 for some 40 per cent of the joint balance-sheet.

Balance-sheet Summary.

1. *Cash*

The sums shown under this heading in the summary table are composed as follows.

End of June	Pesos (000,000's)		
	1925	1929	193
Gold coins, bank-notes, State notes, other currency	7 8	7 2	
Cash held in savings departments	0 2	0 9	
Total	8 0	8 1	
Reserve balances with Banco de la República	1 2	5 0	
Grand total	9 2	13 1	

The gold included in the first item above in 1929 and subsequent years amounted to 1 9, 1 8, 1.8 and 0 01 million pesos respectively

table. T is shown

3 *Bills discounted and bought*

The official statistics make no distinction between discounts, loans and advances, nor is Government paper shown separately from commercial paper Distinction is made, however, between paper eligible for rediscount at the Banco de la República and non-eligible paper. Only the former category is shown under discounts in the summary table, while the second, which may also include a certain proportion of bills, is given in group (6) (Loans and Advances) of the table. Rediscounts at the Banco de la República are maintained in the balance sheet proper, and are shown separately both under assets and liabilities. Consequently, they a included in groups (3) and (18) of the summa

ACCOUNTS	SUMMARY OF POSITION AT THE END OF JUNE:				
	1925	1929	1930	1931	1932
Number of Banks	28	17	16	16	16
ASSETS.	Pesos (000,000's omitted)				
1. Cash	9.2	13.1	9.2	9.2	13.3
(a) Gold, silver and small coins	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—
2. Other Items of a Cash Nature	—	—	—	—	—
3. Bills discounted and bought	19.7	55.6	46.9	38.5	23.0
(a) Treasury bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	6.9	12.1	13.1	14.7	17.5
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	3.3	6.9	7.0	8.0	3.5
[illegible]	0.5	0.6	0.5	0.7	0.6
[illegible]	2.8	6.3	6.5	7.3	2.9
[illegible]	22.4	45.9	39.3	40.8	34.4
[illegible]	—	—	—	—	—
[illegible]	—	—	—	—	—
[illegible]	—	6.7	4.6	2.8	0.5
[illegible]	2.7	3.4	4.8	6.0	4.2
[illegible]	10.6	4.6	6.2	6.2	8.0
	74.8	**148.3**	**131.1**	**116.2**	**104.4**
[illegible]	15.3	24.7	24.8	24.9	22.5
[illegible]	5.4	11.2	12.8	15.4	10.3
[illegible]	1.1	2.3	2.0	0.4	0.3
[illegible]	—	—	—	—	—
[illegible]	0.9	10.4	14.3	11.6	4.8
[illegible]	—	—	—	—	—
[illegible]	0.9	10.4	14.3	11.6	4.8
[illegible]	36.7	73.6	54.8	53.2	55.3
[illegible]	26.9	50.8	33.3	27.0	31.8
[illegible]	1.2	6.2	6.5	8.2	7.5
[illegible]	8.6	16.6	15.0	18.0	16.0
[illegible]	—	—	—	—	—
	5.6	14.5	13.3	14.7	8.1
	—	6.7	4.6	2.8	0.5
	9.8	4.9	4.5	3.2	2.6
	74.8	**148.3**	**131.1**	**116.2**	**104.4**
	97.3	97.3	97.3	96.6	95.2

4 and 5. *Investments and Securities; Participations.*

The composition of the aggregate sums given in the summary table is shown below.

End of June	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Ordinary investments:					
Shares in the Banco de la República	2.0	4.8	5.0	4.9	5.0
Other securities	3.6	1.3	1.9	2.4	5.7
Total	5.6	6.1	6.9	7.3	10.7
Investments of savings departments	1.3	6.0	6.2	7.4	6.8
Thereof investments of "immediate convertibility"		(5.4)	(5.5)	(6.5)	(6.2)
Grand total	6.9	12.1	13.1	14.7	17.5

The banks do not participate directly in commercial and industrial enterprises

7. *Loans and Advances*

As mentioned in the note to group (3) above, the sums given in the present group of the summary table may include a certain proportion of bills not eligible for rediscount with the Central Bank which are not shown separately in the official statistics

8 *Cover for Acceptances, etc.*

Since 1929, the official statistics give separate figures under assets showing "Customers' Responsibility" for letters of credit, acceptances and guarantees as follows:

End of June	Pesos (000,000's)			
	1929	1930	1931	1932
Letters of credit	4.7	2.4	1.7	0.4
Acceptances and guarantees	2.0	2.2	1.1	0.1
Total	6.7	4.6	2.8	0.5

In 1925, these items are included in loans and advances.

9. *Premises, etc.*

The official statistics subdivide this item into bank buildings, other real estate and furniture, etc. The book value of the real estate not used for the business of the banks amounted, in June 1932, to 1.2 million pesos.

10. *Sundry Assets.*

The sum shown for 1925 includes mortgage loans to the amount of 8.1 million pesos, the whole of which had by 1929 been either liquidated or transferred to the institutions specialising in this business. Bills unpaid which likewise are included in this group rose in amount from 1.4 million pesos in 1929 to 6 millions in 1932.

11 and 21. *Total Assets and Liabilities.*

Collection accounts and other *comptes d'ordre* are excluded from the balance-sheet proper in the official statistics.

16. *Due to Banks (Correspondents).*

Sums due to domestic banks are not distinguished from ordinary deposits. Sums due to foreign correspondents as given in the official statistics include the banks' liabilities for letters of credit, acceptances and guarantees. As stated in the note to group (8) above, these items are shown separately under assets since 1929. In constructing the summary table, therefore, an amount equal to the sums thus shown under assets has been deducted from foreign correspondent creditors since 1929 and carried to group (19) of the table.

17. *Deposits.*

Deposits include amounts due to domestic banks. The sums shown under *(a)* represent deposits payable within thirty days; time deposits *(c)* are those payable after thirty days. The statistics show separately deposits in national and in other currencies as follows.

End of June	Pesos (000,000's)				
	1925	1929	1930	1931	1932
(a) Sight deposits .					
In national currency	23.1	41.7	26 8	22 5	29.3
In other currencies	3 8	9 1	6 5	4.5	2.5
Total sight deposits . .	26 9	50 8	33 3	27.0	31 8
(b) Savings deposits	1 2	6 2	6 5	8 2	7 5
(c) Time deposits .					
In national currency . . .	6 6	14 7	11.5	14 6	13 7
In other currencies .	2 0	1 9	3.5	3.4	2 3
Total time deposits . .	8 6	16 6	15 0	18 0	16 0
Grand total .	36 7	73 6	54 8	53 2	55.3

18. *Rediscounts and Other Borrowings*

Under this heading are given the rediscounts of the commercial banks with the Banco de la República and their other borrowings from that bank as follows :

End of June	Pesos (000,000's)				
	1925	1929	1930	1931	1932
Rediscounts with the Banco de la República	4 7	13 7	13 0	14 4	5 8
Other borrowings from the Banco de la República	0 9	0 8	0 3	0 3	2 3
Total	5 6	14 5	13 3	14.7	8 1

19. *Acceptances and Endorsements.*

See notes to groups (7), (8) and (16) above.

20. *Sundry Liabilities.*

The sum shown for 1925 includes mortgage bonds to an amount of 6 1 million pesos. Since 1929, the commercial banks no longer handle mortgage credits (see note to group (10) above).

ECUADOR.

Introductory Note.

The present organisation of the commercial banking system in Ecuador is of very recent origin, dating from the visit of Professor Kemmerer to that country in 1927, and the passing of the General Banking Law in September of that year. Many banks carried on operations before 1927 , but they were subject to little regulation. A large proportion of their resources were devoted to currency speculation, and their loans showed little turnover, consisting in large part of capital participations in the firms to which they were extended.

With the re-organisation of the banking system in 1927, the right of note issue, previously enjoyed by all the banks, was concentrated in the Banco Central del Ecuador ; and a clear distinction was made between commercial banking activities and the other forms of banking in which the banks formerly engaged The commercial banks were permitted to organise mortgage, savings and trust sections, but they were required to keep the accounts of these sections separately from those of their commercial banking section. At the end of 1932, there were only five institutions in Ecuador whose activity was entirely devoted to commercial banking , the other seven banks included in the attached summary table for that year also operated mortgage and/or savings sections. Until recently the most important of the commercial banks was the Banco del Ecuador, which accounted for about one-third of the total balance-sheet of the commercial banks in 1930. This bank, however, went into liquidation in 1931. One of the most important commercial banks in the country is now a foreign institution, the Anglo-South American Bank.

Branch banking is as yet little developed ; at the end of 1930, only two of the commercial banks had established branches. As the official statistics do not distinguish clearly between the accounts of the mortgage sections of commercial banks and those of the commercial banking sections, the former are included in the summary table and shown separately, where possible, in the detailed notes. The purely mortgage banks, the most important of which is the Banco Hipotecario del Ecuador, organised in 1928, are, however, excluded.

The law of 1927 provided for the nomination of a Superintendent of Banks, attached to the Ministry of Finance, whose functions are to supervise all banks and other institutions habitually accepting deposits, extending credits and dealing in domestic and foreign exchange. The authorisation of the Superintendent is required for the establishment of branches at home and abroad. The law lays down minimum capital requirements for commercial banks ; these are 1 million sucres in cities of 80,000 inhabitants or more and 500,000 sucres in smaller places. The capital of foreign banks may not be less than that of national banks operating in cities of the same size ; and, in general, their legal obligations are assimilated to those of the national institutions. The banks are forbidden to make advances on the security of their own shares, though they may take them as additional cover for advances already granted. At least 10 per cent of net profits must be transferred to reserve funds each year until the latter are 25 per cent of paid-up capital. The commercial banks are required to keep cash reserves of 25 per cent and 10 per cent against sight and time deposits respectively. Cash reserves consist of Ecuador gold coins, notes of the Banco Central and deposits with that institution, and silver and subsidiary coin to the extent of not more than 10 per cent of minimum legal reserves. [1] Corresponding cash ratios must be held against deposits payable in foreign currencies, but the banks' own sight deposits abroad may be regarded as cash reserves for this purpose. The paid-up capital and reserve funds of the commercial banks may not be less than 50 per cent of liabilities to the public. The commercial banks and commercial sections of other banks are authorised by law to make advances on mortgage or other security. Mortgage loans may be made for five years, but the currency of all other loans may not exceed one year. No bank may invest more than 10 per cent of its paid-up capital and reserves in mortgage bonds issued by a single institution nor more than 30 per cent in mortgage bonds in general The banks may also hold bonds issued by their own mortgage sections up to 20 per cent of their paid-up capital and reserves They are further authorised to hold stock in the Banco Central del Ecuador, and to receive custody deposits. No commercial bank may directly or indirectly make advances to a single individual or firm in excess of 10 per cent of its paid-up capital and reserve funds, except where the advances are secured by bills of

[1] By an amendment to the law passed in November 1930, the banks were authorised to keep 5 per cent of their legal cash reserves against sight deposits in national currency in the form of sight deposits abroad.

exchange, commercial paper or guaranteed notes, in which case the limit is raised to 20 per cent. The banks may not take more than 10 per cent of the share capital of other banks as security against loans, nor may their total holdings of the shares of other banks exceed 10 per cent of their own paid-up capital and reserve funds. This restriction does not apply to shares taken as additional security for debts previously contracted. Loans to directors or other persons connected with the banks are limited to 3,000 sucres, unless special approval is obtained from the Board of Directors. The banks may accept bills and letters of exchange drawn against them of a maturity not greater than six months, arising out of the production, transport, import and export of goods. Bills accepted on behalf of a single individual or corporation may not exceed 10 per cent of the banks' paid-up capital and reserves, and total acceptances may not exceed the banks' paid-up capital and reserve funds.

Official half-yearly balance-sheets of all the banking institutions operating in Ecuador are published annually both in the *Informe* of the *Superintendencia de Bancos* and in the *Boletín de Hacienda*. The figures for 1927 and 1928 are published in less detail than those for more recent years ; moreover, though they exclude the Banco Central and the Banco Hipotecario, they appear to include other mortgage banks and are therefore not strictly comparable with those for 1929 and subsequent years.

Balance-sheet Summary.

1. *Cash.*

The amounts shown under *(a)* consist of gold — only 14,000 sucres at the end of 1932 — and other metallic currency. Those shown under *(b)* consist of notes of the Banco Central del Ecuador and deposits with that institution, as follows :

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Notes of Banco Central. . . .	6.1	5.7[1]	4.2	3.5	2.0	3.2
Deposits with Banco Central. .	5.6	5.4	4 0	3 9	1 8	10.2
Total.	11.7	11.1	8.2	7.4	3.8	13.4

[1] Including metallic currency not shown separately in 1928.

2. *Other Items of a Cash Nature.*

This account consists of sight deposits with national banks other than the Banco Central and holdings of foreign banknotes and metallic currency.

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Sight deposits with other banks.	3.5	2.3	0 4	0.9	0.3	0.4
Foreign currencies	—	0.1	0.1	0.1	0.1	—
Total.	3.5	2 4	0 5	1.0	0 4	0.4

3. *Bills discounted and bought.*

Domestic discounts were not shown separately from loans and advances before the publication of the first report of the Banking Superintendent referring to 1929. Amounts shown under *(a)* since that year consist of bills eligible for rediscount with the Banco Central ; amounts shown under *(b)* represent discounts of bills payable in foreign currencies. For rediscounts, see group 19.

4 *Investments and Securities.*

The sums shown under *(b)* are composed as follows :

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Mortgage bonds of other banks. .	—	1.2	2.1	1.4	1.2	1.2
Shares of Banco Central	2.6	3.5	3.5	3.1	2.4	2.4
Other securities.	6.3	2.2	0.6	1.9	1 3	1 2
Total	8.9	6.9	6.2	6.4	4.9	4.8

ECUADOR. COMMERCIAL BANKS. **Table 32 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT END OF · 1927	1928	1929	1930	1931	1932
Number of Banks	21	—	16	14	12	12
ASSETS.	Sucres (000,000's omitted)					
1. Cash	12 4	11.1	8.8	8.5	3 9	13 5
(a) Gold, silver and small coins	0 7	—	0 6	1 1	0 1	0 1
(b) Inland notes and balances with Central Bank	11 7	11 1	8 2	7 4	3 8	13 4
2. Other Items of a Cash Nature	3.5	2 4	0.5	1.0	0.4	0 4
3. Bills discounted and bought	1 5	1 8	13.9	15.1	10 1	11 7
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, inland	—	—	12 8	14 0	8 2	10 8
(c) Commercial bills, foreign	1 5	1 8	1.1	1 1	1 9	0 9
4. Investments and Securities	9 1	7.0	6.3	6.5	5 0	4 0
(a) Government	0 2	0 1	0 1	0 1	0 1	0 1
(b) Others	8 9	6 9	6 2	6 4	4 9	4 8
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	4 0	4 8	4 0	3 0	2 0	0 3
(a) At home	—	—	—	—	—	—
(b) Abroad	4 0	4 8	4 0	3 0	2 0	0 3
7 Loans and Advances	78 5	85.6	43.1	39 3	31 5	31 6
(a) On current account	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
8. Cover for Acceptances	0.3	—	0.4	0.4	0.5	0.8
9. Premises, etc.	5.0	4 9	3 6	3.8	3 0	4 2
10. Sundry Assets	1.2	1.0	0.7	0.9	0 8	0.7
11. Total Assets	**115.5**	**118.6**	**81.3**	**78.5**	**57.2**	**68.1**
LIABILITIES.						
12. Capital paid up	24 4	32 1	21.1	20.9	16.3	16.2
13. Reserve Funds	12.0	11.9	7.8	3.7	3.7	3 9
14 Profit-and-Loss Accounts, Undivided Profits, etc.	—	—	—	1.6	0.9	0.9
15. Notes in Circulation	—	—	—	—	—	—
16. Cheques and Drafts in Circulation	—	—	—	—	—	—
17. Due to Banks (Correspondents)	3.6	3.6	2.8	4.1	3.1	3.9
(a) At home	2 8	—	—	—	—	—
(b) Abroad	0.8	—	—	—	—	—
18. Deposits	38.6	37.9	34 1	33.0	19.3	30.4
(a) Current accounts and sight deposits	30 3	29 7	24 3	22.1	12.6	24 9
(b) Savings accounts	—	—	—	—	—	—
(c) Time deposits	6 9	6 6	6 5	7 2	4 7	5 4
(d) Other deposits	1 4	1.6	3 3	3 7	2.0	0 1
19. Rediscounts and Other Borrowings	34.1	32.2	14.5	14.1	13.1	11.7
20. Acceptances and Endorsements	0.3	—	0.4	0.4	0.5	0.8
21. Sundry Liabilities	2.5	0.0	0.6	0 7	0.3	0 3
22. Total Liabilities	**115.5**	**118.6**	**81.3**	**78.5**	**57.2**	**68.1**
23. Value of currency in cents of a U.S. dollar at end of each year	20.0	20.0	20.0	20.0	20.0	16.0

6. *Due from Banks (Correspondents).*

Ordinary domestic correspondent accounts are presumably included under sight deposits in domestic banks, as shown in the note to group 2 above. Balance of inter-branch accounts are included among sundry assets (group 10 below). The amounts shown under *(b)* are classified in the official statistics as deposits in foreign banks Under the law of 1927, they may be regarded as cash reserves against deposits in foreign currencies, and, by an amendment of 1930, to a limited extent also as cash reserves against deposits in national currency.

7. *Loans and Advances*

The classification of loans and advances is shown below :

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Loans made on security of one signature.	11.8			—	—	—
Loans made on security of two or more signatures.	18 2	34.5	—	—	—	—
Collateral loans	5.0	3.3	—	—	—	—
Mortgage loans	43 5	47.8	13 9	13 9	14.2	13.1
Short-period loans.	—	—	8.0	7 4	5 7	5.5
Other loans not eligible for rediscount	—	—	21.2	18 0	11.6	13.0
Total . . .	78.5	85 6	43 1	39 3	31.5	31.6

It will be observed that the grouping of loans is different in 1927 and 1928 than in the later years. The apparent decline in the total of loans after 1928 is partly due to the fact that the figures for the earlier years cover certain institutions not subsequently included ; it is also partly due, however, to the writing-off of bad and doubtful loans which was made at the instance of the Superintendent of Banks.

9. *Premises, etc.*

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Buildings	1.7	1.7	2.9	3.1	2.5	3.7
Furniture	0.4	0 6	0.7	0 7	0.5	0.5
Other real estate . . .	2.9	2 6	—	—	—	—
Total	9 0	4 9	3.6	3.8	3.0	4 2

10. *Sundry Assets.*

Under this heading are grouped the balance of inter-branch accounts, and other accounts due in national and foreign currencies, as follows :

	Sucres (000,000's)					
	1927	1928	1929	1930	1931	1932
Balance of inter-branch accounts	0.1	—	—	—	0.1	0 1
Other accounts due in sucres. .	0 7	1.0	0.6	0.9	0.7	0.6
Other accounts due in foreign currencies	0.4	—	0.1	—	—	—
Total	1.2	1.0	0.7	0.9	0.8	0 7

11 and 12. *Total Assets and Liabilities.*

Excluding unpaid capital and *comptes d'ordre.* The decline in the total balance-sheet after 1928 is explained in part by the exclusion of certain banks as from 1929, and in part by the liquidation of old accounts incidental to the re-organisation of the banking system.

12 and 13. *Capital and Reserve Funds.*

The amounts shown under this heading since 1929 include, in addition to the statutory reserves, small amounts of special reserves against contingencies (see note to following group). The decline in capital and reserve funds since 1929 is partly due to the writing-off of bad debts required by the Superintendent of Banks (see note to group 7)

14. *Undivided Profits, etc*

Shown separately only since 1930 It would appear that these were included in the statutory reserve fund before that year.

17. *Due to Banks (Correspondents)*

Amounts due to banks at home and abroad are shown separately only in 1928. The sum shown for foreign correspondents in that year includes 0.5 million sucres overdraft with foreign banks. The composition of the amounts shown for other years is as follows :

	1929	1930	1931	1932
	Sucres (000,000's)			
Due to banks at home and abroad	1.6	3 0	1.0	2 8
Overdrafts with foreign banks .	1.2	1.1	2.1	1 1
Total . . .	2.8	4.1	3 1	3 9

18. *Deposits.*

Sight deposits *(a)* include deposits of the public and Government, as follows :

	1927	1928	1929	1930	1931	1932
	Sucres (000,000's)					
Public	30 1	28 6	23 9	21.9	12.4	24.7
Government	0 2	1 1	0.4	0 2	0 2	0 2
Total	30.3	29 7	24 3	22.1	12.6	24 9

Other deposits *(d)* consist of deposits in foreign currencies.

19. *Rediscounts and Other Borrowings.*

This item consists of rediscounts with the Banco Central, other domestic banks and foreign banking institutions, and of mortgage bonds issued by the mortgage sections of the commercial banks outstanding at the end of each year under review, as follows :

	1927	1928	1929	1930	1931	1932
	Sucres (000,000's)					
Rediscounts with Banco Central	2.1	4 0	3.4	2 9	2.6	2 0
Rediscounts with other domestic banks	0.7		0.1	0.3	0.1	0.3
Rediscounts abroad	0 2	2 0	0.2	0 2	0.1	—
Total rediscounts	3 0	6 0	3 7	3.4	2.7	2 3
Mortgage bonds outstanding .	31.1	26.2	10 8	10 7	10 4	9.4
Grand Total	34.1	32.2	14 5	14 1	13 1	11 7

21. *Sundry Liabilities*

Sundry liabilities consist of unearned interest received, balance of inter-branch accounts and other accounts payable in sucres and foreign currencies, as follows :

	1927	1928	1929	1930	1931	1932
	Sucres (000,000's)					
Unearned interest received . . .	0.4	0.3	0 3	0.3	0 2	0.2
Balance of inter-branch accounts.	—	0.2	0.1	0.1	—	—
Other accounts payable in sucres	—	0.2	0.1	0.1	0.1	—
Other accounts payable in foreign currencies	2 1	0.2	0.1	0.2	—	0.1
Total	2.5	0.9	0.6	0.7	0.3	0.3

MEXICO.

Introductory Note.

The Mexican commercial banks, which are subject to strict regulations regarding, *inter alia*, liquidity requirements, withstood successfully the economic difficulties of the years under review. In 1931, a serious crisis occurred, currency panic leading to extensive withdrawals of deposits, especially gold deposits. Only one important bank, however, was obliged to close its doors as a result of this crisis and, from the statistics of important individual banks, it would appear that the banking position has since been greatly strengthened.

A series of laws passed in 1931 and 1932 considerably modified the organisation and operations of Mexican banks.[1] The first of these, the Currency Law of July 1931, abolished the internal convertibility of the peso into gold, made silver the sole metallic legal tender, and broadened the basis for the note-issue by the Banco de Mexico The second, passed in April 1932, required the Banco de Mexico to give up its ordinary commercial banking business and confine itself to the normal operations of a central bank of issue. It further associated the commercial banks of the country with the Banco de Mexico by requiring those which accepted sight deposits to purchase shares of that Bank, or to make a special deposit with it, to an amount not less than 6 per cent of their paid up capital and reserves and to maintain a deposit with the Bank equal to 5 per cent of their outstanding sight deposits The third (June 1932) regulated the organisation of "credit institutions", prescribed in detail the scope and nature of their operations and those of other financial institutions and extended the powers of inspection and control exercised by the National Banking Commission. The latter body, created under the banking law of 1924, was alone empowered to authorise the establishment of new banks and revoke the licences of existing ones ; it was required to approve of capital issues, to fix from time to time the cash reserves to be held by the banks against deposits and, in general, to supervise the application of the new code. Foreign banks were subjected in general to the same regulations as national institutions, but were forbidden to accept savings deposits, to issue mortgage or cash bonds or to act as trustees. A fourth law (August 1932), aiming at developing the domestic market for securities and other forms of paper, regulated the issue and status of credit instruments.

In consequence of the reorganisation of the banking system, the summary statistics for 1932 are not comparable with those for previous years With the introduction of the new banking code, a number of new banks were established and existing banks transformed Several firms included in the statistics for the years 1925-1931, which were not "credit institutions" under the terms of the banking law of 1932 — the old "assimilated institutions" and other firms not exclusively engaged in banking business — were omitted from the statistics for the end of 1932. Moreover, the commercial banking business of the Banco de Mexico, which is throughout excluded from the summary table, had by that time been taken over in large measure by other banks [2]

The division of the banks by categories in 1925, 1929 and 1932 and the relative importance of the balance-sheet totals of each category were as follows :

	1925		1929			1932	
	Number of banks	Per cent of total balance-sheet	Number of banks	Per cent of total balance-sheet		Number of banks	Per cent of total balance-sheet
Industrial and agricultural banks.	3	12	16	61	Industrial and agricultural banks. .	15	56
Foreign banks	3		5	25	Deposit and discount banks	19	13
Deposit and discount banks			5	2	Foreign banks	6	21
Banking firms	42	25	21	9	National banks	8	10
Assimilated institutions			6	3			
Old banks of issue	24	63	—	—	Total	48	100
Total	72	100	53	100			

[1] The basic laws previously in force were the Banking Law of November 1924 (summarised in the last edition of this memorandum) and the law of August 1925 creating the Banco de Mexico.

[2] See "Informe del Consejo de Administración", of the Banco de Mexico, 1933.

ACCOUNTS	SUMMARY OF POSITION AT END OF				
	1925	1929	1930	1931	1932
Number of Banks	72	53	56	58	48
ASSETS.	Pesos (000,000's omitted)				
1. Cash	51.7	54.5	71 8	30 0	62 1
(a) Gold, silver and small coins	48.1	50 5	63 5	26 8	37 4
(b) Bank notes, State notes and balances with Central Bank	3 6	4 0	8 3	3 2	24 7
2. Other Items of a Cash Nature	2.6	8.3	6.7	3.5	5 9
3. Bills discounted and bought	54.2	92.4	95.9	41.6	46.9
(a) Government bills	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—
4. Investments and Securities	64.5	31 6	30 8	18.9	21.4
(a) Government	—	—	—	—	—
(b) Other	—	—	—	—	—
5 Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	39.3	49.9	25.1	29.4	18.7
(a) At home	20 0	19 9	9 8	5 8	6 8
(b) Abroad	19 3	30 0	15 3	23 6	11 9
7. Loans and Advances	224.5	130 8	126.9	135.8	115 7
(a) On current account	20 7	37 1	44 5	33 3	33 9
(b) Other	203 8	93 7	82 4	102 5	81 8
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc	23.3	24 1	24.2	17.5	20.5
10. Sundry Assets	70.6	23.9	35.5	31 9	29.2
11. Total Assets	**530.7**	**415.5**	**416.9**	**308.6**	**320.4**
LIABILITIES.					
12. Capital paid up	147.1	100.9	100.6	98.6	95.8
13. Reserve Funds	66.3	28.1	21.6	19.9	14.6
14. Profit and Loss, Undivided Profits, etc.	—	—	—	—	—
15. Notes in circulation	48.9	11 2	5.5	5.5	5.2
16. Cheques and Drafts, etc., in circulation	25.5	14 7	5.2	5 0	4.8
17. Due to Banks (Correspondents)	10.2	11 8	12.0	7.7	11.9
(a) At home	3 6	10 1	8.6	2 0	8 2
(b) Abroad	6.6	1 7	3 4	5.7	3 7
18. Deposits	146.9	218 5	243.2	145.4	162.1
(a) Current accounts and sight deposits	135 2	175 6	183.0	102 0	135 2
(b) Savings accounts	—	—	—	—	—
(c) Time deposits	11.7	42 9	60 2	43 4	26 9
(d) Other deposits	—	—	—	—	—
19. Rediscounts and other Borrowings	3 6	8.2	7.8	5.5	14.5
20. Acceptances	—	—	—	—	—
21. Sundry Liabilities	82.2	22.1	21.0	21.0	11.5
22. Total Liabilities	**530.7**	**415.5**	**416.9**	**308.6**	**320.4**
23. Value of currency in cents of a U S dollar at the end of each year	49.8	49.8	45.5	39.0	32.0

The composition of the old banking groups was described in the last issue of this memorandum. The new item " National Banks " represents banks over which the State has direct control through majority representation or through veto on the decisions of their boards and assemblies Only two of these banks, the Banco Nacional de Credito Agricola and the Banco de Trabajo, are of importance. The former industrial and agricultural banks *(bancos refaccionarios)* and the former deposit and discount banks shown for 1932 are not entirely comparable with the corresponding groups shown for previous years.

Balance-sheet Summary.

(Notes on certain items not dealt with below are given in the previous edition of this memorandum.)

1 *Cash*

The composition of the metallic cash holdings of the banks since 1929 is shown below :

	Pesos (000,000's)			
	1929	1930	1931	1932
Gold	30 2	27 1	3.7	2 2
Silver and small coins	20 3	36 4	23 1	35 2
Total	50 5	63 5	26 8	37 4

The drop in the banks' gold holdings in 1931 was a result of the currency panic in the summer of that year and the subsequent abolition of the domestic convertibility of the peso into gold.

4 and 5. *Investments and Securities: Participations.*

The division of the sums shown in the summary table between " approved " securities (see note in last edition) and other investments is given below .

	Pesos (000,000's)			
	1925	1929	1931	1932
Approved securities	9 4	6 5	6 6	8 3
Other investments	55 1	25 1	12 3	13 1
Total	64 5	31 6	18.9	21 4

6. *Due from Banks (Correspondents).*

The sums shown for domestic correspondents *(a)* are composed of sight deposits which the banks make in other banking establishments, and balances which arise with other banks in the course of current account transactions as follows :

	Pesos (000,000's)			
	1925	1929	1931	1932
Inter-bank deposits	4 2	7 1	5 3	5 6
Balances due from banks	15 8	12 8	0 5	1 2
Total	20.0	19 9	5 8	6 8

The sums shown for foreign correspondents *(b)* are described in the official statistics as " assets held in foreign banks " ; balances in foreign banks considered " first class " by the National Banking Commission may be counted as cash reserves against sight deposits in national currency. (From 1925 to 1931 inclusive, not more than one-third of the statutory cash reserves might be constituted by such balances.)

7. *Loans and Advances.*

The sums given under *(a)* in the summary table include, in addition to advances which are distinguished in the official statistics as credits on current account, those granted against collateral and advances made to the Federal Government as shown below for the years 1925, 1929, 1931 and 1932 :

	Pesos (000,000's)			
	1925	1929	1931	1932
On current account	6 1	8 5	2 5	2.0
Against collateral	14 6	26 0	28 3	31 0
To Federal Government	—	2 6	2 5	0 9
Total *(a)*	20 7	37 1	33.3	33.9

In the same years the composition of the sums given under *(b)* was as follows :

	Pesos (000,000's)			
	1925	1929	1931	1932
1 Promotion loans	2.8	15 2	15 5	9 2
2. Sundry debtors	28 6	60 8	77 7	66 4
3 Other loans	—	1 2	1 0	0 9
Total 1-3	31 4	77.2	94 2	76 5
Subject to moratoria :				
4 " Constitutional Government " debt	34.3	0.3	—	—
5. Other old loans	138·1	16 2	8 3	5 3
Total 4-5	172 4	16 5	8 3	5 3
Grand total *(b)*	203 8	93 7	102 5	81 8

For details regarding the scope of the various items shown above, see the previous issue of this memorandum.

10. *Sundry Assets.*

The sums shown in this group of the summary table are composed of mortgage loans and miscellaneous accounts in the following proportions

	Pesos (000,000's)			
	1925	1929	1931	1932
Mortgage loans	7 1	16 3	14 6	12 9
Miscellaneous	63 5	7 6	17.3	16 3
Total	70 6	23 9	31 9	29 2

Mortgage loans extended by mortgage banks (excluded from the summary table) declined from 26 million pesos in 1925 to 14 millions in 1929 and less than 11 millions in 1932. There was thus a considerable contraction of the total volume of such loans in the period considered. A decree was issued in August 1932 establishing a national mortgage bank, the Banco nacional hipotecario urbano y de Obras publicas. The capital of this institution, which opened in February, 1933, was subscribed by the State and important credit institutions.

12 and 13. *Capital and Reserves*

In the case of foreign banks, only the capital assigned to the branches in Mexico is included.

15 *Notes in Circulation.*

The figures shown in the summary table include the unredeemed notes of those banks of issue which were transformed into banks of deposit and discount or industrial and agricultural banks under the banking law of 1924.

16 *Cheques and Drafts, etc., in Circulation.*

The sums shown under this heading in the summary table consist of " provisional bonds and certificates " (see note in the last edition of this memorandum) and cash bonds issued by the industrial and agricultural banks, as follows :

	Pesos (000,000's)			
	1929	1930	1931	1932
Provisional bonds	13 2	3 7	4 0	4 2
Cash bonds	1 5	1 5	1 0	0 6
Total	14 7	5 2	5.0	4 8

By the banking law of 1932, the right to issue cash bonds against time deposits was extended to all credit institutions other than foreign banks.

17. *Deposits.*

The detailed composition of deposits is shown below :

	Pesos (000,000's)			
	1925	1929	1931	1932
A. Sight deposits :				
In national currency	97 3	123 5	62 3	97 5
In foreign currency	30 4	35 2	31 3	26 4
Total	127 7	158.7	93 8	123 9
B Undrawn balances of current account credits opened	2 4	2 4	0 2	0 5
Sundry creditors	5 1	14 5	8 0	10 8
Total	135 2	175 6	102 0	135 2
C. Time deposits :				
In national currency	8 1	34 1	22 9	20.3
In foreign currency	3 6	8 8	20.5	6 6
Total	11 7	42 9	43 4	26 9
Grand total	146 9	218 5	145.4	162 1

In 1929, 1930 and 1931, gold and silver sight deposits were shown separately as follows : gold deposits, 63 7, 61 6 and 1.0 millions ; silver deposits 59.8, 77.7 and 61.5 millions. By the currency law of 1931, the banks were authorised to repay 70 per cent of their outstanding gold deposits in means of payment other than gold.

21. *Sundry Liabilities.*

Under this heading are grouped accounts classified in the official statistics as miscellaneous liabilities and the creditor accounts of the old banks of issue, of which moratoria have been declared (see note in previous edition of this memorandum). A third account, the balance of old unredeemed Federal notes and of provisional bonds and certificates, is included in 1930 and 1931. Separate figures for these various groups are given below

	Pesos (000,000's)				
	1929	1930	1930	1931	1932
Federal notes, etc.	—	—	2 2	0 1	—
Miscellaneous liabilities	31 7	15 3	14 1	15 9	11 2
" Old accounts "	50 5	6 8	4 7	5 0	0 3
Total	82 2	22 1	21 0	21 0	11 5

The miscellaneous liabilities include, in addition to transitory accounts, the profits of the banks, which are not shown separately

PERU.

Introductory Note.

The chief banking events in Peru since the last issue of this *Memorandum* have been (1) two devaluations of the currency and final suspension of the gold standard ; (2) the establishment of an agricultural bank, the Banco Agrícola del Perú, in August 1931 ; and (3) a reduction in the number of commercial banks.

The Peruvian currency was devalued in February 1930, when a new unit, the gold sol, of a par value of $0.40 American currency, was adopted The profits accruing from the devaluation were applied by the Government to the repayment of bank debts. The sol was again devalued (to the rate of $0.28) in April 1931. Part of the revalorisation profits were turned over to the newly created Banco Agrícola del Perú, and additional capital was subscribed by the Government. In May 1932, the gold standard was suspended and the exchange value of the sol declined further.

The Banco Agrícola was, as its name suggests, established for the purpose of making loans to farmers. At the end of September 1932, the total paid-up capital of this institution amounted to 10 million gold sols ; its loans were slightly less than 5 million sols and it held 6 millions in the form of deposits in other banks.

The number of commercial banks operating in Peru has been reduced through failures and amalgamations. In October 1930, the Banco del Perú y Londres suspended payments, and there was a banking moratorium until the end of the year. By the end of 1932, the number of banks for which regular returns are published had fallen to nine, including the Caja de Ahorros de Lima (which is included throughout in the summary table). Foreign banks account for a high proportion of total commercial banking business in Peru.

Since the end of 1931, the Superintendencia Bancaria has published at different dates during the year, and at the end of each year, the banks' balance-sheets in a more detailed form than that previously used. The figures shown for 1931 and 1932 in the attached summary table are consequently not entirely comparable with those given in the previous years. The detailed notes which follow refer only to 1931 and 1932 ; the composition of the various items in earlier years may be judged on the basis of indications given in the previous issue of this Memorandum.

Balance-sheet Summary.

1. *Cash.*

The following is the composition of this item :

	Sols (000,000's)	
	1931	1932
Gold	2.9	3.8
Silver, nickel, etc.	1.2	0.8
Total 1 *(a)*	4.1	4.6
Notes	7.0	8.0
Balances with Central Bank	6.3	5.2
Total 1 *(b)*	13.3	13.2

2. *Other Items of a Cash Nature.*

Up to 1930, this item consists of foreign notes and coins ; since 1931, it includes as well small balances due from other banks.

3. *Bills discounted and bought.*

Until 1931, no distinction was made in the official statistics between inland and foreign bills ; nor were rediscounts shown separately. Since that year, the detailed composition of the bill portfolio has been as follows :

		Sols (000,000's)	
		1931	1932
Treasury Bills :			
	Discounted	4.6	4.8
	Rediscounted	.	6.1
Inland Bills :			
	Discounted	29.6	27.6
	Rediscounted	6.5	0.3
Foreign Bills :			
	Discounted	3.3	20.1
	Bought	0.5	0.1
	Rediscounted	—	11.0
Total	Discounts	38.0	52.6
	Rediscounts	6.5	17.4
	Net bill portfolio	31.5	35.2

ACCOUNTS	SUMMARY OF POSITION AT THE END OF .				
	1925	1929	1930	1931	1932
Number of banks	12	12*l*	13	11	9
ASSETS.	Peruvian pounds (000,000's)		Sols (000,000's)		
1. Cash	2.4	2 7	18.5	17.4	17.8
(a) Gold, silver and small coins	0 3	0 3	3 0	4 1	4 6
(b) Bank-notes, State notes and balances with Central Bank	2 1	2 4	15 5	13.3	13 2
2. Other Items of a Cash Nature	—	—	0.1	0 4	0 4
3. Bills discounted and bought	8 3	8 0	55.7	38 0	52.6
(a) Treasury bills	—	—	—	4 6	4 8
(b) Commercial bills, Inland	8 3	8 0	55 7	29.6	27 6
(c) Commercial bills, Foreign				3 8	20 2
4. Investments and Securities	2.7	3 6	32.1	17.3	17.9
(a) Government	—	—	—	1.5	3.4
(b) Other	—	—	—	15 8	14.5
5. Participations	—	—	—	—	—
6. Due from Banks (Correspondents)	3.1	2.4	20.0	14.1	0 7
(a) At home	1 0	0 4	3 9	1 4	0 1
(b) Abroad	2 1	2 0	16 1	12 7	9 6
7. Loans and Advances	8.2	10.0	76.1	80.2	81.7
(a) On current account	—	—	—	57 4	57 9
(b) Others	—	—	—	22.8	23 8
8. Cover for Acceptances	—	—	—	—	—
9. Premises, etc.	0.5	0.8	5.0	5.8	4.5
10. Sundry Assets	2.8	3.7	14 2	17.5	23.3
11. Total Assets	**28.0**	**31.2**	**221.8**	**190.7**	**207.9**
LIABILITIES.					
12. Capital paid up	2.4	5.3	44.7	26.5	25.9
13. Reserve Funds	0.9	1.5	12.3	13.8	13.0
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	0.6	0.7	4.9	1.7	1.3
15. Cheques and Drafts, etc., in circulation	—	—	—	—	—
16. Due to Banks (Correspondents)	1 0	0.4	3.9	19.4	23.7
(a) At home	1 0	0 4	3.9	0 2	0 8
(b) Abroad	—	—	—	19 2	22 9
17. Deposits	16.1	17.2	120.1	103.4	102.6
(a) Current accounts and sight deposits	7 1	8 8	54.1	50 5	53.8
(b) Savings accounts	1 9	2.3	16.3	18 3	20 1
(c) Time or fixed deposits	6.4	5.3	43.3	34 3	28 5
(d) Other deposits	0.7	0.8	6.4	0 3	0.2
18. Rediscounts and other Borrowings	—	—	—	6.5	17.4
19. Acceptances and Endorsements	—	—	—	—	—
20. Sundry Liabilities	7.0	6.1	35.9	19.4	24.0
21. Total Liabilities	**28.0**	**31.2**	**221.8**	**190.7**	**207.9**
22. Value of currency in cents of a U.S. dollar at the end of each year	395.0	400.0	30.3	28.0	17.2

Before 1931, foreign bills bought were included under "due from banks abroad" in group (6) of the summary table.

4. *Investments and Securities.*

The sums shown under *(a)* include municipal securities ; the composition of those shown under *(b)* is given below :

	Sols (000,000's)	
	1931	1932
Shares of Central Bank . . .	1.8	1.7
Other shares.	9 6	12 6
Securities in savings departments.	4.3	—
Securities pledged with Banking Superintendent. .	0.1	0.2
Total	15.8	14.5

6. *Due from Banks.*

Amounts shown in the summary table as due from banks at home before 1931 represent balances due from the clearing house ; since that year, they represent deposits in domestic banks.

7. *Loans and Advances*

The composition of this item since 1931 has been as follows

	Sols (000,000's)	
	1931	1932
(a) *On current account :*		
In Peruvian currency :		
Against collateral . .	26.5	18.7
Without collateral. .	15.2	14.5
In foreign currency :		
Against collateral . .	13 6	17.9
Without collateral. .	2.1	6.8
Total	57.4	57 9
(b) *Other loans :*		
In Peruvian currency :		
Against collateral . .	7.3	6.4
Without collateral. .	0.9	1 1
To Government . . .	4.5	3.6
In foreign currency :		
Against collateral . .	1.5	1.6
Without collateral. .	1 6	0.3
To Government . . .	—	1.0
Certificates of deposit. .	0 2	0.2
Other loans.	6.8	9.6
Total	22.8	23.8
Grand total	80.2	81.7

10. *Sundry Assets.*

Since 1931, the details of this account have been as follows :

	Sols (000,000's)	
	1931	1932
Branch accounts	0 4	0 3
Exchange operations	10 7	15.5
Profit-and-loss account . . .	—	0.1
Other accounts.	6 4	7.4
Total	17 5	23 3

12 and 13. *Capital and Reserve Funds.*

Before 1931, these figures refer only to the national banks , since that year, they refer to all the banks included in the table.

18. *Rediscounts.*

See note to (3) above.

20. *Sundry Liabilities.*

The composition of this item in 1931 and 1932 was as follows .

	Sols (000,000's)	
	1931	1932
Branch accounts . . .	0.8	-
Mortgage departments . .	0.6	0 4
Exchange operations . .	10.1	15.4
Other accounts.	7.9	8.2
Total	19 4	24 0

Profit-and-Loss Accounts.

The Banking Superintendent has published, for the second half of 1932, a more detailed statement of the banks' profit-and-loss accounts than has hitherto been available. This statement is summarised below :

		Sols (000,000's)	
Interest	Income.	4 8	
	Outlay.	2.2	
	Net income. . . .		2.6
Commissions, etc.	Income . . .	1.7	
	Outlay . . .	1.1	
	Net income .		0.6
Gross profits.			3.2
Salaries, etc			1.6
Taxes, etc			0.1
Written-off assets.			1.0
Net profits . . . . . s .			0.5

URUGUAY.

Introductory Note.

The most important banking institution in Uruguay is the State-owned Banco de la República Oriental, founded in the year 1896 as a bank of discount and note issue. The bank acts as fiscal agent to the Treasury, rediscounts paper for the ordinary commercial banks, buys and sells foreign currencies, and carries on certain other operations of a central banking character. It maintains direct contact with private industry, however, and its commercial deposits and loans are of considerably greater importance than its official and central banking accounts ; accordingly, it is regarded as a commercial bank for the purposes of the present study and is included in the attached summary table.

Under a Charter of 1911, the year in which the State took over the whole of the capital stock of the Banco de la República, the bank was given the exclusive right of note issue. Its issues of "major" notes — *i.e.*, those of 10 pesos and over — are limited to three times the bank's paid-up capital, and its issues of "minor notes" — *i.e.*, those of less than 10 pesos, to one-half the paid-up capital. A gold reserve of 40 per cent is required against "major" issues outstanding, while "minor" issues may be covered by either gold or silver. The bank may also issue notes up to the amount of the rediscounts effected for local banks, provided that in no case the metallic cover falls below the minimum ratios mentioned above. The bank is required to keep a gold reserve of 40 per cent against other sight liabilities, in addition to note circulation.

A large part of the bank's resources is devoted to the extension of rural credit, for which purpose it maintains a separate section. It is the proprietor of an important granary warehouse, and a substantial proportion of its credit to farmers is extended on the basis of grain stored there. The bank has also established a Savings Bank and Discount Department, which specialises in small, non-commercial accounts ; this department is operated as a separate institution, and its balance-sheet is not included in the attached summary table.

In addition to the Banco de la República, there are several private institutions, domestic and foreign, carrying on commercial banking operations in Uruguay. The most important of the foreign banks, and the largest private bank in Uruguay, is the Banco de Londres y América del Sud, which, at the end of 1932, accounted for 25 per cent of the deposits and over 15 per cent of the loans and advances of all the private banks in the country.

The relative importance of the Banco de la República, the ordinary domestic commercial banks and the foreign banks in the Uruguayan banking system may be judged on the basis of the following figures,[1] referring to the end of 1932.

	Pesos (000,000's).						
	Banco de la República		Ordinary Domestic banks		Foreign banks		Total
	Amount	%	Amount	%	Amount	%	Amount
Number of banks	1		9		8		18
Capital and reserves	29.1	*48*	24.1	*41*	6.7	*11*	59.9
Sight deposits	32.2	*37*	18.1	*21*	35.8	*42*	86.1
Time deposits	41.2	*48*	33.7	*39*	11.2	*13*	86.1
Cash	51.3	*56*	11.2	*12*	29.9	*32*	92.4
Loans	148.8	*62*	62.1	*26*	27.6	*12*	238.5

The official figures on which the above table is based are not sufficiently complete to enable double counting of loans and deposits, as between the Banco de la República and the other

[1] These figures are not identical in all cases with those given in the sumary table, as they refer to daily averages for December for all the banks, while, in the latter, end-of-year figures for the Banco de la República have been used.

institutions, to be eliminated. It would appear, however, that such double counting is of relatively minor importance. It will be seen that the Banco de la República accounts for over 60 per cent of the total loans of the Uruguayan banking system. The relatively high cash holdings of this bank are, of course, partly explained by its legal obligation to keep a 40 per cent cash reserve against note issue as well as against deposits. The other banks do not issue notes and are under no legal obligation to hold any specified cash reserve against deposits ; the ratio of their cash to all deposits was over 40 per cent in 1932. It will be observed that the foreign banks operate with a smaller proportion of own to outside funds than the other institutions. They are frequently established with only nominal capital funds, and draw on their head offices abroad as required.

In addition to the above, there are a number of other institutions, not included in the summary table, which carry on various types of non-commercial banking operations in Uruguay. Among these may be mentioned two official institutions, the Banco Hipotecario del Uruguay and the Banco de Seguros del Estado, an official insurance company which receives deposits on a limited scale and makes policy loans. There is also a national Postal Savings Bank whose deposits at the end of 1930 amounted to 8 million pesos, and some to privately-owned savings banks whose deposits and loans amounted to 2.7 and 3.4 million pesos respectively at the end of 1932.

There is no general banking law in Uruguay ; but institutions other than the Banco de la República are required under the provisions of the commercial code to submit to the Superintendent of Banks and Companies periodic statements, which are published annually in summary form in Part II of the official *Annuario Estadístico* and currently in the *Boletín del Ministerio de Hacienda*. These statements are, however, ill-adapted to the summary balance-sheet form used throughout this Memorandum, as they show only the major divisions of the banks' accounts - namely, cash, deposits in other banks and loans under assets — and capital and reserve funds and deposits under liabilities, and do not constitute complete balance-sheets. Moreover, the published figures give only averages of daily figures for the months to which they relate , end-of-year figures and complete balance-sheets are not regularly available except for the Banco de la República. The attached summary table is constructed by combining the annual balance-sheet of the latter institution, showing the position as at December 31st each year, with the average December figures for the other institutions. As the particular asset and liability items shown for the latter group do not balance, small differences will be found between total assets and total liabilities in the attached summary table.

Balance-sheet Summary.

1. *Cash.*

The composition of the amounts given under this heading are shown below :

	Pesos (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Banco de la República :								
Gold coins	54.9	54.9	57.4	66.1	65.9	58.5	50 0	46.7
Silver and nickel coins. . .	3 4	3.5	3.4	3.5	3 5	4.3	4 4	3.7
Total	58.3	58 4	60 8	69.6	69.4	62 8	54 4	50.4
Other banks .								
Gold coins	0.9	0.9	1.2	1.2	0.4	—	—	—
Notes of Banco de la República	12.7	16 5	12.8	9.9	15.3	20.7	27.6	39.0
Sight deposits with Banco de la República.	—	—	—	—	1.1	1.1	1.4	1 7
Subsidiary issue of Banco de la República and subsidiary coin	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0 3
Total	13.9	17.8	14.4	11.4	17.1	22.1	29.4	41.0
Grand Total	72.2	76.2	75 2	81.0	86.5	84.9	83.8	91.4

The sight deposits of the other banks with the Banco de la República, which acts as a clearing house, are not shown separately in the official statistics prior to 1929. The subsidiary issue of the Banco de la República consists of notes of denominations less than 10 pesos.

URUGUAY. COMMERCIAL BANKS **Table 35 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF:							
	1925	1926	1927	1928	1929	1930	1931	1932
Number of Banks	20	20	20	20	20	20	19	18
ASSETS.	Pesos (000,000's).							
1. Cash	72.2	76.2	75.2	81.0	86.5	84.9	83.8	91.4
(a) Gold, silver and small coins	59 2	59 3	62.0	70 8	69.8	62.8	54.4	50.4
(b) Inland notes and balances with Central Bank	13 0	16.9	13.2	10.2	16 7	22 1	29 4	41.0
2. Other Items of a Cash Nature	5.1	7.6	21.1	17.6	9.6	8.8	12.9	15.1
3. Bills discounted and bought	0.4	2.3	2.7	2.5	2.3	1.7	0.9	—
(a) Treasury bills	—	—	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—	—	—
4. Investments and Securities	1.7	1.6	1.5	1.5	1.8	9.4	8.2	7.0
(a) Government	0.4	0.4	0 4	0.4	0.7	—	—	—
(b) Other	1.3	1 2	1 1	1 1	1 1	—	—	—
5. Participations	—	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	—	—	—	—	—	—	—	—
(a) At home	—	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—	—	—
7. Loans and Advances	145.7	160.9	164.0	173 6	192.0	206.3	194.0	197.0
(a) On current account	—	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—	—	—	—	—
9. Premises, etc.	—	—	—	—	—	—	—	—
10. Sundry Assets	—	—	—	—	—	—	—	—
11. Total Assets	225.1	248 6	264.5	276.2	292.2	311.0	299.8	311.5
LIABILITIES.								
12. Capital paid up	45.0	45 4	47.1	48 9	49.0	49.4	50.2	49.7
13. Reserve Funds	6.5	7.5	7.9	7.7	8.2	9 2	10.2	10.3
14. Profit-and-Loss Accounts, Undivided Profits, etc.	—	—	—	—	—	—	—	—
15 Notes in Circulation	63.5	67.6	72.3	73.5	72.3	74 1	81 0	84.6
16 Cheques and drafts in Circulation	0 4	0.4	0.5	0.5	0.5	0.4	0.4	0.4
17 Due to Banks (Correspondents)	—	—	—	—	—	2 2	0.1	—
(a) At home	—	—	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	2 2	0 1	—
18 Deposits	107.0	129.1	142.0	150.9	170.6	180.4	164 0	161.7
(a) Current account and sight deposits	52 1	64.8	70.2	70.5	80 9	83 1	75 4	76.2
(b) Savings accounts	52 0	61.0	68.8	77 1	86.1	93 8	85 5	82.6
(c) Time or fixed deposits								
(d) Other deposits	2.9	3 3	3.0	3.3	3.6	3.5	3 1	2 9
19. Rediscounts and Other Borrowings	0.5	0.7	—	—	—	—	—	—
20. Acceptances and endorsements	—	—	—	—	—	—	—	—
21. Sundry Liabilities	—	—	—	—	—	—	—	—
22. Total Liabilities	222.9	250.7	269.8	281.5	300.6	315.7	306.0	306.7
23. Value of currency in cents of a U.S. dollar at end of each year	101.8	102.4	101.0	102.6	94.8	75.0	44.6	47.3

2. *Other Items of a Cash Nature.*

The amounts shown in the summary table, which refer exclusively to the Banco de la República, consist of foreign exchange holdings and credits in course of collection, as follows :

	Pesos (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Foreign exchange holdings. .	1.1	2.5	15.9	9.8	1.6	1.1	0.9	0.9
Credits in course of collection	4.0	5.1	5.2	7.8	8 0	8.7	12.0	14.2
Total	5 1	7 6	21 1	17.6	9 6	9.8	12.9	15.1

It will be observed that the foreign exchange holdings of the Banco de la República have been greatly reduced since 1927.

3. *Bills discounted and bought.*

Amounts shown under this heading refer exclusively to the Banco de la República and consist of trade acceptances and other paper bearing two or more signatures.

Treasury bills discounted are not shown separately, but the total amount of credit granted by the Banco de la República to the Government will be found in the note to group 7 below. The rediscounts effected by the Banco de la República for the other banks have been excluded from the summary table ; amounts will be found in the note to group 19 below. The discounts of the Banco de la República in 1932 and of the other banks in all years are not shown separately from loans in the basic statement and are therefore included under 7 in the summary table.

4. *Investments and Securities.*

These amounts refer exclusively to the Banco de la República ; investments of the other banks are not shown separately from loans and advances. The sums shown under *(b)* in the summary table include 1 million pesos representing the capital stock of the National Savings Bank and Discount Department, a subsidiary of the Banco de la República. Government stock is not shown separately from other securities since 1930.

6 *Due from Banks.*

Balances arising in the course of inter-bank transactions are not shown separately in the official statistics.

7 *Loans and Advances*

The amounts shown in the summary table are divided between the Banco de la República and the ordinary banks as follows :

	Pesos (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Banco de la República :								
Ordinary current accounts.	19 7	20 7	21 8	25 2	28.6	20 2	17.4	.
Official current accounts. .	6.4	10 9	4.5	3.1	8 2	9.5	12.1	.
Loan on current account to French Government. . .	8.9	6 0	3 0	—	—	—	—	.
National Savings Bank and Discount Department. .	—	—	-	—	—	9 6	10.1	.
Total loans on current account	35.0	37.6	29.3	28.3	36.8	39.3	39.6	46.8
Loans on promissory notes	33.6	41.6	47.9	48.7	51.7	52.5	44 8	.
Rural credit	0 8	4.0	4.6	4.9	6.2	8.1	9.8	.
Mortgage loans.	2.1	0.2	0.3	0.3	0.2	—	—	.
Guaranteed short-date loans	6.4	6.9	6.6	7 4	8.4	6.9	4 3	.
Total other loans . . .	42.9	52.7	59 4	61.3	66.5	67.5	58.9	60.5
Total, Banco de la República	77.9	90.3	88.7	89.6	103.3	106.8	98.5	107.3
Other banks	67.8	70.6	75.3	84.0	88.7	99.5	95.5	89.7
Grand Total	145.7	160.9	164.0	173.6	192.0	206.3	194 0	197.0

No detail is available regarding the credit extended by banks other than the Banco de la República and it would appear that the figures shown above include discounts and investments as well as advances. The aggregate figure shown for "other loans" of the Banco de la República in 1932 include discounts. Ordinary current accounts consist of credit granted for commercial purposes, most of this credit is extended to farmers and merchants and is guaranteed only by their promissory note; in some cases, however, it is guaranteed by mortgages and other paper.

In 1918, the Bank opened a current account credit for the French Government to the extent of 15 millions pesos, against which the bank was authorised to issue notes. In 1923, it was arranged that the credit should be repaid in ten half-yearly instalments and the loan was, accordingly, extinguished in 1928.

It will be observed that, in the case of time loans as in that of overdrafts, the great part of the credit extended by the Banco de la República takes the form of discount of promissory notes. The Bank extends rural credit in the form of mortgage loans, etc., and a special section is devoted to this purpose. In 1930, an industrial credit section was established to provide long-term loans to new industries and assist in the amalgamation of existing enterprises. The amount of such industrial loans outstanding at the end of 1931 was 2.2 million pesos, which is included in the figure shown above for rural credit in that year.

Short-term loans are generally extended on the security of public debt, though mortgage bonds and bank and company shares are also accepted as security.

11 and 22 *Total Assets and Liabilities.*

Excluding premises, unpaid capital, *comptes d'ordre* and sundry accounts. As stated in the introductory note, these accounts do not balance, as incomplete statements covering only the most important items in the balance-sheets of the ordinary banks are published in the official statistics on which the attached summary table is based.

12 and 13. *Capital and Reserve Funds.*

The division of capital and reserves among the various groups of banks is shown below:

	Pesos (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
	Capital paid-up:							
Banco de la República	24.6	25.3	26.1	26.8	26.8	27.1	27.7	27.7
Ordinary domestic banks	14.7	14.4	15.3	15.8	15.9	16.0	16.2	16.2
Foreign banks	5.7	5.7	5.7	6.3	6.3	6.3	6.3	5.8
Total	45.0	45.4	47.1	48.9	49.0	49.4	50.2	49.7
	Reserve Funds							
Banco de la Republica	0.9	0.7	0.8	1.0	1.1	1.2	1.4	1.4
Ordinary domestic banks	4.8	6.1	6.5	6.1	6.4	7.2	7.8	7.9
Foreign banks	0.8	0.7	0.6	0.6	0.7	0.8	1.0	1.0
Total	6.5	7.5	7.9	7.7	8.2	9.2	10.2	10.3

The small size of the reserve funds of the Banco de la República is accounted for by the fact that before 1924 it was not required in all circumstances to set aside 10 per cent of net profits to a reserve fund each year.

15. *Notes in Circulation.*

In addition to notes which are issued under the conditions set forth in the introductory note, the Banco de la República also issues silver coin certificates against silver coin to equal value deposited with it. The amounts shown in the summary table for 1927, 1928 and 1929 include 0.5, 1 and 1 million pesos respectively of silver coin certificates outstanding. See also note to group 1 above.

The sums indicated in the summary table include the other banks' holdings of its notes, though they do not include its holdings of its own notes. The net circulation — *i.e.*, the circulation in the hands of the public — may be calculated by deducting the other banks' note holdings as follows:

	Pesos (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Gross note-circulation of Banco de la República . .	63.5	67.6	72 3	73.5	72 3	74.1	81.0	84.6
Less:								
Other bank holdings of notes of Banco de la República	13.0	16.9	13 2	10 2	15 6	21.0	28.0	39.3
Total	50.5	50 7	59.1	63 3	56.7	53.1	53.0	45.3

16. *Cheques and Drafts in Circulation.*

These amounts consist of domestic drafts outstanding on account of the Banco de la República.

17 *Due to Banks (Correspondents).*

This account, which relates exclusively to the Banco de la República, is shown separately only in 1930 and 1931.

18. *Deposits.*

None of the banks show time deposits separately from savings accounts. The amounts shown in the summary table for *(a)* and *(c)* were divided as follows between the Banco de la República and other institutions in the years under review.

	Pesos (000,000's).			
	Current Accounts		Time and savings accounts	
	Banco de la República	Other banks	Banco de la República	Other banks
1925	26 8	25.3	27.7	24.3
1926	34 7	30.1	31.5	29.5
1927	39.4	30.8	36.7	32 1
1928	40.6	29 9	41.2	35 9
1929	42.4	38.5	41 9	41.2
1930	41 9	41.2	45.5	48 3
1931	32 1	43.3	38.9	46 6
1932	32 2	44.0	37.7	44 9

A more detailed classification of the deposits of the Banco de la República is available. The composition of the amounts shown above for current accounts was as follows in the years under review (details for 1932 are not available) :

	Pesos (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Ordinary current accounts	9 3	11 4	15 1	15.4	13 0	13 6	14 7
Sight deposits	1 4	1 3	1 5	1 6	1.3	1 4	1 4
Official current accounts	10.4	13 7	15 6	18 2	19 2	17 0	6 1
Special Government deposit	0.1	1 3	0 9	0 8	1 5	—	—
Clearing House in custody	5 6	7.0	6 3	4.6	7.4	9.9	9 9
Total.	26.8	34 7	39 4	40.6	42.4	41.9	32.1

Current accounts consist of unutilised credits extended by the bank, while sight deposits represent funds lodged with it The special Government deposit arises from a law of 1924 requiring the bank to place 50 per cent of its net profits each year to the credit of the Government. The bank acts as clearing house for the other banks and the deposits maintained with it to effect settlements are shown in the last line above.

Time and savings deposits of the Banco de la República, as shown above, were composed as follows in the years under review :

	Pesos (000,000's).						
	1925	1926	1927	1928	1929	1930	1931
Savings accounts	5.0	5.5	6.6	7.4	37.0	37.8	35.5
Savings boxes	18.0	20.2	23.3	26.5			
Fixed-date savings accounts	2.6	3.3	4.3	4.6	4.7	4.8	3.4
Time deposits	2.1	2.5	2.5	2.8	3.2	2.9	
Total	27.7	31.5	36.7	41.3	44.9	45.5	38.9

The difference between the various types of savings accounts is not clear, but it would appear that the first two accounts shown above may, in practice, be drawn on at sight, while the fixed-date savings accounts and time deposits require notice of withdrawal and bear interest at a somewhat higher rate.

19 *Rediscounts and Other Borrowings.*

The Banco de la República rediscounts paper for the ordinary banks, but, in order to avoid double counting, these amounts have been excluded from the summary table. The amounts so excluded are as follows:

Pesos (000,000's)			
1925	2.6	1929	2.3
1926	2.4	1930	2.4
1927	3.1	1931	3.5
1928	4.6		

The amounts shown in the summary table for 1925 and 1926 represent rediscounts which the Banco de la República effected with other, presumably foreign, credit institutions.

VENEZUELA.

Introductory Note.

The first banks in Venezuela were organised in the latter part of the nineteenth century. Before that time, however, the large commercial houses transacted a considerable amount of banking business, and they are still important factors in collecting savings and business deposits in the country. The banking institutions proper may be divided into three groups · the ordinary domestic banks, the note-issuing banks and the foreign banks. With the exception of the Banco Agricola y Pecuario and the Banco Obrero,[1] all the national banks have been granted the privilege of note-issue. In order to obtain this privilege, it is necessary to secure the permission of the competent Minister of State, and to comply with certain regulations laid down in the General Banking Law of 1926. Thus, a note-issuing bank must have its head office in Venezuela, and its initial share capital must have been paid up in gold coin of legal currency. It may normally issue notes up to twice the amount of its paid-up capital, against a minimum gold reserve of 33 ⅓ per cent, and full supplementary cover consisting of legal tender coins and assets payable at sight or within thirty days. The Federal Executive may raise the gold reserve ratio, and may also authorise the banks to issue notes up to three times their paid-up capital, the excess issue to be covered 100 per cent by gold Banknotes are not legal tender ; but the banks are obliged to convert into coinage of legal currency the notes presented to them for exchange at their principal offices. In the case of liquidation, a bank's note-issues rank after mortgage debts and national treasury claims as a charge on its assets. The law provides that a bank of issue shall go into liquidation if it loses one-half of its capital, unless the partners or shareholders reconstitute the original capital. The most important banks of issue are the Banco de Venezuela, originally established in 1870, which operates largely as financial agent of the Government,[2] and the Banco de Caracas, established in 1890. Unlike most other Venezuelan banks, the latter has no branches or agencies, while the former has branches in all important towns and agencies in several smaller centres. These agencies do not, however, accept deposits except for the account of the Government , their principal function is to make collections and sell drafts.

The banks are required to keep a gold reserve of 10 per cent against deposit liabilities , of the remaining cover, two-thirds may be public debt, shares and bonds of Venezuelan companies, and real estate situated in Venezuela, and one-third sight deposits in banks abroad The extension of personal credit to officials and employees of the banks is forbidden. The security accepted for loans must exceed the value of the credit extended by at least one-third

The foreign banks operating in Venezuela are not allowed the privilege of note issue They have made a greater effort to attract deposits than the national banks, however, and the proportion of their deposits to credit extended appears to be considerably higher. On June 30th, 1929, deposits in the foreign banks amounted to 100 million bolivars, as compared with 130 million in the four note-issuing banks included in the summary table. The most important foreign banks operating in Venezuela are the Royal Bank of Canada, which has established several branches throughout the republic, and the National City Bank of New York In addition, the Hollandsch Bank voor West Indien and the Anglo-South American Bank carry on business in the country.

As mentioned above, commercial firms in Venezuela continue to accept deposits , interest is paid on these deposits at a somewhat higher rate than is allowed by the banks Six months' notice of withdrawal of funds may be required of depositors. To carry on this type of business, the permission of the Minister of Commerce is required ; it is usually granted in cases where the applying firm presents a favourable balance-sheet Deposits accepted by commercial firms or individuals constitute a first lien on assets in case of failure and take priority over all ordinary commercial accounts According to estimates made in 1929, at least 100 million bolivars was held on deposit with commercial firms in that year.

[1] Both these banks, which are prohibited by their charter from issuing notes, are Government-owned institutions established in 1928, the former to make first mortgage loans on agricultural lands to persons engaged in agriculture and the cattle-raising industry, and the latter to make loans to labourers for the purpose of enabling them to acquire homes.

[2] While formerly liberal use was made of a provision in the charter of the Banco de Venezuela entitling the Government to considerable credits, since the War the State's deposits with the bank have greatly exceeded its borrowings from that institution.

The use of cheques is little developed outside of the large towns, and no clearing house has as yet been established ; each bank clears its cheques directly with other banks.

The Venezuelan banks are required to submit to the Ministries of Finance and of Commerce, and to publish each month, a detailed balance-sheet on a form specified in the law of 1926. These returns do not, however, appear to be published in any official publication The attached summary table, which refers to the four note-issuing banks, is based upon the annual reports of these institutions. (As the 1932 balance-sheet of the Banco de Caracas has not been available, the 1931 figures for that institution are repeated in arriving at the totals for 1932. At the end of 1931, the Banco de Caracas accounted for about one-fifth of the total resources of the banks here considered.) The summary table is incomplete, excluding as it does the two non-note-issuing domestic banks and the foreign banks. On the basis of the indications available with regard to the two latter groups of institutions, the table would appear to cover about 90 per cent of the business of the domestic banks and 50 to 60 per cent of the business of all (including the foreign) banks operating in Venezuela.

Balance-sheet Summary.

1. *Cash*

This item is composed exclusively of gold and silver as follows

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Gold	83.3	79.9	82 9	91.7	94.4	78.0	77 7	77 6
Silver	6 1	10.4	16 0	7 2	19 5	8 9	13 9	22 7
Total	89 4	90 3	98 9	98.9	113.9	86 9	91 6	100.3

The banks also hold small quantities of nickel money. The greater part of the gold reserves are concentrated in the hands of the Banco de Venezuela The gold holdings of this institution amounted to 74 million bolivars in 1925 and 66 million bolivars in 1932 The banks' holdings of each other's notes are included in group 2 below.

2 *Other Items of a Cash Nature.*

The composition of this account is shown below :

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Bills receivable	0.3	0 2	0.2	0.2	0 2	0 4	0.4	0.4
Notes of other banks	0 6	0.4	1 2	1 3	2.8	2.5	5.3	3.8
Cheques on other banks	1 2	0 5	0.2	0 8	0.7	1 1	2.1	0.3
Total	2.1	1.1	1.6	2.3	3.7	4 0	7 8	4 5

3. *Bills discounted and bought.*

The following is the detail with regard to the composition of this account

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Sight bills drawn on the capital	0 7	0.1	0.6	0.5	1.3	1 9	2 9	2 7
Thirty-day bills drawn on the capital	1.5	3 1	2 2	4 2	5.2	5 2	4 5	4 6
Bills overdue	1.5	0.8	0.4	0 5	0.5	0 4	0.6	0.6
Bills drawn on the interior	—	2.2	4.3	2 2	2.6	3.9	4.1	2.6
Total	3.7	6 2	7.5	7.4	9.6	11.4	12.1	10.5

VENEZUELA. COMMERCIAL BANKS **Table 36 *(a)***

ACCOUNTS	SUMMARY OF POSITION AT THE END OF .							
	1925	1926	1927	1928	1929	1930	1931	1932
Number of Banks	4	4	4	4	4	4	4	4
ASSETS	Bolivars (000,000's omitted)							
1 Cash	89.4	90.3	98.0	98 9	113.9	86.0	91.6	100 3
(a) Gold, silver and small coins	—	—	—	—	—	—	—	—
(b) Inland notes and balances with Central Banks	—	—	—	—	—	—	—	—
2. Other Items of a Cash Nature	2.1	1.1	1.6	2.3	3.7	4.0	7.8	4.5
3. Bills discounted and bought	3 7	6 2	7.5	7 4	9 6	11.4	12.1	10 5
(a) Treasury bills	—	—	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—	—	—
4. Investments and Securities	6.5	6.7	6 8	6.7	6.7	6.9	6.2	8 6
(a) Government	—	—	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	29 6	9.8	20 6	16.6	29 3	6.6	7.8	1.8
(a) At home	16 0	1 8	1 7	0 2	0 6	1 8	4 5	0.7
(b) Abroad	13 6	8.0	18 9	16 4	28 7	4 8	3 3	1.1
7. Loans and Advances	43.1	64.4	69 2	64.2	70.7	65.3	71.7	73 5
(a) On current account	34 9	53 5	58 5	53 6	59 1	56 9	61 1	65.8
(b) Other	8 2	10 9	10 7	10 6	11 3	8 4	10 6	7.7
8. Cover for Acceptances	—	—	—	—	—	—	—	—
9. Premises, etc.	2 0	2.5	2 6	2.7	3 5	3 9	4.0	5.5
10. Sundry Assets	0 3	0.1	0.4	0 2	1.0	1 5	0.6	1.0
11. Total Assets	**176.7**	**181.1**	**207.6**	**199.0**	**238.4**	**186.5**	**201.8**	**205.7**
LIABILITIES.								
12. Capital paid up	23.8	25.4	25.4	25.4	27.0	27.0	27.0	27.2
13. Reserve Funds	10.2	11.3	13.0	14.5	16 0	18.0	19 5	20.6
14. Profit-and-Loss Account, Undivided Profits, etc	1.8	2.2	2.3	2.0	2.5	2.5	2.1	2.0
15. Notes in Circulation	45.2	57.0	51.8	57.7	57.5	67.9	61 6	60.6
16. Cheques and drafts, etc , in Circulation	0.2	0.4	0.2	0.2	0.2	0.4	1 2	0.9
17. Due to Banks (Correspondents)	—	3.1	0.1	5.4	0.8	3.3	0.7	1.0
(a) At home	—	3 1	0.1	5 4	0.8	3.3	0.7	1.0
(b) Abroad	—	—	—	—	—	—	—	—
18. Deposits	94 7	79.9	112 6	90 5	132.4	63.5	88.6	92.4
(a) Current accounts and sight deposits	—	—	—	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—	—	—	—
(d) Other deposits	—	—	—	—	—	—	—	—
19. Rediscounts and Other Borrowings	0.1	0.1	0 1	0.1	0.1	0.1	0.1	0.1
20. Acceptances and endorsements	—	—	—	—	—	—	—	—
21. Sundry Liabilities	0.7	1.7	2 1	3.2	1.9	3.8	1.0	0.9
22. Total Liabilities	**176.7**	**181.1**	**207.6**	**199.0**	**238.4**	**186.5**	**201.8**	**205.7**
23. Value of currency in cents of a U.S. dollar	19.2	19 1	19.2	19.4	19.3	18.5	15.5	16.0

4. *Investments.*

The amounts shown in the summary table refer exclusively to the Banco de Caracas except in 1932, when 2.4 million bolivars of mortgage bonds held by the Banco de Venezuela are shown separately in its balance-sheet; in other cases, investments are not shown separately.

Banco de Caracas:	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Mortgage bonds	5.7	5.9	6.4	6.3	6.3	6.8	6.1	8.5
Other domestic securities	0.8	0.8	0.4	0.4	0.4	0.1	0.1	0.1
Total	6.5	6.7	6.8	6.7	6.7	6.9	6.2	8.6

6. *Due from Banks (Correspondents)*

This account refers almost exclusively to the Banco de Venezuela

7 *Loans and Advances.*

The composition of this account was as follows in the years under review:

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Current account advances								
On real and personal security	23.6	35.6	36.8	37.5	40.5	43.2	45.1	52.0
On exclusively personal security	11.3	17.9	21.7	16.1	18.9	13.7	16.0	13.8
Total, current account loans	34.9	53.5	58.5	53.6	59.4	56.9	61.1	65.8
Other loans								
Loans up to 180 days	8.1	10.6	10.6	10.6	11.3	8.4	10.5	7.6
Loans more than six months	0.1	0.3	0.1	—	—	—	0.1	0.1
Total, other loans	8.2	10.9	10.7	10.6	11.3	8.4	10.6	7.7
Grand total	49.1	64.4	69.2	64.2	70.7	65.3	71.7	73.5

The share of the Banco de Venezuela in total loans and advances was 66 per cent in 1925 and almost 75 per cent in 1931

9 *Premises, etc*

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Buildings	1.2	1.5	1.4	1.5	1.7	1.6	1.6	1.7
Real estate	0.6	0.7	0.9	0.9	1.5	2.0	2.1	3.5
Furniture	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total	2.0	2.5	2.6	2.7	3.5	3.9	4.0	5.5

10. *Sundry Assets*

This item consists of provisional, inter-branch and miscellaneous accounts

11 and 22. *Total Assets and Liabilities.*

Excluding unpaid capital (see note to following group) and various nominal accounts.

12 *Capital paid up.*

In 1931, the paid-up capital of the Banco de Venezuela was 18 million bolivars, that of the Banco de Caracas 4.5 million and that of the other two banks combined 4.5 million bolivars. The unpaid capital of the Banco de Venezuela was 6 million and that of the Banco de Caracas 1.5 million in

each of the years under review ; the subscribed capital of the smaller institutions was fully paid up.

13. *Reserve Funds*

The amounts shown consist of various guarantee and insurance funds in addition to the ordinary reserve funds.

14. *Profit-and-Loss Accounts.*

The composition of this account is shown below

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Profit and loss	0 7	0.8	0 9	0 8	1.0	1.2	1.1	1.0
Unpaid dividends.	1 1	1.4	1.4	1.2	1.5	1.3	1.0	0.1
Total	1.8	2 2	2.3	2.0	2.5	2.5	2 1	2.0

15. *Notes in Circulation.*

The amounts shown in the summary table do not include the banks' holdings of their own notes, but do include the banks' holdings of one another's notes (shown separately in the note to group 2 above). Net circulation in hands of the public was as follows in each of the years under review ,

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Gross circulation	47.5	59.4	58 0	59.5	62 7	71 0	73 6	7 5.5
Less own notes held by banks	2 3	2 4	6 1	1 8	5 2	3.1	12 0	12.9
Net circulation.	45.2	57 0	51 9	57 7	57.5	67.9	61 6	60 6
Less notes of other banks held by banks	0.6	0 4	1 2	1 3	2 8	2 5	5 3	3 8
Net circulation in hands of public.	44 6	56 6	50 7	56 4	54.7	65 4	56.3	56.8

16. *Cheques and Drafts in Circulation.*

Amounts shown under this heading consist of cheques and drafts issued but not yet presented for payment.

17. *Due to Banks (Correspondents).*

This account refers exclusively to the Banco de Venezuela Amounts due to foreign banks are not shown separately

18. *Deposits.*

The composition of deposits is shown below ·

	Bolivars (000,000's).							
	1925	1926	1927	1928	1929	1930	1931	1932
Sight and less than 30 days .	17.0	23.8	21 0	21 0	20.5	29.3	35.8	34.1
With notice of 30-100 days .	-	—	0.2	0.2	0.2	0.2	0.2	0.2
National Government deposits	77 7	56 1	91 4	69 3	111 7	34.0	52 6	58 1
Total	94.7	79 9	112.6	90.5	132 4	63.5	88.6	92.4

The Banco de Venezuela holds almost the whole of the National Government deposits. Its share of the total private deposits is, as a rule, somewhat smaller than that of the Banco de Caracas. As mentioned in the introductory note, the banks are required to maintain a metallic cash reserve of 10 per cent against their deposit liabilities.

19. *Rediscounts and other Borrowings.*

These amounts refer entirely to the Banco de Caracas. No indication is given as to where these rediscounts are effected.

20. *Sundry Liabilities.*

The sums shown consist of provisional and miscellaneous accounts.

UNION OF SOUTH AFRICA.

Introductory Note.

The structure of the South African credit system was described in some detail in the first edition of this *Memorandum*, where an account was also given of its early history and development up to 1929 The most important banking developments since that year occurred in connection with the British abandonment of the gold standard in September 1931, and the South African abandonment in December 1932.

From September 1929 to September 1931, the loans and advances of the "trading" banks within the Union fell by slightly more than £5 million, or about 10 per cent During the same period, their deposits increased somewhat, a reflection of stagnant trade and the accumulation of idle balances When the United Kingdom abandoned the gold standard, there was a considerable export of capital from South Africa, an exchange pool was formed between the Standard Bank, Barclays (D C O) and the Treasury (which was later replaced by the Reserve Bank) The *Finance Emergency Regulations Bill* of November 1931 authorised the Government to suspend the gold standard at will, empowered the Reserve Bank to purchase the whole product of the gold mines and to lower its gold reserve ratio without penalty; and required the commercial banks to furnish the Department of Finance with certain particulars regarding their exchange position As a result chiefly of a severe reduction in imports, the favourable balance of trade was greatly increased and the exchange position eased On the other hand, the contraction in credit was accentuated, between September 1931 and September 1932, advances and discounts within the Union dropped by £7.7 million, or 17 per cent. Deposits fell very sharply (by £10 million) in the last months of 1931 Towards the end of December 1932, there was a fresh flight from the currency, which took the form both of purchases of sterling and hoarding of gold On December 28th, 1932, the gold standard was suspended and the South African pound pegged to sterling.

In the course of 1933, there was a considerable return flow of capital to South Africa, and a further increase in the value of exports. These factors are reflected in a rise in deposits with the commercial banks from £54 million at the end of 1932 to £75 million at the end of July 1933 The banks' cash holdings at the Reserve Bank rose from £4 million to £27 million in the same period; on the other hand, their advances and discounts fell from £38 6 million to £33 6 million

In the last issue of this *Memorandum*, reference was made to the agricultural loan companies set up under the authority of the *Agricultural Credit Act* of 1926 for the purpose of providing short-term credit facilities to the agricultural community These loan companies were abolished with the adoption of the *Financial Adjustment Act* of 1931, which provided, *inter alia*, that their assets and liabilities should be taken over by the Land and Agricultural Bank

The following table, given in continuation of that published in the last edition, compares the deposits (within the Union) of commercial banks with those of savings banks, etc

End of	Deposits, £(000,000's).						
	Commercial banks	Savings banks [1]		Total (2+3)	People's banks	Building societies [1]	Grand total (1+4+5+6)
		Post office	Private				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1925	60 1	6.2	1 4	67 7	0.1	3 8	71 6
1926	58.9	6.3	1 6	66.8	0 1	4 7	71 6
1927	59 4	6.4	1 8	67 6	0.1	5 8	73 5
1928	62 3	6 6	2 0	70.9	0 2	7 1	78 2
1929	60 6	6 7	2 2	69 5	0 2	7 7	77 4
1930	63 5	6 7	2 4	72 6	0 3	9 5	82 4
1931	56 6	6 7	.	.	0 3	.	
1932	54 4	6 8	.	.	0.3	.	

[1] March 31st of the following year.

It will be observed that the deposits in savings banks were better maintained than those in commercial banks in the course of the depression During the first seven months of 1933 (in which, as mentioned above, deposits in commercial banks rose to £75 million), deposits in post-office savings banks rose to £8.4 million

The attached summary table, based on official statistics, gives double columns for 1929 and 1932. The columns marked A in these years, and the single columns in other years, show the complete assets and liabilities, within and outside the Union, of all banks operating in South Africa; the columns marked B include only the accounts of offices situated within the Union.

UNION OF SOUTH AFRICA. COMMERCIAL BANKS. **Table 37 *(a)*.**

ACCOUNTS	SUMMARY OF POSITION AT THE END OF .						
	1925	1929		1930	1931	1932	
		A	B			A	B
Number of . Banks	5	7	7	7	7	8	8
Branches and Sub-Branches	623	.	666	679	690	.	671
ASSETS.	£ (000,000's)						
1. Cash	11.8	11.7	8.8	10.8	9.1	8.8	7.0
(a) Gold, silver and small coins	3.0	3.1	1 5	2 9	2.4	2.5	1.4
(b) Inland notes and balances with Central Bank	8 8	8.6	7.3	7.9	6.7	6.3	5.6
2. Other Items of a Cash Nature	4.5	4.1	—	5.5	3.0	5.8	—
3. Bills discounted and bought	22 1	21.5	13.1	17.6	11.8	13.3	7.5
(a) Treasury bills	—	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—	—
4. Investments and Securities	10.8	17.4	4.1	30.4	21.7	37.4	8.1
(a) Government	9 5	16 2	3 5	29 5	20 9	36 1	7 3
(b) Other	1 3	1 2	0.6	0.9	0 8	1 3	0 8
5. Participations	—	—	—	—	—	—	—
6. Due from Banks (Correspondents)	2.0	5.7	0.1	7.0	5.3	8.9	0.2
(a) At home	0 1	0.1	0.1	0 1	0 1	0.2	0 2
(b) Abroad	1 9	5 6	—	6 9	5 2	8 7	—
7. Loans and Advances	34.0	57.8	37.9	51 6	49.9	46.7	32.6
(a) On current account	32 7	55 9	36 8	50 0	47 7	43 8	31 6
(b) Other	1 3	1 9	1 1	1 6	2 2	2 9	1 0
8. Cover for Acceptances	—	—	—	—	—	—	—
9. Premises, etc.	2.3	3 7	2.1	3 8	3.6	4.1	2.7
10. Sundry Assets	9.8	9.4	1.2	6.1	2.6	4.1	2.0
11. Total Assets	**97.3**	**131.3**	**67.2**	**132.8**	**107.0**	**129.1**	**60.1**
LIABILITIES.							
12. Capital paid up	4.8	8 0	—	8.0	5.9	7.5	0.1
13. Reserve Funds	3 4	5.0	0.1	5.1	3.7	4.7	0.1
14. Profit-and-Loss Accounts, Dividend Accounts, etc.		—	—	—	—	—	—
15. Notes in circulation	0.8	1 5	—	1.4	0.9	1.0	—
16. Cheques and Drafts, etc., in circulation	2.2	2 4	0.1	1.6	1.2	1.7	0.1
17. Due to Banks (Correspondents)	1.0	1 2	0.5	1.2	1.0	1.5	0.4
(a) At home	0.3	0 5	0 5	0 6	0 3	0 4	0.4
(b) Abroad	0 7	0.7	—	0.6	0.7	1.1	—
18. Deposits	78.6	101.4	60.6	104.5	85.6	101.1	54.4
(a) Current accounts and sight deposits	43.7	50.2	30 5	47.7	39 7	47 7	23 3
(b) Savings accounts	3 4	6.9	3 5	7.1	6.6	7 8	3 5
(c) Time or fixed deposits	27.8	43 3	26 2	48.9	38 8	45 2	27 5
(d) Other deposits	3 7	1.0	0 4	0.8	0.5	0.4	0.1
19. Rediscounts and other Borrowings	—	—	—	—	—	—	—
20. Acceptances and Endorsements	—	—	—	—	—	—	—
21. Sundry Liabilities	6.5	11.8	3.9	11.0	8.7	11.6	5.0
22. Total Liabilities	**97.3**	**131.3**	**65.2**	**132.8**	**107.0**	**129.1**	**60.1**
23. Value of currency in cents of a U.S. dollar at the end of each year	483.5	483.3		483.2	471.4	301.2	

Balance-sheet Summary.

1. *Cash.*

The sums shown under *(a)* represent coin, gold certificates and bullion in hand and in transit

The amounts shown under *(b)* are composed of Reserve Bank notes, balances with the Reserve Bank and notes of other banks outside the Union, as follows :

	Notes of Reserve Bank	Balance with Reserve Bank	Notes of other banks outside the Union	Total
	£ (000,000's)			
1925	2.2	5.6	1 0	8.8
1929	2 4	4 9	1.3	8 6
1930	1.9	5 0	1 0	7.9
1931	1.6	4 3	0 8	6 7
1932	1 7	3 9	0 7	6 3

2 *Other Items of a Cash Nature*

This item consists of money at call

3 *Bills discounted and bought*

The official statistics do not distinguish between Treasury and commercial bills discounted, nor between domestic and foreign bills. The following statement shows the amount of paper under discount in the Union and abroad at the end of each of the years under review

	In the Union	Elsewhere	Total
	£ (000,000's)		
1925	11 2	10 9	22.1
1929	13.1	8.4	21.5
1930	8 9	8.7	17.6
1931	7 6	4.2	11 8
1932	7 5	5 8	13 3

4 and 5 *Investments and Securities. Participations*

The division of Government securities is shown below :

	Union Government	British and Colonial Governments	Total
	£ (000,000's)		
1925	3.6	5.9	9.5
1929	4 1	12.1	16.2
1930	6.1	23.4	29.5
1931	6.0	14.9	20.9
1932	8 1	28.0	36.1

6. *Due from Banks (Correspondents)*

Correspondents' accounts do not include inter-branch accounts or balances due from head offices abroad, the balance of these accounts is included in sundry assets (group 10) and shown separately in the note to that group

7 *Loans and Advances*

The division of loans into "secured" and "unsecured" in the years under review is shown below .

	Secured	Unsecured	Total
	£ (000,000's)		
1925	27 8	4.9	32.7
1929	46.2	9 7	55.9
1930	41 5	8 5	50.0
1931	39.9	7 8	47 7
1932	38 4	5.4	43.8

The amounts shown in the summary table under *(b)* consist of loans to the Government and to other public bodies.

10. *Sundry Assets.*

The composition of the sundry assets group in the years under review is shown below :

	Due by head offices and branches	Due to head offices and branches	(1) Balance due by head offices and branches	(2) Landed property other than bank premises	(3) Other assets	Total (1 + 2 + 3)
	£ (000,000's)					
1925	12.4	5.7	6 7	0 5	2 6	9 8
1929	9.6	3.9	5.7	0.3	3.4	9.4
1930	11 1	7 3	3 8	0 3	2 0	6.1
1931	3.4	2 7	0 7	0 4	1 5	2 6
1932	3.5	2.2	1.3	0.6	2 2	4.1

15. *Notes in Circulation.*

Notes in circulation represent issues made outside the Union by the branches of commercial banks. It will be recalled that the Reserve Bank has the exclusive right of note issue within the Union.

16. *Cheques and Drafts in Circulation.*

This item represents cheques and drafts which the banks issue in connection with the external trade of the Union.

INDIA.

Introductory Note.

The commercial banking system of India is composed of three main elements : the Imperial Bank of India (formerly the Presidency Banks), the Exchange Banks and the Indian Joint-Stock Banks. In addition, the indigenous bankers are of considerable importance in the financing of industry and trade. Among the classes of institution chiefly concerned with non-commercial banking may be mentioned savings banks, the postal savings system, agricultural banks and co-operative banks.

The first joint-stock banking institutions in India were established in the latter half of the eighteenth century. Until the first quarter of last century, however, the banking firms, many of which were established by the Calcutta agency houses, generally undertook trading activities as well. One of the most important of the early banks was the Bank of Calcutta, which was established in 1806 and received its charter of incorporation from the East India Company in 1809 ; subsequently, this bank was re-organised as the Bank of Bengal and became one of the Presidency Banks. The Bank of Bombay, second of the Presidency Banks, was founded in 1840,[1] and the third, the Bank of Madras, in 1843.

During this period, only the three *Presidency Banks* were subject to Government control The ordinary joint-stock banks did not always follow prudent banking practices and frequently advanced very large amounts to single firms, which became immobilised in time of economic difficulties. Certain institutions were, of course, more prudently managed, but of the joint-stock banks organised during the last century only one (the Chartered Bank of India, Australia and China) survived the crisis of 1913-1917.

In 1876, a new Presidency Banks Act [2] was passed, which remained in force until 1920, when the inconvenience of having three dominant banking institutions whose bank rates sometimes showed wide divergences was recognised, and the three Presidency Banks were amalgamated into one institution — the Imperial Bank of India. Under the terms of the amalgamation agreements, the three institutions were taken over as going concerns by the Imperial Bank of India and operated to some extent as independent units The shareholders in the Presidency Banks automatically became shareholders in the Imperial Bank, and additional capital was raised by public issue, bringing the total up to Rs.112.5 million.

In general, the *Imperial Bank* carries on business of the same type as did the old Presidency Banks — that is, it transacts ordinary commercial banking business under certain defined restrictions and acts as Government banker. As Government banker, the Imperial Bank remits funds on behalf of and makes advances to the Government ; it manages the public debt and holds the greater part of the public deposits. Its " public " or Government deposits amounted to about 10 per cent of its gross deposit liabilities at the end of 1929. It exercises also certain central banking functions. Thus, it holds deposits for other banks, which regard them as part of their cash balances, and makes advances to other banks under certain conditions. The bulk of its business is, however, transacted with private customers. The bank may not, as a rule, make loans for a period exceeding six months ; and it is also debarred from making advances on the security of immovable property. Mortgages on houses and lands may, however, be accepted as additional collateral when the original security is either a gilt-edged bond or goods pledged to the bank. Bills bought or discounted must bear the names of two persons or firms not in partnership ; temporary overdrafts to regular customers are permitted. The bank has an

[1] This bank went into liquidation in 1868, but a new Bank of Bombay was formed in the same year.

[2] Under this Act, the Government ceased to be a shareholder in the banks and gave up the right of appointing directors ; detailed regulations governed the business of the Presidency Banks and their relationship to the Government. The banks were allowed to hold a portion of the Government balances without payment of interest, but their business was restricted in certain ways. The Government asserted its right to make periodic inspections of the banks, which also undertook to publish balance-sheets at regular intervals. Branches might be opened by each bank within its Presidency area without special authorisation on the part of the Government. The banks were prohibited from contracting loans for a longer period than six months, from discounting one-name paper and from granting advances to a single firm or person in excess of Rs.600,000. The banks might not borrow or receive deposits outside India, nor were they allowed to discount, buy or sell bills of exchange or other negotiable securities unless they were payable in India.

office in London ; but it may undertake dealings in foreign exchange only on behalf of the Government. Accordingly, it is not authorised to rediscount bills of exchange for the exchange banks (see below), except when these are payable in India. Further, the bank is not authorised to borrow or receive deposits payable outside India or to maintain a foreign branch for these purposes. In 1930, its branches in India and Ceylon numbered 104.

The second important group of banking institutions in India is the *Exchange Banks*. All these banks have their head offices outside India, and their chief business consists in effecting transfers of funds to and from India. Certain of these banks — such as the Chartered Bank of India, Australia and China, the National Bank of India, the Mercantile Bank of India, the Eastern Bank, the Imperial Bank of Persia and the P. and O. Banking Corporation — do a considerable proportion (25 per cent or more) of their banking business in India, while the share of their business transacted in that country by others, such as the Comptoir National d'Escompte de Paris, the Yokohama Specie Bank, the National City Bank of New York, the Nederlandsche Handel-Maatschappij and the American Express Co., is slight.

The exchange banks finance the foreign trade of India, not only with their own capital, but also with funds received on deposit in India and elsewhere. These funds are attracted by means of interest rates somewhat higher than those offered by the Imperial Bank of India or the English joint-stock banks, though they generally stand lower than the rates of the Indian joint-stock banks. A certain proportion of these funds is employed in making loans and advances in India and elsewhere ; the exchange banks therefore compete to some extent with the less specialised Indian banking institutions. The bulk of their funds, however, is used for the discounting of bills arising out of foreign trade transactions.

As India's exports normally exceed her imports, the volume of bills drawn in India on London and other foreign centres generally substantially exceeds the amount drawn on India through the London offices of the Exchange Banks. Accordingly, the banks often find themselves in the position of having large balances in London ; investment is found for these funds through the purchase of " Council bills " issued by the Government of India, which is in constant need of funds to pay for goods and services in London. The exchange banks take up these " Council bills ", which are payable in India, and place an equivalent amount to the credit of the Government of India at the Bank of England. By means of telegraphic transfers, the banks are thus able to put an amount equal to the value of the Council bills taken up at the disposal of their Indian branches for the purchase of further bills. Accordingly, they save the delay and expense of shipping sovereigns or (silver) bullion from London to India.

Since 1923, the official banking statistics of India have distinguished between exchange banks (A) doing a considerable portion of their business in India — *i.e.*, having 25 per cent or more of their deposits in India — and exchange banks (B) which are merely agencies of large banking corporations doing a major portion of their business abroad — *i.e.*, having less than 25 per cent of their deposits in India. In the statement given on the following page, the capital and reserves and the deposits and cash balances (in India and elsewhere) of the exchange banks are shown for 1910 and selected post-war years.

It will be noted from this statement that the Indian business of the exchange banks as a whole constitutes an insignificant proportion of their total business. In recent years, the twelve banks shown under (B) have, indeed, held only a little more than 1 per cent of their total deposits and less than 1 per cent of their total cash reserves in India. In the case of the six banks shown under (A), the corresponding proportions were about one-third and one-fourth respectively ; thus, even the latter are essentially non-Indian banking institutions.

Most of the *Indian Joint-Stock Banks* are of comparatively recent origin — the oldest are the *Allahabad Bank*, the *Alliance Bank of Simla* and the *Oudh Commercial Bank*, founded in 1865, 1874 and 1881 respectively. Before the establishment of these institutions, the joint-stock banks were all under European control. These early banks had the right of note issue. After 1904, there was an outburst of banking activity and many joint-stock banks were established under Indian control. Many, however, attracted deposits by offering excessive rates of interest and made loans of a speculative character, frequently to enterprises owned or controlled by the directors. The majority of the Indian joint-stock banks kept a lower cash reserve against deposit liabilities than the Presidency Banks, and in certain cases dividends were paid out of capital when the banks were operating at a loss. During the banking crisis of 1913-1917, about one-third of the paid-up capital of these institutions was lost, the total number of failures amounting to eighty-seven. After this crisis, Government control of banking was extended, and each bank was required to submit a return showing the amount of debts due to the bank for which it was fully secured, those considered good but backed only by the debtor's personal security, and those considered bad or doubtful.

The most important of the eighty or more Indian joint-stock banks are the *Central Bank of India* and the *Bank of India*, both of Bombay. The paid-up capital and reserve funds of the former institution exceed Rs.25 million and those of the latter Rs.10 million. The *Central*

Exchange Banks (at the end of years indicated).

		1910	1920	1922	1923	1929	1931
Number of banks	A	—	—	—	5	6	6
	B	—	—	—	13	12	12
Total		11	15	13	18	18	18
		£ (000's)					
1. Paid-up capital and reserves	A	—	—	—	18.5	20.7	18.3
	B	—	—	—	121.6	206 9	168 7
Total		34 3	90 2	112 2	140.1	227 6	187 0
2. Deposits [1]:							
(a) In India *	A	—	—	—	38 5	34 6	33 3
	B	—	—	—	12 8	15.4	17 3[2]
Total		16 5	56 1	55 0	51 3	50 0	50 6
(b) Elsewhere	A	—	—	—	62 4	69 9	56 5
	B	—	—	—	832 5	1,444 2	1,074 4[2]
Total		134 2	513 7	527 3	894 9	1,514 1	1,130 9
3. Cash balances [1]:							
[1]*(a)* In India **	A	—	—	—	7 2	5 2	5 0
	B	—	—	—	3 7	1.6	1 6[2]
Total		2 9	18 9	12 1	10 9	6 8	6 6
(b) Elsewhere	A	—	—	—	9 4	4 9	10 6
	B	—	—	—	108 5	207 4	226 1[2]
Total		17.8	84.2	81 7	117 9	212 3	236 7
		Rupees (000,000's)					
* 2 *(a)* Deposits in India	A	—	—	—	513	461	444
	B	—	—	—	171	205	231[2]
Total		248	748	734	684	666	675
** 3 *(a)* Cash balances in India	A	—	—	—	98	70	66
	B	—	—	—	47	21	22[2]
Total		44	252	162	145	91	88

[1] Deposits and cash balances in India are converted into sterling at the rate of Re 1 = 1s. 4*d.* in 1910 and at the rate of Re 1 = 1s. 6*d.* throughout the post-war period, in accordance with the practice adopted in the retrospective tables of the official Indian banking statistics.

[2] Excluding the *Banco Nacional Ultramarino*, which has not published its report for 1931. In 1930, its total deposits amounted to less than £7 million and its cash to less than £6 million, only an insignificant proportion of these sums was held in India.

Bank of India was founded in 1911, under native management, to provide modern banking facilities for native business concerns. The Bank of India was founded in 1906 "under important Parsee auspices"; it has three local branches.

The official banking statistics subdivide the Indian joint-stock banks into two classes—namely, (A) those with paid-up capital and reserves of Rs.500,000 or over, and (B) smaller banks with capital and reserves of between Rs.100,000 and Rs 500,000. As will be seen from the following statement, the latter have increased more rapidly in number during the last decade; but their relative importance still remains slight. Even the former are, on an average, small credit institutions in comparison with medium-sized banks in most Western countries. Thus, domestic commercial banking is as yet but little developed in India.

Indian Joint-stock Banks.

Year	Number of Banks			Capital and Reserves			Deposits			Average Deposits		
	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total
				Rupees (000,000's)								
1920	25	33	58	109	8	117	712	23	735	28	0 7	14
1930	30	54	84	119	14	133	632	43	675	21	0 8	8

There are no legal minimum capital requirements for joint-stock banks, and some institutions have been established with paid-up capital and reserves of less than Rs.100,000 (£7,500 at par), but these are not recorded in the statistics.

In the census of India for 1921, the number of bankers in India (including bank managers, money-lenders, exchange and insurance agents and money-changers) was estimated at slightly less than 1,500,000. The *indigenous bankers* often engage in trade as well as in banking. They operate chiefly with their own means and in most cases do not encourage deposits. They play an important part in financing the moving and storing of crops by means of advances to agriculturists against *hundis* or drafts drawn by the latter These *hundis* are sometimes rediscounted with the Imperial Bank or with the Indian joint-stock banks, and the rate is partly governed by the bank rate For the most part, however, except when bank rates are exceptionally low, any rediscounting of *hundis* which takes place is done with other indigenous bankers In times of financial stringency, the rate of interest charged may rise considerably higher than the bank rate. The indigenous bankers, or *schroffs* as they are called in the Presidency towns, seldom discount European paper and do not purchase foreign or sterling bills, nor do they under ordinary circumstances make loans on the security of Government or similar paper. In slack seasons, however, they may make short-period investments in Government paper In addition to making loans through the discount of *hundis*, the *schroffs* also make advances against gold and silver bullion and on the general security of the borrower, with whom their personal relationship is always very close. In many cases, these loans are for consumption purposes, and the rate of interest charged on such advances is generally much higher than the commercial rate.

Government savings banks were originally established in the Presidency towns between 1833 and 1835, after the banking failures of 1832 In 1870, district savings banks were established, and in 1882 and 1883 *post office savings banks* were set up In 1896, the post office savings banks took over the district banks and the savings bank business of the Presidency Banks. The Government does not hold any specific reserve against deposits in the postal savings system, these deposits are regarded as unfunded debt and may be used for capital expenditure. Interest is allowed on both call and time deposits. Deposits may not exceed 750 rupees per individual per year, and the balance on deposit may not exceed 5,000 rupees. At the end of 1929, depositors in the 12,684 post office savings banks numbered over 2 million persons and total deposits exceeded 340 million rupees, including accumulated interest of 10 millions The system undertakes to transfer small sums from place to place by money order.

Co-operative credit societies have existed in India since 1904, and their scope and importance were extended by the Co-operative Societies Act of 1912, which provided for the formation of Central Co-operative Banks — *i.e.*, banks created by a union of primary societies and/or primary societies and individuals Their purpose was to attract deposits from non-agriculturists to supplement the funds raised from this class by the primary societies, to distribute funds as required among the various primary societies, and to exercise a supervision over them The co-operative banks do not discount their agricultural paper with the Imperial or joint-stock banks, but these institutions grant them advances against their own notes or on the security of prominent men connected with the co-operative banks The following statement shows the progress of co-operative banking in India during the past decade. As in the case of the Indian joint-stock banks, the official statistics divide the co-operative banks into two classes (A) those having capital and reserves exceeding Rs.500,000, and (B) those having capital and reserves between Rs 100,000 and Rs 500,000

CO-OPERATIVE BANKS

Year	Number of Banks			Capital and Reserves			Deposits and Borrowing			Loans outstanding			Cash Balance		
	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total
							Rupees (000,000's)								
1920-21 . .	5	36	41	4	7	11	23	25	48	23	28	51	0 4	1 3	1.7
1925-26 . .	10	104	114	9	20	29	54	93	147	45	88	133	2 7	6 2	8 9
1930-31 . .	26	170	196	24	34	58	124	177	301	103	140	243	8 5	6 7	15 2

It will be observed that, whereas the figures for Indian joint-stock banks point to a relative stagnation in the development of domestic commercial banking, striking progress of co-operative banking has taken place during the last decade. India is chiefly an agricultural country; the co-operative banking system, which is almost exclusively directed towards providing agricultural credits and which is as yet in the first stages of development, is therefore likely long to remain

the most progressive branch of domestic banking. The smaller institutions have increased, both in number and relative importance, more rapidly than the larger ones. As the smaller co-operative banks frequently place part of their funds with the larger banks, a certain amount of double counting is involved in the figures above ; but it is believed that this roughly compensates for the omission from the statistics of institutions with capital and reserves of less than Rs.100,000. As a rule, even the larger co-operative banks do not compete with the institutions carrying on commercial banking proper.

The relative importance of the various classes of institution in the Indian banking system will be seen from the following statement, which shows the volume of deposits in the different groups mentioned. In addition to postal savings accounts, figures are also given for five-year cash certificates outstanding, as these, to a considerable extent, take the place of savings deposits in other countries.

Year	Commercial Banks				Savings Banks, etc				Grand total (d) + (h)
	Imperial Bank (excluding "Public deposits")	Exchange banks (deposits in India)	Indian joint-stock banks	Total (a)-(c)	Co-operative banks (deposits and borrowings	Postal savings banks	Postal five-year cash certificates	Total (e)-(g)	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Rupees (000,000's)								
1920	780	748	735	2,263	48	229	48	325	2,588
1921	658	752	802	2,212	65	223	43	331	2,543
1922	570	734	650	1,934	84	232	31	347	2,301
1923	742	684	562	1,988	100	248	84	432	2,420
1924	767	706	552	2,025	125	256	131	512	2,537
1925	778	705	579	2,062	147	272	210	629	2,691
1926	739	715	632	2,085	190	295	267	732	2,837
1927	721	688	643	2,052	220	327	307	854	2,906
1928	713	711	664	2,088	239	345	323	907	2,995
1929	716	666	663	2,045	270	371	350	991	3,036
1930	766	681	675	2,122	301	370	384	1,055	3,177
1931	638	675	661	1,974	318	381	446	1,145	3,119

Whereas total commercial bank deposits shown in column (*d*) were somewhat reduced in the years of the early post-war crisis and have since remained roughly stationary, savings deposits and similar accounts included in column (*h*) have increased without interruption since 1920. The share of the savings institutions in the general total given in column (*i*) rose from about 12 per cent in that year to 37 per cent in 1931. As a rule, the exchange banks and the larger Indian joint-stock banks hold some proportion of their cash balances on deposit with the Imperial Bank. These inter-bank deposits, which are not shown separately in the balance-sheets of that bank, are included in column (*a*) above. A certain though not substantial double accounting is involved in column (*d*) and also in column (*i*), partly on this account and partly owing to a similar practice being applied by some of the larger co-operative banks in regard to the commercial banks. Of total net deposits in 1930, which are thus slightly lower than the figure shown in column (*i*), co-operative and savings bank deposits, including Postal Cash (Savings) Certificates, constituted somewhat more than one-third, the remainder being fairly equally distributed among the Imperial Bank, the exchange banks and the Indian joint-stock banks. The figures for 1931 and such provisional figures as are available for 1932 point to an accelerated decline in the relative importance of commercial bank deposits in the course of the present economic depression

The available information on the number of bank offices, including agencies, of the several categories of commercial banks since 1926 has been summarised in the official statistics as follows :

Number of Head Offices, Branches and Agencies

Year	Imperial Bank	Exchange banks	Indian joint-stock banks	Total
1926	169	77	484	730
1927	168	88	528	784
1928	170	86	554	810
1929	170	86	637	893
1930	167	88	683	938

The series shown for the Imperial Bank includes the three local head offices at Calcutta, Bombay and Madras. None of the exchange banks has its head office in India. The rapid increase in the number of bank offices and agencies of the Indian

joint-stock banks is more apparent than real, and would appear to be due mainly to the fact that the information available on this subject is gradually becoming more complete. This series includes a large proportion of head offices, the number of which rose from 119 in 1926 to 171 in 1930, while the number of reporting joint-stock banks whose deposits are shown in column (c) of the deposit statement above was 75 and 84 respectively in the two years. Thus, the known number of non-reporting Indian joint-stock banks is very considerable. These banks are, however, practically all very small and thus, even collectively, of slight importance. Their exclusion from the statistics does not therefore invalidate to any appreciable extent the deposit figures shown above.

The accounts of the indigenous " bankers " are entirely ignored in the banking statistics. Although the greater part of these so-called bankers are small-scale moneylenders (" merchant bankers ") who do not receive deposits, those who do are still very numerous, and the aggregate amount of the funds entrusted to them is believed to exceed by far the amount of ordinary bank deposits. Most of these funds, however, which largely belong to religious institutions or represent family fortunes that have accumulated for a very long time, are administered like trustee deposits, and yield a very low rate of interest. Thus, they are rather of the nature of permanent investments and have very little in common with such bank deposits as serve as a basis for commercial credits.

Apart from the *Imperial Bank Act* and the *Co-operative Societies Act* referred to above, no special banking legislation exists in India. The banks are registered under the general commercial law *(Indian Companies Act)*, which does not contain any specific provisions relating to banking.[1] Thus, the banks are under no legal obligation to submit complete balance-sheets or reports on their operations to any central authority. Voluntary returns covering certain principal accounts are, however, submitted by a large number of banks, including all the more important ones, to the Department of Commercial Intelligence and Statistics, which summarises these accounts in an annual publication : *Statistical Tables relating to Banks in India* (published eighteen months to two years after the date to which they relate). Separate summaries are given for each category of banks. As these summaries do not permit of adaptation to the standard forms applied throughout the present publication, they are reproduced approximately in their original form in Table 38 *(a)* below In the case of the **Exchange Banks**, only the accounts relating to operations in India are included and no distinction is made between Class A and Class B banks (see statement on page 320 above) Similarly, no distinction is made between larger and smaller Indian joint-stock banks. For reasons already indicated, the aggregates shown at the bottom of the table involve some double counting, which it is not possible to eliminate on account of insufficient specification of the basic data. Demand and time deposits are not shown separately

The official statistics do not contain any profit and loss summaries

[1] In 1929, an Indian Central Banking Enquiry Committee was set up which issued a report in 1931. The terms of reference of this Committee and the main proposals contained in its report, which have not as yet been carried into effect pending a final solution of the Central Reserve Bank question, are summarised at the end of this chapter.

INDIA. ALL COMMERCIAL BANKS. **Table 38 *(a)*.**

SUMMARY OF CERTAIN ACCOUNTS.

	Rupees (000,000's)						
	1925	1926	1927	1928	1929	1930	1931
Imperial Bank of India:							
Capital paid up	56	56	56	56	56	56	56
Reserve and rest	49	51	52	54	55	55	51
Deposits	833	804	793	793	792	840	722
Thereof { Public	55	65	72	80	76	74	83
Thereof { Private	778	739	721	713	716	766	639
Cash balances	175	209	109	106	140	130	110
Exchange Banks							
Number of banks	18	18	18	18	18	18	17[1]
Deposits[2]	705	715	688	711	667	681	675
Cash balances[2]	94	107	81	84	91	77	88
Indian joint-stock banks							
Number of banks	74	75	77	74	78	84	84
Capital paid up	75	76	77	76	80	83	86
Reserve and rest	43	45	46	47	41	49	47
Deposits[2]	579	631	643	663	663	675	661
Cash balances[2]	108	99	82	87	95	82	82
All reporting banks							
Number of banks	93	94	96	93	97	103	102
Deposits	2,117	2,150	2,124	2,167	2,122	2,196	2,058
Cash balances	377	415	272	274	326	289	280
Value of currency in cents of a U.S. dollar	36 9	36 2	36 7	36 5	36 4	35 9	25 4

[1] Excluding the *Banco Nacional Ultramarino*, which has not published its report for 1931, see footnote 2 on page 320.
[2] Accounts in India only.

THE INDIAN CENTRAL BANKING ENQUIRY COMMITTEE

In 1929, the Government of India set up a Banking Enquiry Committee with the following terms of reference

"To investigate past records and existing conditions of banking in India, including the organisation of the Money Market, and to consider the steps, if any, that are feasible and desirable under the following main headings:

"*(a)* The development of banking with a view to the expansion of indigenous, co-operative and joint-stock banking, with special reference to the needs of agriculture, commerce and industry,

"*(b)* The regulation of banking with a view to protecting the interests of the public; and

"*(c)* Banking education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking."

The principal recommendations of this Committee may be briefly summarised as follows:

(a) The establishment of a Central or Reserve Bank for the mobilisation of the banking and currency reserves of India and for increasing the volume of credit available for trade, industry and agriculture.

The removal of the restrictions on the foreign exchange business of the Imperial Bank of India, as being in the interest of development of India's foreign trade. The creation of a new exchange bank, in the event of no satisfactory arrangement being made between the proposed Reserve Bank and the Imperial Bank of India regarding the conduct of exchange business, or if the latter should find itself unable to fulfil its obligations regarding foreign trade within a stipulated period. For the development of the Indian bill market, the Reserve Bank to be permitted to purchase, sell and rediscount rupee import bills. The formation of an all-India Bankers' Association, including as members, not only the three classes of banks, but indigenous bankers as well.

(b) For the regulation of banking, two principal recommendations are made: (1) the promulgation of a special Bank Act comprising provisions governing all banking institutions, and (2) the amendment and amplification of the Indian Companies Act so as to provide for additional matters which require to be dealt with by legislation.

(c) For the development of banking education, the Universities are urged to give greater facilities for the study of banking.

AUSTRALIA AND NEW ZEALAND.

General Introduction.

The connection between the commercial banking systems of Australia and New Zealand is very close ; of the six banks operating in New Zealand, four are primarily Australian institutions, and one of the two New Zealand establishments also carries on operations in Australia. All the important banks operating in both countries have either their head offices or important branches in London, where large balances accrue and are drawn upon in financing the external trade of the two Dominions , in the annual reports of these banks, however, no distinction is made between assets held in or liabilities due by the Australian and New Zealand offices, on the one hand, and the accounts relating to the offices situated outside each Dominion, on the other ; nor are inter-branch balances due from non-Dominion to Dominion offices or those due by Dominion to non-Dominion offices shown separately The official banking statistics published in Australia and in New Zealand include only the accounts of the offices situated within each Dominion and are, therefore, not sufficiently complete to give an idea of the true position of the banks as a whole, more especially as the greater part of the aggregate capital and reserves is shown in the accounts of London head offices which are excluded from the Dominion statistics. The banks having their head offices outside either Dominion, and thus, from the point of view of accountancy, holding their capital and reserves abroad, are not required specially to earmark any part of these funds for the account of the branches in the Dominions where in fact the bulk of their operations are carried on.

For these reasons the plan is followed, in the present chapter, of first treating the Australian and New Zealand banking systems individually and then showing the movement in banking in the two Dominions as a whole Separate summary tables are given for each country, with detailed notes to each table , in each case these tables show only the assets and liabilities of the banking offices within the Dominion and exclude completely capital and reserve accounts A separate summary table for Australia and New Zealand combined is then presented , this table, which is based on the complete annual balance-sheets of all important banks, covers all business in Australia, New Zealand, London and elsewhere and also includes capital and reserve accounts. A summary table of the profit and loss accounts of these banks, based on statistics published in the *Economist*, is also shown

AUSTRALIA.

Introductory Note.

Banking in Australia during the course of the economic depression displays several features of particular interest. Perhaps the most important of these is the development of the central banking functions of the Commonwealth Bank As pointed out in the last edition of this *Memorandum*, the Commonwealth Bank is an institution of mixed character , it acts as Government banker, controls the note issue, is authorised to rediscount bills for the " trading " banks and, in addition, accepts deposits from, and makes direct advances to, the business community. Its accounts are not included in the summary table presented in this chapter, nor in that on Australia and New Zealand combined.

The Australian balance of payments, like that of other producers of raw materials, was very adversely affected by the fall in prices in recent years. Heavy exports of gold took place in October 1929, and in the following month the Commonwealth Bank was authorised to acquire all of Australia's gold supplies The exchange fell below gold export point early in 1930. In the year ending June 30th, 1930, the Commonwealth Bank shipped abroad gold to the value of £26.5 million, of which the greater part was acquired from the trading banks under the legislation mentioned Even these shipments were not sufficient to satisfy the demand for foreign currencies , it was necessary to ration the foreign exchange available, and an arrangement was reached between the Commonwealth Bank and the trading banks to pool their sterling resources in order to ensure that priority would be given to Government requirements for interest on sterling debt, etc

These difficulties continued into 1931. Early in that year, one of the trading banks broke away from the exchange pool, and the Australian pound, which had hitherto been maintained at a fictitious parity through rationing, was allowed to depreciate.

In the year ending June 30th, 1931, the gold reserves of the Commonwealth Bank fell by £4.7 million and those of the trading banks from £4.6 million to £2 million. The position of the public finances became particularly strained during this period and deficits were financed by the issue of Treasury bills to the Commonwealth Bank. In April 1931, the Commonwealth Bank intimated to the Loan Council that it could not continue to provide credits beyond a stated limit to the National and the State Governments. The Loan Council appointed a committee of experts, who drew up a scheme of retrenchment which was subsequently adopted at a conference of State and Federal Ministers, and came to be known as the Premiers' Plan. One of the features of this plan was the flotation of an Internal Conversion Loan of £556 million, by means of which the average nominal rate of interest on long-term Government debt was reduced from 5½ to 4 per cent. The actual yield on long-term Government securities maturing within fifteen years fell from 9 per cent prior to the conversion to 5 per cent six months later.

When Great Britain abandoned the gold standard in September 1931, there was a considerable return flow of capital to Australia. The Australian pound was maintained at a discount of 30 per cent below sterling, and the trading banks were offered a great deal more sterling than they could sell. At the beginning of December 1931, the Commonwealth Bank announced that it would buy sterling from the public without restriction at rates to be fixed by it, and that it would also buy from the banks any surplus accumulated by them. The rate was fixed at £125 Australian to £100 sterling. Until 1931, the Commonwealth Bank had been obliged to keep a gold reserve of 25 per cent against notes; in 1931 this was lowered to 15 per cent, and in June 1932 the Act was again amended to allow the bank to hold its reserve in either gold or sterling.

Attention may now be directed to the development of commercial bank accounts in Australia during the past few years. The following table summarises the principal assets and liabilities, within Australia, of the principal trading banks, the accounts of the Commonwealth Bank are not included.

Accounts	£ (000,000's)				
	June 1929	June 1930	June 1931	June 1932	June 1933
1. Cash:					
(a) Coin and bullion	25 2	4 6	2 0	2 0	1 9
(b) Australian notes	12 8	16 1	19 0	18 7	15 8
(c) Balances with Commonwealth Bank	9 2	16 9	32 2	29 1	23 6
2 Government and municipal securities	22 9	19 3	21 5	43 7	52 8
3 Discounts, advances, etc	223 1	262 8	241 3	229 3	234 1
4 Deposits					
(a) Interest-bearing	178 9	178 8	180 4	189 9	185 7
(b) Non-interest-bearing	107 8	89 8	81 1	87 1	80 0

A striking feature of the above table is the change in the composition of the banks' cash holdings. In recent years, practically all of their cash reserves have taken the form of Australian notes and balances at the Commonwealth Bank, while in 1929 more than half took the form of coin and bullion. Holdings of notes have not shown great variation in recent years, but balances with the Commonwealth Bank have increased considerably. This illustrates the growing importance of the central banking functions of this institution, to which reference has already been made. The increase in total cash holdings between June 1930 and June 1931 is to be considered in conjunction with the Commonwealth Bank's financing of budgetary deficits through the purchase of Treasury bills — a form of central bank credit expansion. Discounts, advances, etc., rose by £40 million between 1929 and 1930, chiefly due to assistance given by the trading banks to the States and municipalities; they fell by about the same amount in the next two years. Interest-bearing deposits moved but little from 1929 to 1931 and current accounts (*4b*) contracted quite sharply. This contraction came to an end late in 1931, which would appear to be the result of the participation of the Commonwealth Bank in the programme of credit expansion agreed to in the Premiers' Plan. The Commonwealth Bank has complete discretion with regard to the amount of Treasury bills it will take up. In February 1933, an agreement was reached between the bank and the Loan Council whereby necessary budgetary deficits should be financed through the issue of Treasury bills, while public works should be financed through loan issues.

The increase in the trading banks' holdings of Government securities after 1931 is due to their purchases of Treasury bills, which are classified under the former heading in the official statistics, they account for over £27 million of the total shown for item 2 in both 1932 and 1933. These bills are discountable at the Commonwealth Bank; consequently the trading banks have been able to

let their cash reserves run down. In the year ending June 1933, the banks increased their discounts and advances slightly ; sight deposits also went up, while fixed deposits declined, indicating a more active use of deposit accounts

During the past two years, interest rates in Australia have been considerably reduced The rate of Treasury bills, which stood at 6 per cent at the beginning of 1931, was reduced by successive stages to 3¼ per cent at the beginning of 1933 and 2½ per cent at the middle of that year. The rate on time deposits was brought down to 2 per cent on three-month deposits and 3 per cent on two-year deposits. Overdraft rates were also reduced, the maximum for loans to primary producers being 5½ per cent at the middle of 1933.

The following table enables a comparison to be made between the movement of deposits in savings banks, commercial banks and the Commonwealth Bank of Australia :

End of June	£ (000,000's)						
	Commonwealth Savings Bank	Other savings banks	Total savings banks (*a*+*b*)	Commercial banks	Total (*c*+*d*)	Commonwealth Bank	Grand total (*e*+*f*)
	(*a*)	(*b*)	(*c*)	(*d*)	(*e*)	(*f*)	(*g*)
1928	41 8	141 3	183 1	250 6	433 7	35 2	468 9
1929	50 1	175 4	225 5	302 3	527 8	43 9	571 7
1930	49 6	167 9	217 5	285 2	502 7	42 8	545 5
1931	19 5	143 9	193 4	278.5	471.9	57.7	529 6
1932	115 9	82 1	198 0	284 1	482 1	63 6	545 7

The sudden rise in 1932 in the deposits of the Commonwealth Savings Bank, which was operated as a department of the Commonwealth Bank until 1928, is to be accounted for by its absorption of the Government Savings Banks of New South Wales and Western Australia, which became involved in difficulties and were forced to suspend payments late in 1931 Between the middle of 1929 and the middle of 1932, deposits in all savings banks (column *c)* fell by £28 million, or 12 per cent, considerably more than deposits in commercial banks, which declined by £18 million, or 6 per cent. The rise in deposits in the Commonwealth Bank is largely to be attributed to the commercial banks' sales of gold to that institution and their increased tendency to keep their cash reserves in the form of deposits with it.

The figures shown in the summary table for Australia differ slightly from those published in the last edition ; they cover only the principal trading banks, which account, however, for over 95 per cent of the total banking business of Australia (excluding the Commonwealth Bank). They are based on official statistics, as reproduced in the *Australasian Insurance and Banking Record.* The figures relate only to assets and liabilities within Australia Most of the banks carry on business elsewhere as well. The proportion of capital resources devoted to the Australian business is not shown For these reasons, total assets and liabilities, as given in the summary table, do not balance.

Balance-sheet Summary.

1. *Cash.*

The amounts shown in the summary table under *(a)* consist of (1) coined gold and silver and other metals and (2) gold and silver in bullion or bars to the following amounts ·

June quarter	£ (000,000's)		
	Coin	Bullion	Total
1925	22.5	4.5	27.0
1929	25.1	0 4	25 5
1930	4.5	0.1	4.6
1931	1.8	0.2	2.0
1932	1.7	0 3	2 0
1933	1.6	0.3	1.9

The sums shown under *(b)* consist of Australian notes issued by the Commonwealth Bank and deposits held by the joint-stock banks with that Bank. The amounts due by the Commonwealth Bank to other banks are shown below for the period under review ·

June quarter	£ (000,000's)
1925	3.9
1929	9.2
1930	16.9
1931	32.2
1932	29.1
1933	23.6

Small balances due to savings banks may also be included in the above figures.

ACCOUNTS	SUMMARY OF POSITION : AVERAGES FOR QUARTER ENDING JUNE 30TH :					
	1925	1929	1930	1931	1932	1933
Number of Banks	14	11	11	11	10	10
ASSETS	£A. (000,000's omitted)					
1. Cash	50.1	47.2	37.6	53.2	49.8	41.3
(a) Gold, silver and small coins	2.7 0	2.5.2	1.6	2.0	2.0	1.0
(b) Inland notes and balances with Central Bank	23 1	22 0	33 0	51 2	47 8	39 4
2. Other Items of a Cash Nature	2.1	2.1	1.9	1.3	1 3	1.4
3. Bills discounted and bought	—	—	—	—	—	—
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—
4. Investments and Securities	12 0	23 3	10.3	21 5	43.7	52.8
(a) Government	—	—	—	—	—	—
(b) Others	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	3 5	3.4	4.1	2.9	3.8	3 7
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
7. Loans and Advances	195.3	248.2	262.8	241 3	229.3	234.1
(a) On current account	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
8. Cover for Acceptances	—	—	—	—	—	—
9. Premises, etc.	6.2	7.1	7 6	8 0	8.0	8.0
10. Sundry Assets	—	—	—	—	—	—
11. Total Assets	**270.1**	**331.3**	**333.3**	**328.2**	**335.9**	**341.3**
LIABILITIES						
12. Capital paid up	—	—	—	—	—	—
13. Reserve Funds	—	—	—	—	—	—
14. Profit-and-Loss Accounts, Undivided Profits, etc	—	—	—	—	—	—
15. Notes in Circulation	0.2	0.2	0.2	0.2	0.2	0.2
16. Cheques and Drafts in Circulation	2.6	3 7	2.8	2 3	2.1	2.1
17. Due to Banks (Correspondents)	3.2	2.4	2.7	1.5	1 3	1.2
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	248.5	296.2	270.0	262.8	280 0	277.6
(a) Current accounts and sight deposits	108.4	107 8	89.8	81.1	87 1	89 0
(b) Savings accounts	—	—	—	—	—	—
(c) Time or fixed deposits	140 1	180 4	180 2	181.7	192.9	188.6
(d) Other deposits	—	—	—	—	—	—
19. Rediscounts and Other Borrowings	—	—	—	—	—	—
20. Acceptances and Endorsements	—	—	—	—	—	—
21. Sundry Liabilities	—	—	—	—	—	—
22. Total Liabilities	**254.5**	**294.5**	**275.7**	**266.8**	**293.6**	**281.1**
23. Value of currency in cents of a U.S. dollar at the end of June of each year	486.64	481.30	457.14	373.38	287.33	339.42

2. *Other Items of a Cash Nature.*

This item consists of the banks' holdings of cheques and drafts on other banks.

3. *Bills discounted and bought.*

The bill portfolio is not shown separately in the official statistics, but is included under loans and advances (see note to group 7 below).

4. *Investments and Securities.*

The amounts shown in the summary table include the banks' holdings of Treasury bills, shown separately only by certain banks in 1932 and 1933, for those banks they amounted to £27.4 million in both years

7 *Loans and Advances*

This item includes discounts, advances, overdrafts and all other assets not otherwise enumerated held by the banks in Australia.

9 *Premises.*

This item includes unknown amounts of landed property which the banks have acquired through the foreclosure of mortgages, in addition to that used in its own service

11. *Total Assets*

These refer only to business transacted by the Australian offices of the banks. The official statistics exclude cover for acceptances, letters of credit and all transitory as well as certain internal bank accounts which may be included in the complete balance-sheets published by the banks. All these items are accordingly excluded from the totals shown in the summary table.

12, 13 and 14 *Capital, Reserves and Undivided Profits.*

A special statement is periodically published showing the capital, reserves, etc, of the banks operating in Australia as at June 30th of each year No division is required or made, however, between the capital and reserves relating to the banks' Australian business *(i.e.,* that covered by the official quarterly banking statistics) and the capital and reserves relating to the business transacted by the banks' head offices in London or their branches in New Zealand and elsewhere. Figures for capital and reserves are therefore not given in the quarterly returns nor in the attached summary table based on them.

The paid-up capital and reserves, etc., of all the Australian trading banks with head offices in either Australia or London were as follows in the years under review

End of June	£ (000,000's)	
	Capital	Reserves and undivided profits
1929	44.6	35.0
1930	44.6	36.2
1931	44.9	36 8
1932	44.0	35.4
1933	44.0	35.4

These figures do not include the capital and reserves of the foreign banks operating in Australia

15. *Notes in Circulation*

The trading banks lost the right of note-issue in 1910. Practically the whole of the amounts shown for the years under review represent notes which have been lost, etc, and never presented for redemption.

16 *Cheques and Drafts in Circulation*

The sums shown under this heading consist of cheques and drafts issued by the banks in connection with both external and inter-State trade.

18 *Deposits.*

In the official statistics, sight and time deposits are distinguished as "non-interest-bearing" and "interest-bearing" deposits respectively. The amounts shown in the summary table as time deposits include small amounts of perpetual deposit stock issued by certain banks. The figures shown do not include deposits made in branches of the Australian banks in London and elsewhere abroad

22. *Total Liabilities.*

For the reasons indicated above, total liabilities do not correspond with total assets (see notes to groups 11 and 12, etc.).

NEW ZEALAND.

Introductory Note.

The salient features of the development of banking in New Zealand since the publication of the last issue of this *Memorandum* are (1) the adverse balance of payments until the latter part of 1932 which is clearly reflected in the banks' accounts; (2) the substantial decline in the effective use of bank credit; (3) the increased assistance given by the banks to the Government; and (4) the recent legislation establishing a Reserve Bank.

In common with other exporters of raw materials, New Zealand has suffered very seriously from the price decline of recent years. Export values were greatly diminished and large fixed payments had to be made in London for the service and redemption of debt. The New Zealand exchange fell below the gold export point early in 1930: by September 1931, sterling was quoted at a premium of 10 per cent, and, when the United Kingdom abandoned the gold standard, this rate was maintained. In December 1931, a compulsory exchange pool was formed. Exports were allowed only under licence and the exporters were required to remit all proceeds to New Zealand through one of the six trading banks. The purpose of this pool was to ensure that sufficient sterling resources would be forthcoming to enable the Government to meet its external debt requirements; the Government was to have the first claim on the exchange resources accumulated by the banks. These restrictions were abandoned in the latter part of 1932, but the exchange rate remained unchanged until early in 1933, when, as part of a general economic programme (which included the issue of a large conversion loan and further reductions of wages and salaries, and which was comparable in magnitude and scope with the Premiers' Plan in Australia), it was raised to the rate of £125 New Zealand = £100 sterling.

The New Zealand banking statistics give a fairly clear indication of movements in the country's balance of external payments. All the banks operate abroad — in Australia and/or London — but the official statistics show only assets and liabilities *within* New Zealand. Practically all of New Zealand's external transactions are financed through the banks, and, when the balance of these transactions is favourable, this is reflected in the banking statistics in increased liabilities in New Zealand, resulting chiefly from increased deposits. Conversely, a relative increase in assets within New Zealand must be balanced by a relative reduction in assets held abroad. The following statement shows the movement of the banks' total assets and liabilities in New Zealand during the past few years:

June quarter	£ (000,000's)			
	Total assets in New Zealand	Total liabilities in New Zealand	Excess of assets (+) or liabilities (—) in New Zealand	Change in column (3)
	(1)	(2)	(3)	(4)
1929	63·4	67·5	—4·3	
1930	69·9	66·2	—3·7	—8·0
1931	68·9	62·6	—6·3	—2·6
1932	69·4	61·5	—7·9	—1·6
1933	70·0	65·7	—4·3	+3·6

Column 4, which shows the year-to-year changes in the difference between assets and liabilities in New Zealand, may be taken as an indication of the *direction* of the movement of the balance of outward (—) or inward (+) payments. It does not accurately reflect the *magnitudes* involved, as specie shipments made by the Government are not included. It will be seen that the balance of New Zealand's payments was very unfavourable in the year ending June 1930, that it continued to be unfavourable — though at a diminishing rate — during the next two years, and that there was a net balance of inward payments into New Zealand in the year ending June 1933. This last movement, which was more marked in the first six months of 1933 than in the previous semester, is due partly to higher domestic currency prices and an increase in the excess of exports, and partly to the repatriation of capital subsequent to the raising of the exchange rate.

The following statement shows the fluctuations in the principal earning assets of the banks and in their deposit liabilities — in all cases, within New Zealand — during recent years:

June quarter	£ (000,000's)					
	Discounts and advances	Government securities	Deposits			Free deposits as percentage of fixed deposits
			Free	Fixed	Total[1]	
	(1)	(2)	(3)	(4)	(5)	(6)
1929	47 4	5 2	26 8	30 2	57 0	88 7
1930	54 1	5 6	23 2	30 5	53 7	76 1
1931	53 4	4 6	18 1	33 1	51.2	54 7
1932	50 6	9 1	16 8	35 4	52 2	47 5
1933	46.8	14 4	18 9	36 9	55.8	51.2

[1] Excluding Government deposits.

Discounts and advances rose considerably in 1930, but they have fallen steadily since that year, and in the June quarter of 1933 were again at about the 1929 level. Total deposits (column 5) fell by almost £6 million between 1929 and 1931 ; in the next two years, they rose by £4 6 million More significant than the movements of total deposits are the relative movements of free and fixed deposits. Free deposits represent current accounts mainly in active business use, while fixed deposits largely represent funds awaiting investment. The former fell continuously between 1929 and 1932, and were £10 million, or 37 per cent, lower at the middle of the latter year. Fixed deposits, on the other hand, increased by over £5 million during this period. Column 6 shows the consequent fluctuations in the ratio of these two groups ; changes in this ratio may be taken as reflecting variations in business confidence and the willingness of investors to assume economic risks The sharp decline between 1929 and 1932 clearly mirrors the stagnation of trade and industry. A reversal is evident in the year ending June 1933. Fixed deposits continued to increase during this year, but the increase was even more marked in current accounts, with the result that the ratio of free to fixed deposits rose slightly.

The declining activity of bank deposits during the years 1929 to 1932 is also reflected in the figures for bank debits, which represent the total financial transactions effected in the country. The following statement shows the weekly average of bank debits to individual accounts for the first six months of each year since 1929 :

	£ (000,000's)
1929	23.3
1930	22.1
1931	16.4
1932	15.2
1933	15.9

Between 1929 and 1932, the weekly average of bank debits fell by 35 per cent, or in roughly the same measure as free deposits. Like the ratio of current to time accounts, the total of bank debits shows an upward movement in 1933.

It is of interest to compare the movements of deposits in savings banks with those in commercial banks. The following table shows amounts to the credit of depositors in the Post Office Savings Bank and in private savings banks over the period studied :

End of March	£ (000,000's)		
	Post Office Savings Bank	Private savings banks	Total
1929	48.6	8.5	57.1
1930	49 5	9.2	58.7
1931	47.7	9.7	57 4
1932	43.3	10.1	53.4
1933	42.0	10 5	52.5

The Post Office Savings Bank is still the most important collector of savings deposits in New Zealand, but since the end of March 1930 it has suffered withdrawals amounting to £7.5 million, or 15 per cent of its deposits. This is partly explained by the fact that the Post Office Savings Bank lowered the interest rate allowed on deposits in excess of £500. Part of the sums withdrawn appear to have gone to private savings banks, but the bulk — if transferred at all — went to fixed accounts in the commercial banks. Between 1930 and 1933, the latter accounts rose by £6.4 million, as compared with a decline of £6.2 million in total deposits in all savings banks. This movement, which is the opposite of that observed in many countries, reflects the confidence of the public in the commercial banking institutions.

In the years ending June 1932 and 1933, the banks' holdings of Government securities rose very considerably, and they were almost £10 million higher at the middle of 1933 than at the middle of 1931. In the latter year, they constituted over 25 per cent of total deposits, as shown above, compared with less than 10 per cent in 1931. This rise is to be explained in part by the financing of budgetary deficits through bank borrowings, in part by the financing of part of public works and unemployment expenditure in the same way, and

ACCOUNTS	SUMMARY OF POSITION . AVERAGES FOR QUARTER ENDING JUNE 30TH .					
	1925	1929	1930	1931	1932	1933
Number of Banks	6	6	6	6	6	6
ASSETS.	£N Z. (000,000's omitted)					
1. Cash.	8.0	7.3	6 9	7.0	6.3	5 2
(a) Gold, silver and small coins	7 7	7 2	6 8	6 9	6.2	5 1
(b) Inland notes and balances with Central Bank	0 3	0 1	0 1	0 1	0 1	0 1
2. Other Items of a Cash Nature	0.7	0 7	0 7	0.5	0.4	0 3
3. Bills discounted and bought	1 5	1.0	1.2	0.9	0.7	0.6
(a) Treasury bills.	—	—	—	—	—	—
(b) Commercial bills, Inland.	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—
4. Investments and Securities.	6.1	5.9	6.3	5.0	9.5	14.8
(a) Government	4 8	5 2	5 6	4.6	9 1	14 4
(b) Other	1 3	0.7	0 7	0 1	0 1	0 4
5. Participations.	—	—	—	—	—	—
6. Due from Banks (Correspondents).	1.0	0 9	0 7	1.7	1 3	1 7
(a) At home.	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
7. Loans and Advances	42.4	46.4	52 9	52 5	40.0	46 1
(a) On current account				—	—	—
(b) Other				—	—	—
8. Cover for Acceptances.	—	—	—	—		
9. Premises, etc.	0.8	1.2	1 2	1 3	1 3	1 3
10. Sundry Assets	—	—	—	—	—	—
11. Total Assets	**60.5**	**63.4**	**69.9**	**68.9**	**69.4**	**70.0**
LIABILITIES.						
12. Capital paid up.	—	—	—	—	—	—
13. Reserve Funds	—	—	—	—	—	—
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	—	—	—	—	—	—
15. Notes in Circulation	6.9	6.6	6.4	5 8	6.0	6 3
16. Cheques and Drafts in Circulation	0 3	0.3	0.3	0.2	0 2	0.2
17. Due to Banks (Correspondents)	0.4	0.8	0.7	1.6	1 3	1 7
(a) At home.	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	54 6	59.8	58.8	55.0	54.0	57.5
(a) Current accounts and sight deposits	30 5	26 8	23 2	18 1	16 8	18 9
(b) Savings accounts	—	—	—	—	—	—
(c) Time or fixed deposits	21.0	30 2	30 5	33 1	35.4	36 9
(d) Other deposits	3.1	2 8	5 1	3 8	1 8	1 7
19. Rediscounts and Other Borrowings	—	—	—	—	—	—
20. Acceptances and Endorsements	—	—	—	—	—	—
21. Sundry Liabilities.	—	—	—	—	—	—
22. Total Liabilities.	**62.2**	**67.5**	**66.2**	**62.6**	**61.5**	**65.7**
23. Value of currency in cents of a U.S. dollar at the end of June of each year	486.15	483.13	465.05	444.13	328.65	340.25

in part by the large withdrawals of deposits from the Post Office Savings Banks, which the Government met, to some extent, by borrowing from the commercial banks.

In November 1933, a law was passed providing for the establishment of a central bank (Reserve Bank) in New Zealand. The bank is to have an initial paid-up capital of £500,000 offered for public subscription to British subjects ordinarily resident in New Zealand. The State is to provide a reserve fund of £1,000,000 in cash or Government securities It is also to nominate the first principal officers and Board of Directors ; subsequently, the principal officers are to be nominated by the Government on the recommendation of the Board of Directors The Reserve Bank is to be given the right of note issue. Thus, the outstanding issues of the commercial banks must be redeemed in Reserve Bank notes or subsidiary coin and the commercial banks must transfer to the Reserve Bank, at its nominal value, all gold coin and bullion held by them for their own account. The Reserve Bank is to maintain in the form of gold or sterling a minimum cash reserve equivalent to 25 per cent of its note circulation and other sight liabilities ; it is required to convert its notes presented in sums exceeding £5,000 into sterling on demand. All New Zealand Government accounts are to be kept with the Reserve Bank. The commercial banks are required under the Act to maintain balances with the central institution amounting to 7 per cent of their demand liabilities (excluding banknotes) and 3 per cent of their time liabilities in New Zealand. They will also be required to submit to the Reserve Bank monthly statements of their condition on a standard form laid down in the Act.

As in the case of Australia, total liabilities shown in the summary table are not equal to total assets, because the official statistics show only assets and liabilities within New Zealand and, moreover, omit capital and reserve accounts

Balance-sheet Summary.

1. *Cash.*

The amounts shown under *(a)* include a certain amount of bullion and bars in addition to coin.

The small amounts shown under *(b)* consist of the legal-tender notes of other banks. As the banks may themselves issue notes, they need not maintain any reserve in the form of paper currency of other institutions against deposits , in so far as these are withdrawn in notes, they may be paid out of the unused part of the bank's own authorised note issue Thus the primary function of cash reserves (which do not include such unused balances of potential note issues) is to serve as cover for the notes in circulation ; accordingly, these reserves are held almost exclusively in coin

2. *Other Items of a Cash Nature.*

This item consists of cheques and drafts on other banks.

3. *Bills discounted and bought.*

Part of discounts may be included under advances in the official returns.

7. *Loans and Advances*

This item is classified in the official statistics as " debts due to the banks " and includes loans, advances, overdrafts, etc. It is not known what proportion each of these items is of the total, but the bulk of credit extended would appear to take the form of overdrafts.

11. *Total Assets*

The sums shown are totals of the accounts given in the summary table , they exclude assets held outside New Zealand

15 *Notes in Circulation.*

The law governing the issue of notes by the commercial banks in New Zealand was summarised in the last edition of this memorandum

15. *Cheques and Drafts in Circulation.*

This item represents cheques and drafts of other banks, referred to in the official statistics as " bills of other banks ".

18. *Deposits.*

Deposits on current account are distinguished in the official statistics as free deposits, time deposits as fixed. The sums shown under *(d)* represent Government deposits, of which practically the whole sum is lodged with the Bank of New Zealand.

ACCOUNTS	SUMMARY OF POSITION AT JUNE 30TH :					
	1925	1929	1930	1931	1932	1933
Number of Banks	15	12	12	12	12	11
ASSETS.	£ sterling (000,000's omitted)					
1. Cash	87.2	85.8	74.8	74.8	79.8	74.9
(a) Gold, silver and small coins	—	—	—	—	—	—
(b) Inland notes and balances with Central Bank	—	—	—	—	—	—
2. Other Items of a Cash Nature	51.3	43.2	33.8	21.7	22.2	22.5
3. Bills discounted and bought	—	—	—	—	—	—
(a) Treasury bills	—	—	—	—	—	—
(b) Commercial bills, Inland	—	—	—	—	—	—
(c) Commercial bills, Foreign	—	—	—	—	—	—
4. Investments and Securities	37.9	54.5	40.7	41.1	59.8	72.8
(a) Government	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
5. Participations	—	—	—	—	—	—
6. Due from Banks (Correspondents)	—	—	—	—	—	—
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
7. Loans and Advances	248.2	298.8	322.8	308.1	290.0	287.2
(a) On current account	—	—	—	—	—	—
(b) Other	—	—	—	—	—	—
8. Cover for Acceptances	5.7	6.0	5.9	4.7	4.4	4.6
9. Premises, etc.	7.5	8.5	9.1	9.5	9.7	9.8
10. Sundry Assets	—	—	—	—	—	—
11. Total Assets	**437.8**	**496.8**	**487.1**	**459.9**	**465.9**	**471.8**
LIABILITIES.						
12. Capital paid up	39.0	46.1	46.3	46.4	46.4	45.4
13. Reserve Funds	28.3	35.7	36.7	37.0	37.1	36.0
14. Profit-and-Loss Accounts, Dividend Accounts, etc.	3.6	4.5	4.3	3.9	3.1	2.7
15. Notes in Circulation	6.9	7.5	6.8	6.4	6.5	7.0
16. Cheques and Drafts in Circulation	31.7	31.2	29.3	22.2	19.0	19.8
17. Due to Banks (Correspondents)	—	—	—	—	—	—
(a) At home	—	—	—	—	—	—
(b) Abroad	—	—	—	—	—	—
18. Deposits	322.6	365.8	357.8	339.3	349.4	356.3
(a) Current accounts and sight deposits	—	—	—	—	—	—
(b) Savings accounts	—	—	—	—	—	—
(c) Time or fixed deposits	—	—	—	—	—	—
(d) Other deposits	—	—	—	—	—	—
19. Rediscounts and Other Borrowings	—	—	—	—	—	—
20. Acceptances and Endorsements	5.7	6.0	5.9	4.7	4.4	4.6
21. Sundry Liabilities	—	—	—	—	—	—
22. Total Liabilities	**437.8**	**496.8**	**487.1**	**459.9**	**465.9**	**471.8**

ACCOUNTS	SUMMARY OF PROFIT-AND-LOSS ACCOUNTS AND DISTRIBUTION OF PROFITS FOR THE YEARS :					
	1925	1929	1930	1931	1932	1933
Number of Banks	14	12	12	12	11	11
	£ sterling (000,000's omitted)					
Capital and Reserves	71.0	86 6	88.1	89.4	86.2	87 5
1. Gross Profits	**5.79**	**6.76**	**6.22**	**4.85**	**3.11**	**2.48**
To be deducted:						
2. Expenses	—	—	—	—	—	—
(a) Salaries, etc.	—	—	—	—	—	—
(b) Other working expenses	—	—	—	—	—	—
(c) Taxes, etc.	—	—	—	—	—	—
3. Reserved for Pension Funds, etc.	0.03	0.02	0.02	0.02	0.02	0.02
4 Written off on (Depreciation Accounts for)	0.15	0.25	0.21	0.13	0.01	0.07
(a) Premises, etc.	0 15	0 25	0 21	0 13	0 01	0.07
(b) Investments and securities	—	—	—	—	—	—
(c) Other assets	—	—	—	—	—	—
5. Remaining Net Profit	**5.61**	**6.49**	**5.99**	**4.70**	**3.08**	**2.39**
6. Carried forward from Preceding Year	1 52	1 79	1.85	1.97	1.96	1.60
7. Taken from Reserves or Capital	—	—	—	—	—	—
8. Total Amount disposed of for Dividends, etc.	**7.13**	**8.28**	**7.84**	**6.67**	**5.04**	**3.99**
9. Carried to Reserves	1 50	1.07	0 82	0.30	0.11	0 55
10. Dividends	4.02	5.36	5.05	4.41	3.33	2.36
11. Directors' Fees, etc	—	—	—	—	—	—
12. Carried forward to Following Year	1.61	1.85	1.97	1.96	1.60	1 08
13. Total as above	**7.13**	**8.28**	**7.84**	**6.67**	**5.05**	**3.99**

Balance-sheet Summary.

The figures shown in Summary Table 28 *(a)* III are based upon a compilation of the balance-sheets of the most important banks operating in Australia and New Zealand. This compilation appears annually in the September number of the *Australasian Insurance and Banking Record;* it shows the aggregate position of the banks at the end of their financial year, which is June 30th or thereabouts in most cases. The table covers the ten trading banks operating in Australia in June 1933, and, in addition, the National Bank of New Zealand, which carries on business only in New Zealand, apart from its London head office. Of the ten banks operating in Australia, five (including the Bank of New Zealand, whose New Zealand accounts are very much more important than its Australian accounts) also carry on business in New Zealand. Table 28 *(a)* III therefore represents a combination of Tables 28 *(a)* I and II, *plus* the accounts of Australian and New Zealand banks held in London.

For the composition of each item in the summary table, reference may be made to the detailed notes to the summary tables for Australia and New Zealand above. The amounts shown under " 1. Cash " include coin and bullion, cash balances, Australian notes, notes of other banks, money at short call and some relatively small amounts of

Government and other securities held by the Bank of New Zealand in London ; " 2. Other Items of a Cash Nature " refer to bills receivable in London and remittances in transit, including a certain amount of remittances in transit between branches ; " 4. Securities " include British, Australian and New Zealand Government securities and some securities of municipalities and other local authorities, as well as short-dated British Treasury bills. " Correspondent Accounts " are not shown separately in these returns and are presumably included under bills receivable and remittances in transit (group 2) under assets, and " Cheques and Drafts in Circulation" (group 16) under liabilities ; " 7. Loans and Advances " include all credit extended by the banks to the public, whether in the form of loans, discounts, advances or overdrafts. " 8. Cover for Acceptances " consists of customers' liability under letters of credit, etc., where shown separately ; in many cases, however, these items are not included in the balance-sheets of the banks. " 15. Notes in Circulation " are issued chiefly in New Zealand. " 18 Deposits " are not divided into current account, time deposits, etc

Summary of Profit-and-Loss Accounts.

The summary table of profit and loss accounts is based upon statistics published in the annual (October) banking supplement of the *Economist*. The banks included are practically identical in each year with those included in the balance-sheet summaries published by the *Australasian Banking and Insurance Record*, on which the summary table showing the position of the banks is based.

1 and 2. *Gross Profits and Expenses.*

In the statistics published in the *Economist*, all expenses, including salaries, other expenses, and income and other taxes, are deducted before the banks' profits are stated. These items are accordingly excluded from the summary table. Further, the banks show only amounts written off on premises ; depreciation allowances on " bad and doubtful debts " and on other assets are made at the discretion of the directors before any figure for profits is disclosed

Obviously, therefore, the sums shown under group 1 in the summary table do not represent genuine gross profits and are not comparable with figures given under this heading in the profit and loss summaries for other countries.

4. *Depreciation.*

As mentioned in the note to group 1 above, the banks show only their depreciation on premises