PAGES MISSING WITHIN THE BOOK ONLY

41 to 64

UNIVERSAL
LIBRARY

OU_152722

UNIVERSAL
LIBRARY

OUP—67—11-1-68—5,000.

OSMANIA UNIVERSITY LIBRARY

Call No. 332.11 / K61C Accession No. 6699 P.S.

Author Kisch and others.

Title Central Banks.

This book should be returned on or before the date last marked below.

CENTRAL BANKS



MACMILLAN AND CO., LIMITED
LONDON · BOMBAY · CALCUTTA · MADRAS
MELBOURNE

THE MACMILLAN COMPANY
NEW YORK · BOSTON · CHICAGO
DALLAS · ATLANTA · SAN FRANCISCO

THE MACMILLAN COMPANY
OF CANADA, LIMITED
TORONTO

CENTRAL BANKS

A STUDY OF THE CONSTITUTIONS OF BANKS OF ISSUE, WITH AN ANALYSIS OF REPRESENTATIVE CHARTERS

BY

SIR CECIL H. KISCH, K.C.I.E., C.B.

AND

W. A. ELKIN

WITH A FOREWORD BY

THE RIGHT HON. MONTAGU C. NORMAN, D.S.O

GOVERNOR OF THE BANK OF ENGLAND

MACMILLAN AND CO., LIMITED

ST. MARTIN'S STREET, LONDON

1932

COPYRIGHT

First Edition January 1928
Second Edition May 1928
Third Edition 1930
Fourth Edition (revised and enlarged) 1932

PRINTED IN GREAT BRITAIN
BY R. & R. CLARK, LIMITED, EDINBURGH

FOREWORD

DURING a period of fifty years or more ending with the early years of the present century, the gradual development of Central Banking was taking place in various countries without being the subject of discussion, and, indeed, almost without attracting notice. No general rules were considered necessary for the guidance of note-issuing Banks, which had been developed or established on lines conforming to the particular needs and prospects of their respective countries. Such differences in practice as existed had arisen in part from the statutes governing the various Central Banks, but perhaps more from the gradual adoption of varying customs and traditions which had come to have almost the force of law.

With the outbreak of war in 1914 the traditional practices of Central Banks were gradually abandoned under the pressure of political expediency. The following years of peace saw the scope of some existing Central Banks altered and new institutions established, and with the return of more normal conditions questions arose regarding the rightful functions and powers of Central Banks in general. Thus it became necessary to consider precisely what rules and statutes should be adopted for the purpose either of limiting or of increasing the respective powers of such Banks.

We may trace the long period of natural growth in Central Banking, followed first by the collapse brought about by the years of war, and next by a widespread development of theory and practice, for the most part under new and definite limitations. In order to consider profitably

this period of renewed development and to judge of the relative degrees of independence now possessed by Central Banks, it is useful as a background to ascertain precisely the various limitations which govern the conduct of individual Banks. This is a matter which, amid much discussion of the policies of Central Banks, seems to have attracted little attention. There appears to be no convenient record of charters, laws or statutes, nor any scientific opinion as to how much liberty or how much power of control is or should be permitted. Indeed, it seems evident that the limitations imposed on new or reorganised Banks during the last few years arise more from the fear and mistrust of political interference than from the needs of Central Banking as such. In any case, this whole question is now beginning to be studied from various standpoints and in various countries, and nothing therefore seems more useful than an examination of the statutes which govern the conduct of particular Banks. Once a ready means to do this has been supplied, further consideration of the whole question of Central Banking may proceed more usefully and hopefully. Thanks to the initiative of Mr. Kisch this means is now supplied in a book which I commend not only to bankers and students but to all who are interested in financial reconstruction.

MONTAGU NORMAN.

9th November 1927.

PREFACE

THE authors desire to express their thanks to the Banks of Issue and Public Departments and other authorities who have provided copies of Bank Acts and Statutes and other information. In a number of cases the Banks have been kind enough to examine the summary of the relevant laws and statutes in Appendix I. In particular the authors wish to express their great obligation to Mr. F. C. Goodenough, Chairman of Barclays Bank; Sir Otto Niemeyer, G.B.E., K.C.B.; and Sir Henry Strakosch, G.B.E., who kindly read the book before publication and made various valuable suggestions based on their wide knowledge and experience.

C. H. K.
W. A. E.

NOTE TO THE FOURTH EDITION

THE issue of a new edition at the present time has involved somewhat extensive alterations, as many of the Central Banks, particularly those in countries where the gold standard has been suspended, have modified their customary regulations. A chapter has been added dealing with the Central Banks and the present crisis. The number of constitutions of Central Banks brought under review has also been increased. The thanks of the authors are extended to the representatives of the Banks, who have kindly examined the materials in the Appendix with a view to seeing that the particulars given include the most recent provisions.

May 1932.

CONTENTS

CHAPTER I

PAGE

INTRODUCTORY: THE CENTRAL BANK AS CURRENCY AUTHORITY 1

CHAPTER II

RELATIONS BETWEEN THE STATE AND THE CENTRAL BANK . 16

CHAPTER III

CAPITAL, DISTRIBUTION OF PROFITS, RESERVE FUNDS AND LIQUIDATION 42

CHAPTER IV

ADMINISTRATION OF CENTRAL BANKS 57

CHAPTER V

NOTE ISSUES AND NOTE AND BANKING RESERVES . . . 74

CHAPTER VI

RELATIONS BETWEEN THE CENTRAL BANK, COMMERCIAL BANKS AND THE MONEY MARKET 105

CHAPTER VII

DEALINGS IN GOLD AND FOREIGN EXCHANGE, DISCOUNTS, LOANS AND OTHER BUSINESS 119

CHAPTER VIII

CO-OPERATION BETWEEN CENTRAL BANKS 153

CHAPTER IX

CENTRAL BANKS AND THE CRISIS 164

APPENDIX I

PAGE

SUMMARY OF LAWS, CHARTERS AND STATUTES REGULATING BANKS OF ISSUE:

Australia, Commonwealth Bank of 179
Austria, National Bank of 184
Belgium, National Bank of 193
Bulgaria, National Bank of 200
Chile, Central Bank of 212
Colombia, Bank of the Republic of 224
Czechoslovakia, National Bank of 235
Danzig—Bank of 245
Denmark—National Bank of Copenhagen . . . 254
England, Bank of 262
Estonia, Bank of 266
Finland, Bank of 278
France, Bank of 283
Germany—Reichsbank 287
Greece, Bank of 294
Hungary, National Bank of 308
Italy, Bank of 317
Japan, Bank of 326
Latvia, Bank of 335
Lithuania, Bank of 340
Netherlands Bank 348
Norway—Norges Bank 354
Peru, Central Reserve Bank of 360
Poland, Bank of 371
Portugal, Bank of 380
Roumania, National Bank of 387
Russia—State Bank of the R.S.F.S.R. 398
South African Reserve Bank 404
Spain, Bank of 410
Sweden—Sveriges Riksbank 415
Switzerland—Swiss National Bank 420
United States—Federal Reserve System . . . 429
Yugoslavia, National Bank of the Kingdom of . . 442

APPENDIX II

No. 1. GOLD STANDARD ACT, 1925 452
No. 2. CURRENCY AND BANK NOTES Act, 1928 . . . 454
No. 3. GOLD STANDARD (AMENDMENT) ACT, 1931 . . 461
BIBLIOGRAPHY 463
INDEX 465

CHAPTER I

INTRODUCTORY

The Central Bank as Currency Authority

WHEN Bagehot, in 1873, wrote *Lombard Street*, he referred to the fierce controversy that still at that time raged round the Bank Act of 1844. "If you say anything about the Act of 1844", he wrote, "it is little matter what else you say for few will attend to it." But the days of fiery argument ceased, and the Bank Act came to be regarded as an accepted feature in the economic organisation of the country that no one would seriously think of changing. It is significant that forty years after it was written Bagehot's analysis of the essential principles on which the London money market was based was still relevant. There had, of course, been changes of great importance in the intervening years, but they came by way of natural growth and left the fundamental structure unaltered. But in a few days in August 1914 the system of seventy years' standing was ended; the free gold market and the Bank's virtual monopoly of note issue, the two most important features of the Bank Act, were jettisoned. The free gold market was restored by the Gold Standard Act of 1925; the Treasury note issue was amalgamated with the bank-note issue in November 1928, and the unified circulation was placed under the control of the Bank of England in pursuance of the Currency and Bank Notes Act, 1928.[1] This Act settled for the time the question which arose with regard to this unification, namely, whether the principles embodied in the Act of 1844 for the regulation of the note issue should be maintained, or whether,

[1] See Appendix II.

as some eminent banking authorities have urged,[1] this country should adopt the more usual Continental and American plan of having a proportional instead of a fixed fiduciary issue. Whether any material change of system will result from the suspension of the gold standard on 21st September 1931 remains to be seen.

But it is not only in England that questions affecting the Central Bank urgently demanded consideration during the years following the Great War. When the International Financial Conference met in Brussels, in 1920, one of the resolutions it passed was that " in countries where there is no Central Bank of Issue one should be established ". In the context in which it was passed, this resolution illustrates the close connection between the maintenance of financial stability with the work of a central banking organisation. In the following years the advice of the Brussels Conference was widely followed. New Central Banks were formed and many existing Banks drastically overhauled. The reorganisation of the Reichsbank was an integral part of the Dawes scheme; the countries that previously formed part of the Austrian and Russian Empires, as well as certain of the Balkan countries, established new Central Banks. Similar steps have been taken in some of the Central and South American States and in South Africa, while the creation of a Reserve Bank in India is also proposed.[2] In other countries, such as Belgium and Norway, though the previous structure remains, important changes were introduced. In most of these cases the establishment or reorganisation of the Central Bank was part of a scheme for the stabilisation of the currency and the prevention of inflation. The evils that have followed the excessive issue of paper currency are too well known to need any detailed description.

[1] Cf. Rt. Hon. R. McKenna at meeting of Midland Bank, 28th January 1927. Dr. W. Leaf, *Banking* (Home University Series), pp. 74 and 77-78. Contra: *First Interim Report of the Committee on Currency and Foreign Exchanges after the War*, 1918; *Report of the Committee on the Currency and Bank-Note Issues*, 1925; and Mr. F. C. Goodenough at meeting of Barclay's Bank, 20th January 1927.

[2] Action as regards India is at present suspended.

The lack of a stable unit of value and the consequent insecurity introduced into every contract, the wiping out of capital values accumulated in the past and the general feeling of uncertainty as to future values, led during and after the Great War to economic and social disorders which were experienced to a greater or lesser extent in nearly every country of the world. At its worst the havoc wrought by inflation was so great that it became almost a matter of life or death to the nations concerned to put an end to it. But even where the situation was less extreme, the dislocation of trade and industry and of the social economy were sufficiently serious to demonstrate beyond question the vital importance of maintaining a stable currency. To achieve this end the different countries, one after the other, decided to replace the paper standard by the gold standard. It is, of course, theoretically possible, even though the notes are not freely convertible into gold, to maintain their value either by means of stringent restriction of issues or by linking up the volume of currency with price levels as shown in index numbers. To discuss the practicability or advantages of such methods would be outside the scope of this book. But after consideration of all alternatives the consensus of financial opinion has reaffirmed the pre-war conclusions, arrived at after a series of experiments and failures, that in present conditions gold is still the least unsatisfactory standard of value.[1] In spite of recent disappointments no internationally acceptable and permanent alternative has been devised.

If the fixed link between national currencies and gold is preserved, stability of exchange between such currencies is ensured, and a broadly based community of interest is created for keeping the purchasing power of gold itself stable and free from violent fluctuation. Expressed in simplest terms, the necessary legal requirement for the maintenance of the established ratio between a currency and gold consists in

[1] Cf. Resolution 5, adopted by the Financial Commission at the Genoa Conference, 1922: "Gold is the only common standard which all European countries could at present agree to adopt".

the obligation of the Government, or the currency authority, to buy and sell gold at a fixed parity on demand and to impose no bar on the import or export of gold. This simple formula is open to certain variations in practice, as, for instance, when a country elects to establish a link between its currency and gold, not directly but through the medium of one or more external currencies based on gold, such as the pound sterling until the suspension of 1931 or the dollar. This form of gold standard is generally known as the gold exchange standard. It is not necessary to pursue the distinctions between the different varieties of gold standard further in this connection. The essential thing to note at this stage is that when an unlimited obligation to provide gold, or gold exchange, at a fixed price has once been imposed, the currency authority has a definite incentive to take steps to check a drain on its gold reserves when the drain threatens to be of a continuing character. Such a drain (which is to be distinguished from sporadic losses of gold ascribable to special causes) arises from, and is the indication of, a disequilibrium in the country's balance of payments. This situation may be due to a variety of influences. For example, it may have arisen because a country has lent abroad amounts greater than are consistent with its credit balance on international account, or it may have its origin in a disparity between the internal and external price levels which for the time being has made the country a favourable market for sellers and an unfavourable one for buyers. In final analysis the evil is one. The corrective of the disequilibrium, whatever its proximate cause, consists in increasing the price of money, that is to say, in raising the rate of discount, a course which has the effect of imposing a check on borrowing and of promoting the liquidation of stocks. The measure thus tends to lower prices. Exports will be encouraged and imports checked until an equilibrium of the balance of payments is again achieved. The higher discount rate also has the effect of making the country a favourable market for the employment of funds. The external demand for its currency is therefore stimulated, and the rate of discount has only

to be maintained at a sufficiently high level to lead to an inward movement of gold. Meanwhile, within the country, both the lower price level and the restriction of credit tend to decrease the internal need for currency. A certain proportion of the notes in circulation will be returned to the banks or other issuing authority, and the demand for fresh notes will be checked. Thus any reduction in the gold reserves which necessitates the maintenance of an increase in the rate of discount will ultimately lead to a smaller note issue. On the other hand, if the relative levels of internal and external prices are such that gold is being imported, the Central Bank may lower its discount rate. This will set in motion a converse process to that described above. The extended credit and the higher level of prices which the reduced discount rate will bring about can, however, only be sustained if the currency is increased. The issuing authority will find itself faced with an increased demand for notes which, owing to the larger gold holdings, it can safely satisfy. In this way gold coming into the country is made the basis of fresh note issues.

The maintenance of a stable currency is so fundamental to the well-being of every nation that at first sight it might appear as if the State itself should carry out this vital national service. One explanation of the fact that in most countries the State has handed over the responsibility of the note issue to banking institutions is to be found on the economic side in the relation outlined above between the rate of discount and the note circulation and the volume of credit. The rate of discount is the chief weapon for ensuring the due proportion between the volume of credit, the note issue and gold holdings, and thus for maintaining the stability of value of the currency unit, and since the rate of discount is properly the instrument of a bank, there is a sound reason for entrusting to a bank the control of the note issue.

There is further the danger that if the management of the note issue is entrusted to the State itself, the Government may be tempted to use its power of printing notes as the readiest method of raising funds. Taxation is never

popular, and keeping expenditure within due bounds is not always easy. As experience has abundantly proved, increasing the note issue is an all too simple method of temporarily filling in the gap, if the power to do so rests with the Government. Monetary policy should be independent of political contingencies, and the surest way to secure this result is to place the control of the note issue in the hands of a bank. These two considerations, economic and political, explain why the creation of money in the form of notes has not been left in most countries under the control of the State, but has been handed over to appropriately constituted banks. To what extent the issuing banks should be subject, directly or indirectly, to Government influence raises other questions which are considered in Chapter II.

If it is granted that the issue of notes and the consequent responsibility for the maintenance of the value of the currency unit are rightly entrusted to banking organisations, the question arises whether it should be to a specially constituted Central Bank or whether there should be several issuing authorities, as is the case, for example, in Canada. There are serious drawbacks to this latter scheme, as it involves a divided responsibility and a lack of leadership. The gold standard is sometimes spoken of as an automatic system. The phrase is in the highest degree misleading. Whether there is a gold standard or not, the control of the credit and monetary system involves the solution of many difficult problems of policy and detailed administration. But if there are many issuing authorities there cannot be one controlling force to direct the monetary policy of the country, and this is bound to be a source of weakness, especially at a time of serious crisis, when a well-devised and coherent plan of action, vigorously applied, is essential. The need of a strong central organisation was demonstrated beyond question by the experience of the United States during the economic crisis of 1907. There were at that time a large number of national banks, each with the right of note issue, but their interests were predominantly local and there was little or no co-operation

between them. The leadership that alone could have dealt effectively with the problems of that crisis was lacking, since each bank regarded it from its own immediate angle, and there was no single authority which could grapple with the situation as a whole from a national standpoint. One aspect of this lack of leadership was seen in the handling of the gold reserves. There was more gold in the United States at that time than in any country of the world, but each bank clung jealously to its own holdings. The gold was consequently ineffective, since it was scattered and could not be brought to bear at the points at which it was most needed. The concentration of reserves and the control of the money market, imperative for the mitigation and avoidance of a financial crisis, demand a central or reserve banking organisation. Such an organisation standing behind the commercial banks is able, by the use of the reserves held against the contingency of a crisis, to bring support to any threatened point and to avert the loss of confidence, the continuance of which is necessary for the stability of any credit system. This was the conclusion that the United States authorities drew from the experience of 1907, and the Federal Reserve System was devised in order to prevent the repetition of such a catastrophe.

The Federal Reserve System marked a departure in two important respects from any other banking system then in force. First, instead of the usual single Central Bank, there are twelve regional Reserve Banks so federated under the Federal Reserve Board as to form an organic banking system and to work with a unity of purpose. Secondly, the relation established between the Reserve Banks and the commercial banks constituted a complete innovation in banking practice. The Federal Reserve Banks are essentially bankers' banks; that is to say, their only depositors are other banks and the Government. No part of the capital has been subscribed either by the public[1] or the

[1] The Act permitted the issue of capital to the general public in the event of the capital subscribed by the member banks proving insufficient, and, if public subscriptions proved insufficient, to the State. It was not, however, necessary to put the clauses into operation.

Government as occurs in other countries, but by the commercial banks, the contribution being obligatory as far as National Banks are concerned, and voluntary for State Banks and Trust Companies, complying with certain requirements. The membership of the Federal Reserve System, which the commercial banks thus acquire, gives them on the one hand a share in the administration of the Federal Reserve Banks, and on the other hand brings them to a considerable extent under the direct control of the Federal Reserve Board, and subjects them to the provisions of the Federal Reserve Act. They are, for example, subject to the examination and inspection of the Board, and are required to keep a reserve of a specified percentage of their deposit liabilities with the Federal Reserve Banks. The idea of having member banks that subscribe all or part of the capital of the Central Bank has been adopted in certain Central and South American countries, namely, Chile, Colombia, Ecuador and Peru, where the Central Banks have been founded under the guidance of American banking experts. Certain features of the system were also applied in the constitution of the Reserve Bank of South Africa. All these countries, however, have one Central Bank in the place of the plurality of Reserve Banks of the United States. The existence of the twelve Federal Reserve Banks is principally an expression of geographical relationships and of the economic differences characterising the various parts of the vast territory of the United States, and does not imply the absence of a central directing force. Although each Federal Reserve Bank is allowed a considerable measure of independence to adapt its policy to local conditions, yet they must not be regarded as autonomous and uncorrelated banks. Differences of view have at times presented themselves in public as to the degree of independence enjoyed by the Reserve Banks in relation to the central authority. Thus in 1927 the Reserve Bank of Chicago questioned the right of the Federal Reserve Board to control its rate of discount, but the view of the Board prevailed. In general it may be said that the Board has such extensive powers that it is in a position to

direct the broad policy of the whole Federal Reserve System and thereby exercise control of the money market throughout the country.[1]

Considerable emphasis has been laid in the foregoing paragraphs on the importance of having a Central Bank, or other body, such as the Federal Reserve Board, which is strong enough to carry out a definite line of policy. The mere establishment of a Central Bank does not necessarily give this. The Bank must be so constituted as to be able to control credit and, in particular, to enforce a restriction of credit on the commercial banks if it considers it desirable to do so, for if the commercial banks could continue to lend freely in spite of a higher bank rate, the whole compensatory machinery for attracting gold and regulating the volume of notes in circulation would be invalidated. The Central Banks acquire the necessary influence through the fact that, in general, they control the reserves of the commercial banks, and that they are able to tighten the money market by appropriate operations which have the effect of reducing the supplies of cash held by the commercial banks.[2]

The importance of this consideration was demonstrated by the history of the first stabilisation scheme in Poland. The attempt to give the zloty a fixed exchange value equivalent to the gold franc, adopted in 1924, broke down in 1925, and the failure has been in part ascribed to the fact that sufficient precautions had not been taken to secure for the Central Bank effective control of credit conditions in the open market. There was in consequence an excessive expansion of credit by the commercial banks, which led to a heavy drain on the international assets of the Bank of

[1] In the ensuing chapters no distinction has been made between the Federal Reserve System and other Central Banking systems, except when one of the special features of the former is concerned. There is a looseness of terminology involved in including the Federal Reserve System under the heading of a Central Bank, but the frequent repetition of such a phrase as " Central Banks and the Federal Reserve System " would have been cumbrous and wearisome to the reader.

[2] The open money-market operations of the Central Bank are considered more fully in Chapter VI.

Poland.[1] The weakness arising from the lack of the requisite authority in the Central Bank is also well illustrated by the troubles that have arisen on more than one occasion in Japan. In the past only a few of the commercial banks kept their balances with the Bank of Japan or co-operated closely with it. The Bank as a result was powerless to control their policy. Even when the circumstances of the day urgently required a restriction of credit and the Bank raised its rate of discount, it has at times been unable to check the continued granting of excessive credit by the commercial banks. It is this weakness of the Bank that has been one of the chief causes of the frequent financial crises in Japan.[2] On the other hand, the severity of the crises when they have occurred has been mitigated by the action of the Bank in lending freely to the banks involved. In the crisis of April 1927 one of the great banks of the country, which acted as Central Bank for the Island of Formosa and had the privilege of note issue, was threatened with collapse owing to having locked up an excessive amount of assets in advances to a great commercial firm, which found itself in difficulties. An alarming situation arose, associated with a rush for the withdrawal of deposits from a number of banks. Some suspended payment, and so serious was the situation that a moratorium of three weeks was introduced. The Bank of Japan in association with the Government took the situation in hand, and gave assistance at the threatened points. Its discounts and advances which on 12th March 1927 stood at 279 million yen had risen on 23rd April to 1729 million yen; in the same period the note issue rose from 1090 to 2334 million yen. The panic was stayed, and deposits withdrawn tended to return. One obvious evil which has been brought to light lies in the close connection that existed between one of the Chartered Banks (with note-issuing powers) and trading concerns. This is a matter that will call for notice hereafter. At this stage it is only desired

[1] *Statist*, 28th May 1927.

[2] G. C. Allen, "Currency and Exchange Policy of Japan", *Economic Journal*, 1925.

to emphasise on the one hand the advantages that the country derived from the possession of a Central Bank capable of intervening to alleviate panics, and, on the other, the dangers that arise when the financial system centring round the Bank lacks the requisite cohesion.

The lessons to be derived from the history of banking crises and the appreciation of the advantages that a sound central banking system offers are sufficient to explain why these recent years of currency restoration have seen so many new Central Banks established. The lack of a Central Bank is now exceptional in advanced countries. Argentine is a case in point. The security of the currency depends on the functioning of the Gold Conversion Office, which, reopened in 1927, was closed by the Government in December 1929. The result was an immediate depreciation of the peso. Canada, again, still retains ten Chartered Banks with the right of note issue, but the system did not preclude a serious depreciation in the Canadian dollar in the course of 1929, that is even before the acute phase of the crisis, and it is not one that any country in process of reorganising its currency and banking methods has thought proper to adopt. It is significant in this connection that Italy, in 1926, took steps to unify under the Bank of Italy the note issues which previously were in the hands of the Bank of Italy, the Bank of Naples and the Bank of Sicily. The notes of the two last-named Banks were to be replaced gradually by notes of the Bank of Italy, and ceased to be legal tender from 30th June 1927.

An exceptional case is presented by the Irish Free State, of which the currency system has recently formed the subject of an official inquiry. The Irish Banking Commission in their interim report of 1926 rejected the suggestion of entrusting the control of the currency to a Central Bank and proposed that it should be placed in the hands of a statutory Commission. The reasons for rejecting the suggestion of a Central Bank are in the main two. First, as the Commission pointed out, the Free State "is now, and will undoubtedly long continue to be, an integral part of the economic system

at the head of which stands Great Britain". In other words, if, as is proposed, the Free State adheres to sterling, the proper Central Bank for the Free State is the Bank of England, within whose sphere of influence the operations of the Irish banks are conducted. Further, the Commission observed that "the general credit basis for Central Banking in the Saorstat is still rudimentary", and that "there is no independent discount market in Ireland and in fact apparently little market for bills of exchange outside the banks". Similarly in the case of India, the relatively undeveloped condition of credit goes a long way to explain the fact that not until after the war did the Government consider the country ready for the institution of a central banking system. Unless, however, a country is under the dominating influence of a neighbouring money centre, or unless the local credit structure is insufficiently developed, the arguments on the economic side for handing over the management of currency to a Central Bank are convincing. There is, moreover, much to be said for the view that the risk of prematurity in the creation of a central banking system should not necessarily be regarded as a decisive factor, because there is no influence so potent in the way of developing the credit system on sound and progressive lines as a well-founded Central Bank.

In the following chapters the principles underlying the organisation of a Central Bank are examined and their application is illustrated by reference to the bank charters of different countries. The first branch of the subject to be considered is the relation of the Central Bank to the State. Is complete or partial State control likely to render the Bank's policy more truly national in character and to add to the security of the Bank, or is the irruption of political influences likely to prove a danger? At a subsequent stage the limitations of the note issue and the question of reserves are discussed. A wise regulation of these subjects is fundamental to the security of the Bank and to the maintenance of the standard of value. The importance of having an adequately elastic note currency

is also considered from the point of view of its reactions on the economic well-being of the country. The issue of notes is, however, only one side of the activity of a Central Bank, and in economically advanced countries a decreasingly important side. The regulations defining its other functions should be so devised as to prevent the Bank from taking risks which would be unwarrantable in view of its national responsibilities, but on the other hand they should not be so rigid as to hamper the Bank in any way that might limit its economic value to the community. The question of the organisation and administration of the Central Bank is also important. The methods by which the governing body is appointed, whether by State nomination or by election by the general body of shareholders or otherwise, will clearly affect the Bank's position *vis-à-vis* the State and the public. Precautions are also necessary to ensure that the administration of the Bank shall not be dominated by the interests of any particular section of the business or industrial world or by political influences. The question of the capitalisation of the Central Banks is discussed, together with schemes for the distribution of earnings. These involve in all but exceptional cases some limitations of shareholders' profits. The treatment of the question of profits will be seen to have an important bearing on the policy of the Banks. Finally it is necessary to refer to the importance of progressive co-operation between the Central Banks. This aspect of their activities, though new, is constantly developing and promises hereafter, despite some early disappointments, a rich harvest of benefits to national well-being and industry.

In the appendix a summary of the charters of thirty-one Central Banks is given. In selecting charters for analysis an attempt has been made to reconcile the requirements of space with the presentation of a fully representative series. The range includes the historic Banks of Europe, as well as many of the newly created Banks in different parts of the world. Examples of all the most important types have been selected. The Bank of England stands by itself as

preserving a legal freedom of action unknown elsewhere. Continental Banking is represented partly by the older foundations, such as the Bank of France, the Netherlands Bank and the Banks of Norway, Sweden and Spain and partly by Banks, such as the Reichsbank and the National Banks of Austria, Hungary, Poland and Bulgaria, which have either been reconstituted or newly created as a result of developments arising from the war. The Bank of Italy has been included as it performs normal central banking functions, though it still carries on much business more germane to a commercial bank. Among the European Banks will be found examples of State Banks subordinate in varying degrees to the Executive or Legislature. Central Banking, as practised in the British Dominions, is illustrated by the Reserve Bank of South Africa and by the Commonwealth Bank of Australia, which is also noteworthy as combining in certain respects the rôle of a central and a commercial bank. Central Banking in Asia is exemplified by Japan, where the Central Bank was modelled on the Belgian pattern. A further group of Charters includes the United States Federal Reserve Act and the charters of the Banks of Chile, Colombia and Peru, which, to a considerable extent, are modelled on the system of the United States.

Extracts and summaries have their drawbacks and must be used with discretion, but the reproduction of the full text of the laws and statutes would not have been possible owing to their length. In summarising the charters, some points of purely local or transitory interest have been deliberately omitted, but care has been taken to preserve all matters of substance and to deal comprehensively with the question of control, note issues, reserves and the permissible sphere of operations.

One special warning to the student of Bank statutes may not be out of place. Theory naturally tends to attribute too much to the written statutes; in fact, everything depends on the spirit and tradition in which statutes are worked. It may happen that seemingly similar statutes

may produce different results in neighbouring countries. It is equally possible that from very different texts far less difference may in practice emerge than a superficial examination might suggest. Particularly on such points as the relation of the State to the Central Bank the actual texts require to be interpreted in the light of a close and precise knowledge of the actual working, and nothing could be more misleading than arguments based on bare legal provisions torn from their native setting in daily experience and historical evolution. The form in which it is usual for central banking principle to be enshrined is only the initial step to wise banking conduct. It must always be reviewed and examined in close connection with the actual circumstances in which it is applied, and there are few fields in which the arguments from analogy require to be used with greater circumspection.

CHAPTER II

RELATIONS BETWEEN THE STATE AND THE CENTRAL BANK

Relation of the State to the Management of the Bank

The Central Bank of a country stands in a special relationship to the Government, seeing that by its discount policy and the subsequent reactions on credit, gold reserves and note issues it controls the amount of purchasing power available, and is thus responsible for safeguarding the currency standard established by law. The close concern of the Government for the soundness of the Bank is indicated by the fact that in certain countries the Banks are conducted under a Government guarantee. In Sweden, for example, the charter states in general terms that the Riksbank is "placed under the guarantee of the Riksdag". The Commonwealth Government is responsible for all moneys due by the Commonwealth Bank of Australia, whether on its debentures or in respect of other claims—a somewhat remarkable situation since the Bank, as at present constituted, is not restricted in its business to the extent appropriate for a true Central Bank. Even if it is not definitely stated, it is clear that in the event of a Central Bank's inability to meet its obligations the Government of the country would be forced in some way to intervene. To let the Central Bank default and close its doors would involve a financial crisis that would be intolerable. The repercussions on the Government's own credit would be too great. The event may be improbable, but the possibility, however remote, is sufficient to demonstrate that a Government has a vital

concern in the efficiency of the Central Bank and cannot be indifferent to its policy. So much is certain, but the question of how much influence the Government shall be given in the management of the Central Bank, and how this is to be obtained, cannot be so summarily answered.

The tendency of the nineteenth century, particularly as regards actual statutory provisions, was somewhat to stress the control of the State over the Central Bank. The case of the Reichsbank may be cited as an instance of a general disposition to regard a State or semi-State Bank as analogous to a State railway system or a State tobacco monopoly. The war period exhibited in extreme terms the danger of this system. Since then the tide has set strongly against granting the State power to interfere with the functioning of a Central Bank. The Brussels Conference Resolution of 1920 in favour of the creation of independent Central Banks[1] crystallised the general feeling. The independence of the Bank of Issue was a cardinal feature of the League of Nations reconstruction schemes for Austria and Hungary, and the League's Financial Committee have remained strong advocates of independent Central Banks.[2] Further, in countries where the pre-war legal provisions remain the actual tendency has been strongly against active political control. The operation of a similar principle is to be discovered in the constitutions prescribed for the Central Banks recently established in certain American Republics. Central Banks have more and more come to be looked upon as analogous to large public trusts and less and less as Departments of State. It has also become increasingly recognised that where private shareholders exist their interests cannot be the only, or even the chief, preoccupation of the directors to anything like the extent that they would properly be in the case of an ordinary commercial company

[1] Resolution III. proposed by the Commission on Currency and Exchange and adopted by the Brussels Conference, 1920. "Banks and especially a Bank of Issue should be freed from political pressure and should be conducted solely on the lines of prudent finance."

[2] Cf. Statutes for Banks of Estonia and Greece, drafted by the League of Nations in 1927.

trading for profit.[1] The case for the direct intrusion of the State into the actual workings of a nicely balanced economic machine loses its force as soon as the public responsibilities and public objects of the institution are fully recognised by those responsible for its management and in the code of legal provisions or established tradition by which they are guided.

Nevertheless, for the reasons suggested at the outset of this chapter, most countries have recognised by their Bank Acts that the Government may reasonably have some influence in regard to the constitution of the governing body of the Central Bank. There are indeed only two important Banks which, at least on paper, are independent of their respective Governments, namely, the Bank of England and the Reichsbank. The English Bank Act was passed at a time when individualism was the guiding doctrine in political and economic theory, and to have given the State a part in the direction of the Bank would have been in conflict with the teaching of the day. Nevertheless, there can be little doubt that in practice there is at all times close and continuous co-operation between the Bank and the Government when important issues are involved,[2] and in exceptional periods of stress there is even more than this. The financial policy adopted by this country during the war and subsequent years, being a matter of legal enactment, was dependent on the decisions of the Government. Such war-time measures as the embargo on gold exports, the *de facto* abrogation of specie payments and the issue of Treasury notes, and such later developments as the restoration of the gold standard in 1925 and its suspension in 1931, obviously involved consultation with the Bank by the Government with a view to the formulation of an agreed policy; but had there been a variance of opinion between the two authorities, the Government, with its

[1] Cf. J. M. Keynes, *The End of Laissez-Faire*, pp. 42-44.

[2] Cf. Clauses 2 (2) and 8 (1) of the Currency and Bank Notes Act, 1928, which, while leaving the initiative to the Bank of England, associate the Treasury with the Bank in the matter of varying the fixed figure of the fiduciary circulation.

exceptional responsibilities, must in the last resort have been empowered to enforce its will. Thus in times of crisis the Bank, like many other normally independent organisations, is likely to find itself to a large extent under the influence of the Government. At all other times, however, its independence is secure and unassailed. The inner history of the Bank of England is known only to those in authority, but it is probably safe to assume that the relations of that institution with the Government present few difficulties that are not capable of amicable solution. The Bank has in the course of years built up a body of tradition and experience directed to the public service which is unrivalled, and it may be fairly surmised that no Government in this country would seriously attempt to intervene in its administration.

As regards the Reichsbank, the German Bank Act of 1924 opens with the sentence "The Reichsbank is a bank independent of Government control"; so much was this independence stressed by the organisers of the Bank. But the reorganisation of the Reichsbank was part and parcel of a scheme for the payment of reparations and of the financial rehabilitation of Germany devised by foreign experts at a time when the financial policy of the German Government was politically suspect and had proved to be economically unsound. The Act as a result shows a distrust of Government influence which would probably not have been so manifest had the reorganisation come entirely from within the country. In practice the situation works out as in England. At a time of anxiety, such as the credit crisis of 1931, the Government and the Reichsbank co-operate, and in settling and executing policy the Bank is in effect the servant and instrument of the State.

From the legally independent organisations of the Bank of England and the Reichsbank a gradually ascending scale of Government influence or control is found culminating in Russia, where, in accordance with the prevailing political ideas, "the State Bank forms part of the People's Commissariat of Finances and is directly subordinate to the

People's Commissary of Finances" (Art. 1). "The general supervision of the Bank is vested in the People's Commissary of Finances. In particular he directs the general policy of the Bank, approves all the general rules for operations of the Bank as well as the rate of interest and commission to be paid", and "exercises a general supervision over the operations of the Bank" (Art. 5). The management is in the hands of a Board of Directors appointed by the Government, but it is clear from the articles of the Statutes quoted above that their powers are limited to the detailed executive work and that their subordination to the executive department of the State is complete. The Bank of Finland presents another example of a true State Bank, and "carries on its business under the guarantee and supervision of the Diet" (Art. 2). The management and working of the Bank are entrusted to a Board of Management, the members of which are nominated by the President of the Republic, but it functions under supervision from the Bank Supervisors of the Diet. The duties of these Supervisors are defined in detail,[1] and include various functions normally carried out by the executive or directing body of a Central Bank, such as the fixing of the rate of discount and interest, decisions on questions of foreign credit, the distribution of work among the Managers, and the settlement of all matters relating to salaries. They are thus able to determine the broad questions of policy of the Bank as well as many administrative details.

The theory underlying the conception of a State Bank centres on the proposition that since a wise central banking policy is the basis of a sound national economic life, the Bank should be under the control of the national Government. But the dangers of this course are great. Just because the decisions of the Bank react on every aspect of the economic activities of the country, it is essential that its direction should be as unbiassed as is humanly practicable, and as continuous as possible. But clearly if the Bank is under State control continuity of policy cannot be guaranteed with changing Governments, nor can freedom from political

[1] See *Summary of Bank Act of Finland*, *infra*, Appendix I. pp. 279, 280.

bias in its administration be assured. In most economically developed countries the probabilities are that the national Government will be the largest individual customer of the local money market. In such circumstances it is evident that, if it also controls the administration of money market policy, it may easily find itself in an equivocal position where it may be called upon to decide between two courses, one of which may be immediately convenient to itself and the other conducive to the ultimate interests of the country as a whole. The creation of such dilemmas should be avoided. "In their report in support of the Bill creating the Central Bank of Chile, the Commission of Financial Advisers, under the presidency of Professor E. W. Kemmerer, pointed out that there was a widespread and pronounced fear lest the success of the Bank should be wrecked by politics and undue governmental influences, a fear which the past banking history of many South American countries has shown to be fully justified."

But it is not only in America that the danger of excessive governmental influence has been demonstrated. It can be equally well illustrated by the financial history of Europe before, during and since the war. Two instances will suffice. In the latter part of the last century the proceedings of the Bank of Spain were prejudiced by obligations imposed on it by the State, and even before the Spanish-American War it had only been by advances from the Bank entailing currency expansion that the Treasury was able on occasions to meet its engagements. The result was seen in a heavy depreciation of the exchange and in the price of public stocks. Resolute efforts were required later to restore the position. Developments in France between 1923 and 1925 also offer a striking example of the same phenomena. The advances by the Bank of France to the Treasury were limited by law, the maximum having been raised from time to time as appeared desirable. During the war and in the following years increases became frequently necessary as the purchasing power of the franc fell and the exigencies of the Government increased. But even the enhanced power to

borrow from the Bank was insufficient to satisfy the needs of the Government. Acting under Government compulsion, the Bank eventually exceeded the legal limit for advances to the Treasury and published balance sheets devised to hide the fact. When the situation was made public, in April 1925, the Minister of Finance admitted that the legal limit had been exceeded by 1200 million francs in December 1923, and that by the following June the excess had increased to 2325 million. Early in 1925 the excess rose to over 3000 million francs. This had inevitably involved further issues of paper currency, with the result that the volume of notes in circulation rose to 43 milliard francs, although the maximum issue had been fixed in 1920 at 41 milliard francs.[1] There can be no question that the power of the Government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis that culminated in 1926. Such extreme abuses of Government power are, of course, only possible when a country has ceased to be on a gold basis. As long as convertibility is maintained the worst evils resulting from Government intervention in banking and currency control are avoided. Doubtless the Governments which have laboriously dragged themselves out of the morass of inflation will not readily slip back; nevertheless, if the control of the operations of the Central Bank lies directly or indirectly with the Government, it becomes fatally easy for the Government to finance itself for a time by means of book entries and short loans from the Bank, a course which is the first step towards currency depreciation and inconvertibility.

Even apart from such risks there are other serious dangers from a Government-controlled bank. The network of financial and commercial life is so intricate, and the decisions of the Bank on important points have such widespread results, that all interests are not affected in the same way. A change in the rate of discount, for example, which benefits some may be unwelcome to others. But if the Government has a controlling influence over the Bank,

[1] Hon. G. Peel, *The Financial Crisis of France*, pp. 230-232.

there are obvious ways by which the more powerful interests in the country can try to enforce their wishes. The road is open for political intrigue, and there can be no safeguard that the policy of the Bank will be carried on without bias as national interests require. It seems a paradox that when the object is to secure the execution of a national policy, this should not most readily be achieved by the creation of a State Bank under official control; but even in the countries where the capital of the Bank is held by the State, steps have been taken in certain instances to remove its administration from political influences and to give it a measure of independence from the Government.

In Latvia the Bank is defined in the Statutes as a State institution, but it possesses a greater degree of legal independence than is accorded to the State Banks of Russia or Finland. There is no direct subservience either to an executive department or to the Legislature. The administrative organ of the Bank is a Council, and though the members are nominated by the Government and one of them is a representative of the Minister of Finance, yet the Statutes definitely state " the Council is independent in its decisions and the Minister of Finance only has the right of veto for three days following that on which the decision in question is submitted to the Minister. If the Council nevertheless perseveres in its decision, the Minister of Finance can submit the disputed point to the Council of Ministers " (Art. 44). Though this right of veto in theory gives the Minister of Finance the power to intervene in any decision of the Bank, it is improbable that any Minister would use it to influence the normal administration. The power would presumably only be exercised in exceptional cases, when the decision of the Bank on an important question was considered, rightly or wrongly, to be inimical to the interests of the State. Australia illustrates another form of governmental relation to a State Bank. Here the Secretary to the Treasury is *ex officio* a member of the Board of Directors. The other members, of whom there are seven including the Governor of the Bank, are all appointed

by the Governor-General. The direction of the Bank is thus closely linked up to the Government and the executive by the medium of an officially constituted personnel, but since this personnel includes only one official member as against seven non-official members, the Board of Directors is prevented from becoming a mere Government organ. The Board elects its own Chairman, and when it is once appointed there is no provision for the intervention of the Government as such in the conduct of the Bank's business by the Board. In the post-1929 crisis the Bank exerted a powerful influence in fortifying the Government in its resistance to the extremer forms of inflation advocated in certain quarters. Its ability to strengthen the cause of sound finance derived from the measure of independence it enjoyed. The State-owned Riksbank of Sweden also enjoys in practice a wide measure of independence. The Directors of the Riksbank are chosen by the King or the Riksdag, but they are not under the control of any executive department of the Government, and "are responsible to the Riksdag, its parliamentary committee on banking, and its auditors alone". While control by a parliamentary body may be free from some of the dangers inherent in the subordination of a Central Bank to the executive, it still leaves the door open to political influences. In so far as these risks have been avoided in Sweden, it is due to the discretion of the Riksdag in the use of its powers. It appears, however, that the system of entrusting the choice of Directors to the Riksdag has at times created difficulties.[1]

The National Bank of Bulgaria affords an illustration of a State-owned Bank[2] which is undergoing evolution in the direction of emancipation from Government control. The Governor and two Assistant Governors, who form the

[1] *Vide* article by Mark Wallenberg, *Financial Times International Banking Supplement*, March 1929.

[2] In connection with the loan then being arranged under the auspices of the League of Nations, the Bulgarian Government in the Protocol signed on 10th March 1928 undertook to bring the constitution of the Bank of Bulgaria into conformity with other Central Banks at a date to be settled subsequently, and to constitute it as an independent corporation.

executive committee of the Bank, are appointed by Royal decree. Four members of the Administrative Council are nominated from among the high officials of the Central Office by this executive committee, but there are also four members elected by outside bodies, such as the Chamber of Commerce or the Bourse of Sophia. The Government interests in relation to the Bank are represented by a Government Commissioner, who is nominated by the Minister of Finance and may attend the meetings of the Administrative Council but may not vote. He has the right to protest, but on points of law only, against any decision of the Council which he considers to be contrary to the legal powers of the Bank. Such a protest acts as a suspensory veto until the point in dispute has been settled by a specially appointed Commission. The Minister of Finance also has certain powers of investigation to ensure that the balance as shown in the annual balance sheet is in accordance with the books of the Bank, but except as laid down in the Bank Act "the Bank is not subject to any regulations established by the Government or subordinate authorities of the State" (Art. 72).

In these cases, in order that the State Bank should be able to carry out its task efficiently, the Government and Legislature have in effect imposed on themselves to varying extents a self-denying ordinance limiting their opportunities for intervention. If a tradition to this effect can be established and can be rigorously maintained, a State Bank based on a suitable charter should in theory be as capable of carrying out a national policy as an institution of an independent or quasi-independent character; but, as was abundantly illustrated by the history of the Imperial Bank of Russia and the National Bank of Bulgaria in the course of the last century, the danger lies in the weakness of human nature to resist the temptation of creating credit when the machinery is provided. In some cases a convention of non-intervention by the State in the affairs of the Bank might be incapable of realisation. In others, even if it appeared to have been firmly rooted, there is always the risk of its

breaking down on some particular occasion. If this once happened confidence in the Bank's authority and its own sense of responsibility would have been fatally prejudiced. The issues are too grave to justify the acceptance of this risk if it can be avoided. In a country such as Sweden, where State ownership has a long history behind it and sound traditions have been built up, to propose the transference of the Bank into private hands, as has on occasion been suggested,[1] would doubtless give rise to controversy, but when the establishment of a new Bank is in question a very different situation arises. If it is desired to protect the Bank from undue Government interference, this can be most efficaciously achieved by making the Bank an independent organisation and giving only such specific and limited powers to the State as may be considered essential in the particular circumstances. To establish a State Bank and then devise machinery to render the Bank to some degree independent of Government control, opens the door to dangers which the alternative method in general avoids. Whatever safeguards may be laid down on paper, it is evident that State ownership affords a facile pretext for the exercise of Government pressure.

It is significant in this connection that even among the recently established or recently reorganised Banks there has been a marked tendency to move away from complete State control. Thus in Czechoslovakia the partially independent National Bank has replaced the Banking Department of the Ministry of Finance. In Bulgaria the Bank Act of 1924 gave the National Bank a greater degree of independence from the Ministry of Finance than it had previously enjoyed, and an additional step was taken in 1926 when provision was made for introducing for the first time an independently elected element on to the Administrative Council. The Bank's position was fortified further by the agreement with the League of Nations of March 1928, under which the Bulgarian Government "undertakes to safeguard the inde-

[1] *The Swedish Banking System*, National Monetary Commission of United States, Senate Document, No. 576, 1913, p. 83.

pendence of the Bulgarian National Bank from any political influence whatsoever". Again, the Estonian Bank Act (1927) contemplated that the State should at an early date dispose of the capital of the Bank, which at the outset it held in its entirety. In the autumn of 1929 an offer for the sale of shares to the public was made, as the result of which 30,950 shares were disposed of by the State.

The divorce of the Government from direct responsibility for the monetary policy of the Bank, which is now widely accepted, is in practice subject to one qualification. In an extreme national emergency all States have assumed the right to acquire purchasing power for themselves by whatever means—rightly or wrongly—they deem best in the national interest. These means may include the expansion of the note issue associated with the suspension of specie payments. In such circumstances the Central Bank, with the authority of the Legislature, must conform to *raison d'État*, or in the alternative the Government must take the duty of currency control upon itself. A national crisis which would justify such measures is to be sharply distinguished from the exigencies of party politics and controversy. The danger of State control of the currency lies in the temptation to a Government to treat its political difficulties as justifying a course of action only permissible in an emergency of an entirely different order. If there is an independent or quasi-independent Bank the Government would find it difficult in practice to suspend the obligations of the Bank except when a true national emergency occurs. In such a case the fact that it is the Bank's, and not the Government's, obligations that are involved at once places the matter outside the range of party and presents it in its proper light as a great public question.

As a result of the considerations discussed above most countries have decided that the national interests in financial policy can best be secured by other means than the entrusting of them to a Bank under State control. The rejection of the conception of a State Bank does not, however, mean that the State should necessarily stand aside altogether, either as

regards the composition of the Central Bank's direction or as regards the general shaping of the relations between the Bank and the State. The complete independence of the Bank is perhaps an ideal to which countries can only approximate in different degrees according to their state of economic development and the sense of responsibility inherent in their public and particularly their commercial life. It is not surprising, therefore, that the degree of State influence admitted varies widely in different cases.

The relations between the Central Bank and the State are affected to some extent by the period for which the Bank's charter is granted. Under the Act of 1844 the privileges of the Bank of England were continued subject to termination at any time, on twelve months' notice to be given after 1st August 1855, and upon repayment to the Bank of the State debt of £11,015,100, together with any other Government debts that might be owing to the Bank. By the National Debt Act of 1870 it was laid down that the Bank "shall continue a corporation for the purposes of this Act" (*i.e.* the management of the National Debt) "until all stock is duly redeemed by Parliament". The effect of these provisions apparently is to maintain the privileges of the Bank in regard to the note issue until the payment of the State debt to the Bank and to maintain the Bank as a corporation for managing the National Debt so long as there is any debt outstanding. On the constitutional side the Bank is in enjoyment of a charter of indefinite duration and there is no fixed period at which the statutory relations between the Bank and the State in regard to its privileges are obliged to be reviewed. In the case of Bulgaria the National Bank has the irrevocable right of note issue, but most countries have not so far been willing to give a non-Governmental organisation the exclusive privilege of note issue for an indeterminate period, and at such time as the charter comes up for renewal there is an opportunity for the Government to propose any alterations in the terms of the charter of the Bank that may seem expedient. But these opportunities come in most cases at long intervals. Clearly if the Bank's privileges were granted

for only a few years an undesirable element of uncertainty would be introduced, and there would be a danger of the Bank's becoming involved in party politics. These points have already been raised in the United States of America. Under the Act as it originally stood the charters of the Federal Reserve Banks were only authorised for twenty years, so that they would have been due for renewal in 1933, but it was found that the sense of insecurity which this short term involved unnecessarily hampered the development of the Banks and of the whole Federal Reserve system. The McFadden Act, passed in 1927, accordingly authorised the Federal Reserve Banks to continue "until dissolved by Act of Congress or until forfeiture of franchise for violation of law." While most other countries have kept to a charter of limited duration, the periods for which these are granted differ, varying from ten years, an exceptionally short period, in the case of Switzerland to fifty years in Germany and Chile. The right of occasional revision of the Bank charter does not therefore give a Government any influence over the Bank's policy, but enables the State to overhaul periodically the terms of the concession, including those parts of it that determine the relations between the Bank and the State. In the case of a newly established Bank in particular there are advantages in requiring a review of the whole position after sufficient experience of working has been obtained.

For the purpose of exercising a measure of influence or supervision over the Bank, recourse must be had to other means. It is interesting in this connection to examine the evolution in the United States of the Federal Reserve Act. In the Act as finally passed the President of the United States of America was to appoint five unofficial members of the Federal Reserve Board, one of whom was to be nominated by him as Governor of the Board. In addition the Secretary of the Treasury and the Comptroller of the Currency were *ex-officio* members. The Government is thus given a very definite influence over the decisions of the Board, but, had the original intention of the House of Representatives been

carried out, the Board would have been in a position of more or less complete subordination to the executive government. In the Bill as passed by the House of Representatives, the Secretary of Agriculture was an *ex-officio* member of the Board as well as the Comptroller of the Currency and the Secretary of the Treasury, and there were only four appointive members. One of these four was to be nominated as Manager, and in that capacity was to act as chief executive officer under the supervision of the Secretary of the Treasury and of the Board. Moreover, the Secretary of the Treasury was to act as Chairman. The Board would have thus been practically a Committee of the Treasury. The Senate's Bill, on the other hand, made the Secretary of the Treasury the sole *ex-officio* member with six appointive members, one of whom was to be nominated as Governor. The Act as finally passed was a compromise between these two bills, but by placing the *ex-officio* members in a minority of two to five, and by making the Governor an appointive member, it reduced the danger that the Board might become an appendage of a Government department. By an amendment of 1922 a sixth appointive member was added to represent agricultural interests. The situation as created by the Act was apparently not viewed with favour by some of the officials concerned. In 1916 Mr. McAdoo, the then Secretary of the Treasury, placed before the Board a proposal for an amendment to the Act by which the Board would have had to submit an annual estimate of its expenses to Congress and "secure an appropriation therefor in like manner as the executive departments and other independent Boards are required to do". In other words, it was an attempt to make the Board subordinate to Congress and official control. But the Board as a whole was opposed to any increase in its dependence on the Government; the proposal was accordingly dropped, and the Board continued to finance itself by levying assessments on the Federal Reserve Banks.[1]

[1] W. P. G. Harding, *The Formative Period of the Federal Reserve System*, pp. 8-13.

It will be noted that in the United States of America the Governor of the Federal Reserve Board is appointed by the President of the United States of America. Similarly in practically every country, though England and Germany are noteworthy exceptions, the responsible head of the administration of the Central Bank is appointed by the Head of the State or the Government, and in some cases one or more members of the executive body are also appointed by the State. In the case of Chile the Government has the right to nominate three Directors out of a Board of ten, but the Board elects its own President. In Peru until recently the Board elected its own President, but only from the Government nominees on the Board. This restriction does not, however, apply to the newly formed Bank. The charter of the Bank of Greece drawn up by the League of Nations in September 1927 gave the Bank an unusual degree of independence from the State. While the Government, in agreement with the National Bank of Greece, appointed the first Governor and Deputy-Governor, future appointments to these posts are to be made by the shareholders. The election of the Governor will require the approval of the Government, which will have no other voice in the constitution of the Board. In Spain, State influence on the Board has recently been increased. The appointment of the members of the Council who are elected by the shareholders has always required State approval; since the amendments introduced in 1931, the Council includes three members nominated by the Government on the proposal of the Ministry of Finance, to represent "the general interest of the national economy".

Where the Government possesses certain powers of nomination to the Board of the Central Bank, the appointments are not intended to give it any power of interference with the administration, but they ensure that the direction of the Bank is in the hands of men in whose judgment it has confidence, and since the appointments are for a limited term only, the long continuance of a policy distasteful to the Government becomes impossible. The officers are,

ordinarily, re-eligible for appointment on the expiry of the term specified. Continuity of administration is thus secured in all cases in which the Bank is administered in a way that commends itself to the Government of the country. In the case of the Federal Reserve Board the appointments run for ten years, a longer term than is usual. In settling the period of office it is necessary to strike a balance. Too short a term might induce an overeasy compliance with the desires of the Government with a view to securing reappointment, while an unduly long term, though advantageous from the point of view of independence, might entrench unsuitable Directors in office.

As the right to appoint certain members of the governing body does not give the State any continuous power of supervision, this in many instances is introduced by other methods. In Italy the supervision of the note issue, managed by the Bank of Italy, is carried out by the Finance Minister, and control is exercised through an official committee. In addition, the Finance Minister may annul any decision of the General Meeting or Administrative Council which he considers contrary to the laws and statutes, acting on his own initiative or on the report of a government official designated by him to attend the meetings of these bodies. A number of Continental bank charters, of which Austria, Poland, Greece, Hungary, Holland and Denmark furnish examples, provide for the appointment of a Government or Royal Commissioner with supervisory powers. In some cases the appointment of the State Commissioner is made by the Crown or President, and though no doubt the choice is made on the advice of the Government, this fact gives the office a character somewhat different from that of a political appointment. The duties of the Government Commissioner are generally limited to seeing that the Bank's business is carried on in accordance with the Law and Statutes of the Bank. On any disputed point the Commissioner has a suspensory veto until the matter is settled by agreement between the Bank and the Government,

or, failing that, by arbitration. But so long as the Bank is not acting *ultra vires*, the Government has no right of intervention.

In the Statutes of the Bank of Copenhagen it is provided that when the managers wish to change the rate of discount they must notify the Finance Ministry. The Minister is entitled to participate personally or by deputy in the discussion without being entitled to vote on the decision. Further, it is laid down that no order from the Government shall ever directly or indirectly interfere with the Bank's management. The Royal Bank Commissioner presides at meetings of Directors, but he has no vote, and it is provided expressly that he shall take no part in the daily administration of the Bank. His right of formal intervention is restricted to cases where action is being undertaken by the managers which, in his opinion, violates "the Bank charter and the Acts or its regulations". In all the above cases the rôle of the State Commissioner resembles that of a continuing audit of the Bank's administrative proceedings, and is harmonised with the requirement that, subject to due observance of legal obligations, the Bank should be independent of State intervention or control in its day-to-day conduct of business.

In Poland the arrangements for safeguarding the position are somewhat more elaborate. The President of the Bank, who is appointed by the President of the Republic, has a right of suspensory veto in respect of decisions of the Bank Council which are, in his opinion, contrary to the laws of the country, the Articles of Association of the Bank or the interests of the State. On his exercising this right of veto the question is referred to the Finance Minister, and the contemplated action is not carried out if the veto of the President is endorsed by the Finance Minister within three days. The weight of responsibility is thus placed, as it should be, on the head of the Bank, who, by the procedure laid down, has in effect a qualified power of overruling his colleagues on the Council. At the same time, in order to maintain contact with the Bank, the Minister of Finance has the right to

appoint a Commissioner who is an *ex-officio* member of the Council and the Board of Directors in an advisory capacity and may demand information. It is to be noted that the Commissioner has no legal power of intervention, and that his rôle is constitutionally one of liaison. In the event of a dispute arising between the Government and the Bank out of the application of the Articles of Association, the question is referred to a Committee of Arbitrators.

In Czechoslovakia the powers of the Government Commissioner, who is chosen from the officials of the Finance Ministry, are of wider scope than in the countries quoted above, and "it is his duty to oppose any resolution" of the "organs of the Bank if they conflict with the laws, statutes or State interests", and he has in law the same right of suspensory veto when the Bank is acting in conflict with the interests of the State as when it is acting contrary to its Statutes. In both instances, failing agreement between the Bank and the Government, the matter must be referred to a committee of arbitration consisting of two representatives of the Bank and two of the Government, with an outside Chairman. Similarly in Roumania the Government Commissioner has the right of intervention in regard to any decision by the Bank's executive which he considers inimical to State interests. Government control over the Bank is even greater in Japan, where Comptrollers acting under the direction of the Finance Minister supervise all matters connected with the operations of the Bank of Japan. Wide powers of intervention are reserved to the Government, and the decisions of the Administrative Board are in various important instances subject to Government approval before they become effective. The by-laws of the Bank provide that "the Government shall control all the operations of the Bank and shall prevent not only any operation which conflicts with the Act and by-laws but also any measure that the Government may deem disadvantageous to the State". Such extensive powers as are allowed to the Governments of

Czechoslovakia and Roumania and still more to the Government of Japan are open to criticism, as there is a danger that they may lead to the introduction of purely political considerations in the administration of the Bank. It is true that action can only be taken by the Government when the Bank is deemed to be acting contrary to the interests of the State, but a Government is apt to consider that State interests and political interests are synonymous terms, a point of view with which no student of politics or history is likely to agree.

The case of the Bank of Norway is of interest. The Bank is a private joint-stock Company, operating a monopoly of note issue for an unlimited period within the terms of its Statutes. The private shareholders, however, have no control of the administration and no provision is made for general meetings. The Bank submits its annual report to the Storting, which has also reserved certain powers of audit to see that the privileges of the Bank are not abused. Three members of the Board of Directors and the members of the Supervisory Council are nominated by the Storting, while the Governor and Vice-Governor are nominated by the King. While control by private shareholders has in this case been replaced by supervision through the Storting, the management is neither in law nor practice subordinated to the Government, and it is worth observing that there is no provision for the appointment of a Royal or State Commissioner.

The temptation to the State to intervene in the affairs of the Central Bank is diminished if the accommodation which the Bank may give to the State is limited. Thus, while the Austrian and Hungarian statutes permit the National Bank to discount the bills drawn by the State commercial undertakings, managed as independent enterprises, it is provided that the Government may not have recourse to the Bank unless they pay the equivalent in gold or in foreign drafts. In Germany the Reichsbank is allowed to make loans to the Government for short periods and to a limited amount, but at the end of the business year the Reich must

not be indebted to the Bank. In Holland the Bank is bound, on the request of the Ministry of Finance, to advance money free of interest to the State in their current account against Treasury bills, but the total of such loans is not to exceed 15 million gulden. In the statutes of the Bank of Estonia it is laid down that the Bank may "make temporary advances to the Government for expenditure authorised in the annual State Budget, provided that the whole of the advances outstanding at any time does not exceed one-sixth of the estimated revenue of the year, and that all advances are repaid not later than at the end of the quarter following the close of the fiscal year in respect of which the advances were made". Restrictions on these lines exist also in Bulgaria, where the capital of the Bank has been provided by the State. Arrangements have been made for the amortisation of the State debt to the Bank; the Bank may only discount Treasury bonds of three months' maturity up to a total of 400 million leva, repayable by the State before the end of the first three months of the following financial year. The rate of interest on these advances may not be less than 5 per cent. No other advances may be made either directly or indirectly to the State. Similarly in the case of Czechoslovakia, although the State has larger powers of intervention with the Central Bank than are generally granted by modern charters, the credit which the Bank may grant to the Government is strictly defined by the Act. It may discount for the Government, customs and tax bills and bills for certified tobacco, salt and mineral products, that is to say, it may give temporary accommodation on definite security of the State monopolies. On the other hand, neither the State nor State offices and institutions can be granted loans by the Bank on State Bonds. The charter of the Bank of Greece limits the amount of temporary advances to the Government to 400 million drachmas, and requires that all advances shall be repaid within three months of the close of the fiscal year in which they are made.

It must be admitted, in view of the history of war finance

in all countries, that such regulations are likely to be overridden in times of national crisis, whilst, on the other hand, the wild piling up of Government indebtedness to the Bank is impossible as long as the country is determined to avoid currency inflation and remain on a gold basis. It might seem, therefore, as if these clauses were unimportant in normal, and useless in abnormal, times, and this may be true of the countries which have a well-established tradition of sound public finance. But in other instances, especially in the countries which have only recently re-established their financial and currency systems, it is of cardinal importance that it should be made as difficult as possible for the Governments to resort to the expedient of borrowing from the Bank, a practice which, if continued, can only lead to a repetition of past disasters. At least, such clauses indicate a standard of wise finance, the formal recognition of which is likely to be beneficial, and the provisions carry the safeguard that if there is a question of increasing the amount of the State credits, the matter must be brought before the Legislature, and cannot legally be effected by mere pressure on the Bank. Moreover, the existence of restrictions on Government borrowing from the Bank strengthens the hand of that body in exerting influence on the Government to pursue a policy of financial prudence. The offer of wise counsels in such matters is one of the important services that a strong Central Bank can render to the nation, but such services can only be looked for when the Bank's independence is fully safeguarded by law and practice.

Duties of the Central Bank towards the State

The duties which the Central Bank carries out for the Government are defined by the bank charters. They manage the Government accounts and the business connected with the National Debt and act as fiscal agents for the Government, generally without specific remuneration. The custody of the Government deposits is an important factor, as giving the Central Bank control, ordinarily free

of interest,[1] of large sums which, like the deposits of the joint-stock banks, form part of the working assets of the Bank.

From the administrative point of view the advantages of concentrating the banking requirements of the State at the Central Bank may be illustrated from the history of the United States. Experience there before the introduction of the Federal Reserve system is sufficient to demonstrate the difficulties which arise from the lack of a recognised Government bank. There were over 1500 National banks in the United States which were qualified to act as depositories of Government funds in addition to the nine Sub-Treasuries.[2] Inevitably, the paying in or withdrawal of large sums on Government account to or from local banks materially influenced the conditions in the local money market, as the banks found themselves either able to expand or forced to contract credit, with consequential fluctuations in rates of discount and prices of securities. The suitable apportionment of Government funds between the different depositories was thus a difficult matter, and the Secretary of the Treasury found himself in a position in which his decisions on recurring administrative problems had important reactions in many different centres. Moreover, the reaction on the administration of the banks themselves was definitely unhealthy, since in times of financial stringency they could appeal to the Secretary of the Treasury for increased deposits to tide them over their difficulties, and they tended to rely on State aid given in this form instead of on a wise policy on their own part.

The Federal Reserve Act did not attempt to abolish this system immediately. It merely empowered the Government to deposit its funds with the newly formed Federal Reserve

[1] In Switzerland interest may be paid on deposits on current account of the Government and State controlled establishments. The Estonian Bank Act and the charter of the Bank of Greece permit the Bank to pay interest on Government funds held abroad at a rate lower by at least one per cent than the average rate earned by the Bank on such funds.

[2] Prof. E. W. Kemmerer, *The A B C of the Federal Reserve System*, p. 25.

Banks without forbidding the continuance of the former practice. The tendency in the first years of the working of the Act was, however, definitely towards depositing the Government funds more and more with the Federal Reserve Banks in the place of the other qualified banks. The entry of America into the war interrupted this process, as it was dangerous in such abnormal circumstances to withdraw accustomed support from the depository banks. Nevertheless, the Federal Reserve Banks played an important part at this juncture. The apportionment of the funds between the depository banks was determined by them on the basis of their local knowledge, and they were responsible for the carrying out of the various devices adopted to avoid the upsetting of the money market by the enormous sums that were both collected and disbursed on Government account. In his report of 1918 the Secretary of the Treasury stated that "the Federal Reserve system has been of incalculable value during this period of war financing on the most extensive scale ever undertaken by any nation in the history of the world. It would have been impossible to carry through these unprecedented financial operations under our old banking system." Thus the existence of a reserve banking system which provided the Government with a recognised financial agency proved to be essential when the Government of the country was faced with financial problems of the first magnitude.

A further point remains to be considered in connection with the relations of the Bank and the State. A Central Bank, as the note-issuing organisation for the country, is given a profitable concession of a public nature. It is therefore fitting that a part of the profits it makes should go to the State. As a result, in nearly every bank charter regulations are found by which part of the profits, after payment of a limited or graduated dividend to the shareholders and certain specified sums to reserve funds, are made over to the Government. In such cases the Bank may be exempt from the usual forms of taxation.[1] Apart

[1] See *infra*, pp. 50, 51.

from the graduated tax on deficiencies in the reserve (which is not a tax in the ordinary sense), the Reichsbank is free from all Corporation, income and trade taxes, and the charter of the Bank of Greece similarly exempts the Bank from all taxes or duties levied by the State. Certain privileges are also given by Austria, Hungary and a number of other countries. There is obviously an almost infinite variety of ways in which the Central Bank may be made to contribute its fair share to the State Exchequer in return for the privileges it enjoys. In England, where the State takes no share in the general profits of the Bank, the Bank of England, which is exempted from stamp duty on its notes, formerly made certain statutory payments in consideration of its privileges of note issue. Thus, in the Finance Accounts of 1925–26 the sum of £206,231 appears as the amount payable to the British Treasury by the Bank of England out of the profits of issue for the year ending 5th April 1925.[1] These arrangements were modified by the Currency and Notes Act, 1928, under which the net profits of the note circulation are now payable in their entirety to the Exchequer. The converse of this system was illustrated in the summer of 1931, when the Bank and the British Government raised credits in France and the United States in their effort to save the gold standard. The cost of the Government's credits was obviously a Government matter, but the Bank's credits, being raised in defence of the currency, obviously with Government approval, were treated as raised on behalf of the Issue Department of the Bank, and the costs entailed are thus a charge on the public revenue. In the case of the Bank of France, the State levies an annual stamp tax on a certain part of its note circulation, in addition to various other specific contributions, and for a considerable period before the war one-third of the net earnings of the Bank were paid to the Govern-

[1] See also pages 16 and 203 of *Interviews on the Banking and Currency Systems of England, Scotland, etc.* (United States Senate Document, No. 405, 1910).

(*e.g.* Austria and France) or twice (*e.g.* Bank of England and Japan), is allowed to cover the following matters :

The election of Directors.

The receipt of the Directors' report and the Auditors' report.

The approval of the balance sheet.

The appropriation of profits, subject to the conditions prescribed in the law or statutes.

The submission of proposals for change in the by-laws, subject to the general provisions of the law.

In certain statutes, for example those of the Netherlands Bank and the Bank of Lithuania, provision is made for the election by the shareholders of a small advisory Committee to confer with the Board of Management or to consider questions submitted to it by the Board. In Czechoslovakia the shareholders elect an Audit Committee to examine the balance sheets and the general situation of the Bank. The Committee may, moreover, offer objections to any resolution passed by the Board of the Bank and in case of disagreement can appeal to a specially convened General Meeting. Even wider powers are given to the shareholders in the case of the Bank of Danzig.[1] In general, however, the shareholders of a Central Bank will not have the same inducement to take an active interest in the administration as exists in the case of an ordinary company. The schemes for the limitation of dividends described in the previous chapter have the advantage of relieving the Board of the most familiar ground for shareholders' intervention in company management.

At the same time, it is possible to go further in the direction of protecting the Board from pressure by particularist interests on the part of shareholders who might seek to acquire undue influence by the acquisition of large holdings of shares. The limitation of the voting power of the individual is a method which many charters employ in a variety of ways. In the case of the Bank of England, £500 stock carries one vote and no individual has more than one vote. The National Bank of Czechoslovakia allows one

[1] See *infra*, pp. 247, 248.

vote for 10 shares. No one person can have more than one vote, and proxies are prohibited. In Germany, Austria and Hungary the voting power of individuals is more strictly limited, in the first case to 300 votes and in the other two to 100 votes, however great the shareholding may be. In Lithuania the possession of 4 shares entitles the holder to a vote, and further every 10 shares confers a vote, subject to the condition that nobody may have more votes than a fifth of the shares in the Bank's capital would confer. This seems to admit the possibility of an excessive concentration of voting power. In certain cases, for example the Netherlands, Denmark and Czechoslovakia, voting rights are only exercised by nationals and in Lithuania it is provided that foreigners may not hold more than one-third of the capital.

A Central Bank controlling a sphere of national business cannot expect to be immune from criticism, and its policy will be closely watched by the public. But the measures just discussed diminish the stimulus to, and curb the power of, the shareholders to press the executive of the Bank to adopt any policy other than that which it considers best calculated to promote the general advantage.

Audit and Supervision

The importance of the duties entrusted to a Central Bank make it desirable to enact that the operations of the Bank should be subjected to rigorous scrutiny. This is most satisfactorily provided by laying down rules for the appointment of supervisors or Auditors, and for the definition of their duties. Provisions for the nomination of Auditors are included in most charters. The duties of the Auditors comprise the examination and passing of the balance sheets and scrutiny of the Bank's position. Provisions giving them access to the Bank's books and records for this purpose are to be found in various charters. The report of the Auditors is ordinarily submitted to the general meeting of shareholders. In some important instances a wider significance attaches to the functions of audit. The laws of the Bank of France provide for the appointment by the shareholders

forming the General Assembly[1] of three Censors to be elected from shareholders of the commercial or industrial classes. With the Regents these Censors form the General Council of the Bank, and it is their duty to report to the General Assembly on their supervision of the due execution of the Bank's laws. In Belgium the Board of ten Censors[2] "a le droit de contrôler[3] toutes les opérations". It passes the balance sheet and votes the budget on the proposal of the Board of Regents, whose resolutions modifying the discount rate and terms for advances are also submitted to the Censors. The Board of Censors decide further on the investments in public securities. It is laid down that the Board should meet at least once a month. Somewhat similar conditions are to be found in the charter of the Bank of Japan. In the case of the Reserve Bank of South Africa provision exists for audit by qualified accountants elected by the stockholders, and the Treasury is also empowered to inspect the Bank's books and records.

Apart from this kind of supervision and audit, publicity is an important element in the case of a Central Bank. As the currency authority, and in particular as the note-issuing authority, it is incumbent upon it to produce prompt and regular returns, showing its position in regard to its assets and liabilities. This obligation is universally recognised by the laws and charters of Central Banks. Except as regards the actual form of returns, there is a general similarity of practice. A statement is furnished by the Banks, either weekly or four times a month, showing their position, including the assets held against note and deposit liabilities. Provision is also ordinarily made for the presentation of an annual balance sheet and profit and loss account. These returns should be published with the minimum delay, and

[1] See Appendix I. p. 284.

[2] For the method of election, see Arts. 55 and 56, App. I. p. 195.

[3] It should be noted that the word "contrôler" does not carry the ordinary implications of the word "control". Its main significance is concerned with supervision to ensure that there is proper compliance with law and statutes and not with the discharge of executive authority in actual administration.

this is generally laid down in the charter. As regards the actual accounts, these must be made out so as to satisfy the requirements of audit, and the manner of compilation is important from the point of view of the State, seeing that it normally participates to a substantial extent in the profits. The statutes, when they deal with such a point, ordinarily provide that all working expenses must be charged against the year in which they are incurred, but in some cases, for instance, Austria, Germany, Hungary and Poland, it is laid down that the expenditure connected with the introduction of new bank-notes may be spread over a number of years. It is, of course, for the Audit authorities to see that the accounts are maintained on a sound and conservative basis.

It is a question whether a Central Bank should be required to produce an annual report on its operations. Apart altogether from the interest that the public may legitimately take in the proceedings of a national institution, the information in such reports may help to show how far the Central Bank is achieving its purpose and in what respects improvements may be effected. Certainly the annual reports and periodical bulletins issued by the Federal Reserve Board are invaluable documents. Informative reviews of the year's proceedings and important money market developments are provided in the annual reports of the Reichsbank and of the Bank of France. The statutes of the Swedish Riksbank, the Bank of Norway and the National Bank of Czechoslovakia provide for the issue and publication of an annual report on the working of the Bank. In striking contrast to this publicity is the case of some of the older Central Banks. The Bank of England's weekly return of assets and liabilities, for example, is the sole published source of information regarding its proceedings. The Bank publishes no annual profit and loss account, and the weekly return, though recently amplified, remains a model of discretion, preserving many secrets. In the case of the newer Central Banks, which have still to establish a tradition of sound management, the framers of the charters have aimed at the issue of statements which will give the public a clear

idea of the position from time to time. Complete uniformity of returns on the part of Central Banks is not practicable, owing to differences in business practice, but if they are to be properly informative it is desirable that the statements of assets and liabilities should distinguish the holdings of gold (coin and bullion), subsidiary coin and foreign exchange, and should specify separately the different groups of deposits (bankers', Government and others), the different categories of bills discounted (domestic or foreign) and the different classes of advances (State and other). Attached to this chapter are statements of the particulars required in the weekly returns in the case of the Bank of Estonia and the Bank of Chile. A comparison shows how different a view may be taken as to the information it is considered advisable to publish. While there is in principle no objection to the Central Bank's furnishing such extensive statistics as it considers it can give without embarrassment, it is at the same time undesirable to obscure the essentials by excess of detail. Whatever information is supplied, it should be in such a form that the public may not only judge whether their interests are being properly served, but may also gauge the monetary position from time to time in its true aspects. The return to be furnished by the Bank of Estonia was drawn up by the League of Nations in 1927, and it may be assumed that this return is viewed by the experts of the League as containing sufficient information for public purposes regarding the position of a Central Bank.

The nomination of the Governor by the State, the appointment of independent Auditors and the insistence on prompt publication of regular returns should ordinarily give adequate assurance that the Central Bank will be conducted in accordance with the statutes and as public interests require. These are safeguards imposed from within the organisation. A number of countries have, however, considered it necessary to go further in the way of strengthening public confidence and of providing against possible failure on the part of the Bank in the discharge of its duty. As already noted, the statutes of many of the European Central Banks provide for

the appointment of a State Commissioner with wide powers of supervision, so that the Government may be satisfied that the law and statutes are carefully observed on the part of the Bank. The range of his duties has already been discussed in Chapter II. The Commissioner's salary in the case of the Netherlands Bank and the Bank of Greece is payable by the State. This emphasises his responsibility to the State, and seems preferable to the alternative illustrated by the charters of the Central Banks of Austria and Hungary, in which power is reserved to the Government to require payment by the Bank to defray the cost of State supervision.

Special control over the Central Bank from outside the administration is provided in Chile by the Superintendent of Banks. This official, who is appointed by the President of the Republic, has the duty of conducting an examination into the condition of all banks in Chile, including the Central Bank. Examinations must be held at least once a year, but may take place as often as the Superintendent deems necessary. Moreover, he may call for any reports he requires to be submitted in prescribed form. The powers of the Superintendent are comprehensive, and are specially directed to prevent any infraction of the law, failure to maintain legal reserves or unsafe conduct of business. In the United States of America the control over the Federal Reserve Banks is vested in the Federal Reserve Board, which is given by the Act full authority to exercise general supervision, to examine the books and to take action in case of any violation of the law by a Federal Reserve Bank.

There is an important difference in conception between the cases where the requisite guarantee of good administration is provided by the constitution of the Board and arrangements of a domestic character, and the cases where a special agency in the form of a State Commissioner or Superintendent of Banks is introduced for the purpose. No doubt the requirements of all countries are not the same, and those countries where a conservative tradition of banking is well established can dispense with special safeguards deemed necessary elsewhere.

ANNEXE

FORM OF WEEKLY RETURNS

(*a*) ESTONIA

EXTRACT FROM STATUTES OF BANK OF ESTONIA

ART. 48. The Bank shall publish a Return of its assets and liabilities on the 7th, 15th, 23rd and last day of each month, and not later than a week after these dates, in the form set out in the Annexe to this Law.

ANNEXE

WEEKLY RETURN OF THE BANK OF ESTONIA

Assets.		*Liabilities.*	
(1) Reserve:		(1) Capital	
Gold coin and gold bullion			
Net Foreign Exchange (Bank Law, Art. 59)			
(2) Subsidiary Estonian coin		(2) Reserve Fund	
(3) Home Bills discounted:		(3) Current Liabilities:	
Commercial		(*a*) Notes in circulation	
Agricultural		(*b*) Sight Deposits and Current Accounts.	
Timber[1]		Government	
		Bankers	
		Other	
(4) Loans and advances:		(4) Other Liabilities	
Government			
Other			
(5) Immovable Property and Equipment			
(6) Other assets			
Total		Total	

Proportion of reserve to current liabilities . . . per cent.

[1] This item is separately stated for purely local reasons.

(*b*) CHILE

EXTRACT FROM LAWS GOVERNING THE CENTRAL BANK OF CHILE

ART. 92. In addition to the above-mentioned report the Bank shall submit weekly to the Superintendent of Banking, on such a day of the week as the Superintendent may determine, a balance sheet of the Bank in the form which the Superintendent of Banking may prescribe.

Among other things, this balance sheet shall show :

(*a*) The amount of bank-notes outstanding.

(*b*) The Bank's total deposits classified so as to show separately :

1. Deposits of member banks.
2. Deposits of the general public.
3. Deposits of the National Government, and
4. Deposits of provinces, municipalities and other governmental units and entities of Chile collectively.
5. Other deposits.

(*c*) The reserve of the Bank, classified so as to show :

1. The cash reserve held by the Bank in Chile, distinguishing :
   (*a*) Gold, and
   (*b*) Coins of silver, nickel, copper, collectively.
2. Earmarked gold held abroad.
3. Demand deposits payable in gold and located in banks abroad, qualified by law to hold legal reserves of the Central Bank.
4. Deposit credits in foreign countries not countable as legal reserves.

(*d*) The loans, discounts and other advances of the Bank of all kinds, classified :

1. As to classes of borrowers, *i.e.* :
   (*a*) Member banks.
   (*b*) The public.
   (*c*) The National Government.
   (*d*) Other governmental entities, and
2. As to maturities.

(*e*) The amount of bonds and other investment securities owned by the Bank, showing separately:

1. The amount of such securities issued or guaranteed by the National Government of Chile and other governmental entities of the Republic:
2. The amounts of such securities, if any, issued by foreign governments or other foreign political units.

ART. 93. The Central Bank shall attach to the above-mentioned weekly balance sheets a statement of the percentage of the gold reserve (including gold held in its own vaults, earmarked gold held abroad and demand deposits payable in gold in banks abroad qualified to hold its legal reserves) which the Bank is carrying against its notes outstanding and deposit liabilities combined. It shall also attach a statement showing its discount rates on various kinds of paper.

ART. 96. The reports mentioned in this chapter shall be published each week, within three days of the date to which they refer, in the *Diario Oficial*.

CHAPTER V

NOTE ISSUES AND NOTE AND BANKING RESERVES

THE essential function of a Central Bank is the maintenance of the stability of the monetary standard. This involves the control of the monetary circulation, and the Bank therefore should be given the right of note issue, and preferably the sole right. The alternatives are (a) the issue of notes by Government or (b) by commercial banks or (c) by both in combination. The arguments against Government control of the Central Banks have already been stated, and the objections apply with peculiar force in reference to the note issue. If the Government itself has the right of note issue, either alone or in association with one or more banks, political considerations and the pecuniary needs of the State rather than considerations of a sound monetary economy are likely sooner or later to become the determining factor. There will be a risk of excessive issues and consequent depreciation. The observations of the Irish (Free State) Banking Commission on this point are interesting:

> Mindful as it is of the disasters of past years in all countries where currency was issued by the Government, and recognising the hazards which come from changes of Government, from the development of budget deficits and other evils from which no country has found itself immune, the Commission is definitely of the opinion that the management of the legal tender note issue should be placed in the hands of a non-political and independent body, which shall control the conditions of issue and shall have full control and custody of the securities it holds.

The dangers that the Irish Commission had in mind are avoided if the Government is restricted to the issue of notes

purely against metallic cover, as is the case with the United States gold certificates, which are in effect warehouse receipts against gold held in the Treasury; but no country with a highly developed financial and commercial system could be content solely with a note issue of this nature, since a fiduciary issue is an integral factor in the expansion of credit. It is in the handling of the fiduciary issue that Governments have so frequently proved themselves unsatisfactory guardians of the public welfare. Further, however free a Government may be from ulterior motives, it cannot so easily and rapidly adjust the supply of paper money to the varying needs of the community, since it is not as sensitive as a bank to the conditions in the financial and commercial world. Hence a State issue is likely to be unduly inelastic if the Government of the day keeps to the paths of financial virtue, but all too elastic if the Government finding itself in pecuniary difficulties is unable to resist the attractions of the printing press.

The disadvantages of multiple note issues by commercial banks are no less real and have been frequently demonstrated by experience. Here again there is the risk of over-issue. Whether commercial banks have the right of note issue or not, the limitations of their profits is not practicable. Consequently, since the issue of notes is normally a profitable undertaking, each institution is likely to issue fiduciary paper up to the maximum possible. Even though there are definite limitations imposed by law on the fiduciary issue, the dangers of over-issue are not precluded, since the legal maximum does not necessarily coincide with the quantity that the circumstances of the day demand. With multiple banks of issue, all organised on a profit-making basis and all competing with one another for custom, the maximum issue legally permissible will tend to be the normal issue. Insufficient margin is thus left for safety, so that any untoward event may jeopardise the security of the whole banking system.

The importance of having a central issuing authority may be illustrated from the position in the United States

before the depression. By law, 40 per cent of the Federal Reserve Notes in circulation must be covered by gold and 35 per cent of deposits by gold or lawful money. Actually the reserve against the combined notes and deposit liabilities at the end of the years 1924–29 has been as follows :

Average for December			1924	.	.	73·8 per cent.
,,	,,	,,	1925	.	.	68·5 ,,
,,	,,	,,	1926	.	.	70·6 ,,
,,	,,	,,	1927	.	.	68·4 ,,
,,	,,	,,	1928	.	.	63·6 ,,
,,	,,	,,	1929	.	.	69·3 ,,

This situation developed from a deliberate policy on the part of the Federal Reserve Board adopted in the post-war period with a view to maintaining stable economic conditions. The economic policy of the United States tended to check the inflation of gold prices. Its retention has meant that from the point of view of profits a part of the resources of the Federal Reserve Banks has been invested in non-interest-bearing gold in the place of interest-bearing bills and securities. If the note issue were in the hands of commercial banks such a gold policy would have been impossible. No bank organised primarily for profit could afford to adopt a line of action which was so unprofitable from the point of view of dividends and which would place it at so great a disadvantage as compared with its competitors. Such a policy can only be put into force when dividends are a wholly subsidiary consideration and where there is some central directing body. This second consideration is an important one. It is a principle of sound currency organisation that the issuing authority should be the authority responsible for the control of the currency standard. In other words, these responsibilities should not be divided. With multiple banks of issue there can be no single directing impulse. Further, if there are many issuing authorities there must be many gold reserves. The dangers of such a situation have already been discussed with reference to the crisis of 1907 in the United States,[1]

[1] See *supra*, pp. 6, 7.

which furnished a convincing proof of the evils inherent in scattered gold reserves.

These considerations sufficiently explain the modern tendency to concentrate note issues under a Central Bank. The process is not yet complete. New Zealand still has six Banks of Issue and Canada also remains without a Central Bank, notes being issued by ten Chartered Banks as well as by the Dominion Government. The Chartered Banks, however, in so far as they fulfil certain of the functions of a Central Bank are subject to public control, and the limitation of their power of note issue is defined as precisely as that of a Central Bank. Other countries are in an intermediate stage. The United States is an outstanding instance. Government notes, notes of a number of national banks and Federal Reserve notes are all found in circulation, but there is a marked tendency for the Federal Reserve notes[1] to replace the other two classes. The notes of the national banks were reduced from about 21 per cent of the total monetary circulation in December 1913 to about 12 per cent by December 1930. Probably the framers of the Federal Reserve Act would themselves admit that such a situation is not ideal and is in principle open to objection. No central banking system can really be the controlling force it should be if its policy can be stultified by uncorrelated action on the part of numerous commercial banks of issue. The Central Bank may consider it advisable to contract credit, but the commercial banks, regarding the matter from a local standpoint and from the standpoint of their own balance sheet, may continue to lend and issue notes freely. The central banking system is thus robbed of its full effectiveness and there is no single policy directing the currency and credit system of the country. In the case of the United States this disadvantage is more apparent than real. One of the features of the previous system was its extreme inelasticity,

[1] Federal Reserve Notes are obligations of the United States Government. But the conditions of issue place them in a similar category to the notes issued by Central Banks. See Appendix I. pp. 434, 435.

and this characteristic still applies to the note issues of the national banks and of the Government notes. The responsibility for the expansion and contraction of the currency according to trade needs, therefore, rests in practice predominantly with the Federal Reserve Banks. Moreover, as an actual operation, the complete extinction of previously existing issues within a brief space of time may present insuperable difficulty when these have been on as large a scale as they were in the United States of America and when so many banks are involved. When the issues are more limited the problem is easier. In South Africa, for example, the Currency and Banking Act of 1920 made definite provision for the South African Reserve Bank gradually to take over the existing issues of the commercial banks, while the Colombian Bank Act of 1923 provided for the gradual withdrawal or redemption, both of the notes issued by the commercial banks and of the various forms of Government note.

In Europe a Central Bank with the sole right of note issue has long been in principle a generally accepted feature of the more highly developed banking systems. Italy with its three banks of issue was until recently a notable exception, but their note issues have now been combined under the Bank of Italy. Outside of Europe the same tendency is at work. The Commonwealth Bank, established before the war, has the practical monopoly of note issue in Australia. In more recent Charters, such as those of the Central Banks of Chile, Colombia and Ecuador, the Central Bank has been given the sole right of note issue, while a similar policy was recommended as regards the proposed Reserve Bank of India.

During the war, undoubtedly, the sound doctrine of leaving the note issue under the control of the Central Bank was violated either in letter or spirit, and many Governments encroached upon the prerogatives and independence of the Banks. Either the Government took upon itself the issue of additional notes, as in the United Kingdom, or where the Bank still kept the sole right of issue, as in France, it was in effect the Government's policy and not the Bank's policy that determined the volume in circulation. But as each

country went back to a gold basis, a Central Bank with the sole privilege of note issue became the salient feature of the new or reorganised systems. Clearly, the duties of a Central Bank in regard to the maintenance of the currency standard are such that it could not hope to discharge them satisfactorily if its control of the volume of the circulation was liable to be defeated by the action of others. In some instances the Bank's monopoly is emphasised by the inclusion in its charter of an explicit renunciation by the State of its power to issue notes, as in the statutes of the Banks of Czechoslovakia, Austria and Hungary. In the last two cases the issue of notes by the State entitles the Bank to surrender its privileges and to go into liquidation, even before the expiry of its term and without the consent of the Legislature. In Holland the Charter provides that the share of the State in the profits of the Netherlands Bank shall cease if the Government or any other bank should issue notes.[1]

The maintenance in the United Kingdom until 1928 of the £1 and 10s. Treasury notes, issued on the outbreak of the European War, was an obvious exception to the general practice. Any increase in these notes was prevented after 1919 by an executive rule limiting the fiduciary issue in any year to the actual maximum of the preceding twelve months, and in accordance with the recommendations of the Cunliffe Committee (1918) and the Bradbury Committee (1925), which were adopted as the basis of British monetary policy, it was recognised that the Treasury notes marked a temporary phase only and would sooner or later be amalgamated with the Bank of England's issue. This amalgamation took effect from 22nd November 1928. The Bank of England thus again holds the virtual monopoly of note issue which, apart from the issues of Scottish and Irish Banks, it had enjoyed for seventy years prior to the outbreak of the war. The independent issues of English banks which still remained as a legacy from the pre-Bank Act days lapsed entirely in 1920, and

[1] See however Arts. 31 (d) and 16 (1) of the Netherlands Bank, pp. 349 and 353.

were not in any case of sufficient magnitude to be important. Limited rights of note issue on the part of banks other than the Central Bank remain also in certain countries. Four of the German banks, for example, may still issue notes, but they are not legal tender, and the total permissible issue is only 194 million marks, a figure which is only a very small proportion of the total note issue of the Reichsbank. The notes of the commercial banks do not therefore affect the position of the Reichsbank as the controlling power in connection with the issue of paper money, but proposals for the extinction of the right of issue have been made.

Many Charters, besides conferring the privilege of sole issue on the Central Bank, prescribe, as a natural corollary, stringent penalties for the circulation by others of paper payable to bearer on demand that might function as currency. Provision to this effect appears in the laws regulating the Reserve Bank of South Africa, the Commonwealth Bank of Australia, the Netherlands Bank and in certain other cases.

Before discussing the amount and nature of the reserves which the Banks are obliged to keep against their notes it is necessary to consider the relations between the functions of the Banks as note-issuing and as deposit organisations. In some countries the law specifies the reserves to be held against the combined total of note issues and current accounts or " other immediate liabilities ". In others the reserve requirements apply to note issues only. The complete separation of banking and issuing functions which is manifested in the two departments of the Bank of England is exceptional. It has a historical significance, but is open to criticism, from a banking point of view, in that it does not exhibit the Bank's liabilities as one comprehensive whole, though it has the advantage of directing immediate attention to the amount of free resources at the Bank's disposal. It also involves an element of inelasticity which might have proved highly inconvenient if it had not been circumvented by the development of the cheque and by skilful technique on the part of the Bank's management. The implications of the British system are examined in greater detail here-

after. The system of a separate Issue Department has been copied by Australia, influenced, perhaps, by the tradition of the Mother Country rather than by banking considerations, but in general, even where the legal reserve requirements apply to note issues only, there is not this rigid separation into two departments. The abortive Indian Reserve Bank Bill proposed that a separate Issue Department should be maintained, but the position would have differed from that of the Bank of England as the Indian note issue was to have been based not on a fixed fiduciary issue but on the proportional reserve system.

The existence of legal requirements for the reserves to be held against note issues whilst banking reserves were left uncontrolled, was a common feature of the older established banks of issue. At the time when their charters were drawn up bank-notes played a more visible rôle than other forms of bank money, and it was not unnatural for attention to be focussed on the former to the exclusion of the deposit functions of the Central Banks. Notes still constitute the principal liability of many of the issuing banks, but as economic conditions develop the relative importance of actual currency as compared with bank credit declines. If then it is held necessary to regulate the assets held against the note issue it is legitimate to inquire whether it is proper to leave banking reserves uncontrolled. It might be urged that the limitation of note issues in itself acts as a sufficient check on the granting of bank credits. It is true that since an increase in the volume of credit means, *ceteris paribus*, a rise in prices and consequently an increase in the demand for currency, an undue extension of bank credits may so increase the demand for bank-notes that the maintenance of the legal limitations as to note issue and reserves becomes impossible. A wisely administered Central Bank, therefore, must necessarily consider the state of its reserves against notes in determining how freely it will lend and create other forms of bank money. But the very existence of legal requirements for reserves against note issues is a recognition of the fact that a Central Bank cannot be regarded as infallible, and there can be no logical grounds for

accepting the unfettered judgment of the bank administration in connection with banking reserves but not in connection with reserves against note issues. The fixation of an absolute figure for the fiduciary issue, which cannot be raised at the Bank's sole discretion, as is the case in the United Kingdom, may be justified by the principle that if it is placed at a level below which the note circulation could in no imaginable circumstances fall, the convertibility of the notes is virtually assured. But the fact that an abundant note cover is not in itself sufficient protection to a Central Bank is illustrated by the history of the Bank of England. Before the Bank Act had been in force a quarter of a century it was found necessary to suspend it on three occasions, and on each occasion the trouble arose from the insufficiency of assets in the Banking Department. Assuming a heavy demand for the withdrawal of deposits and the encashment of notes a Central Bank would not be able to discriminate between the two in the paying out of cash, and the allocation of specific resources to specific liabilities is largely illusory. Many of the newer bank charters have accordingly recognised the essential unity of a Central Bank's note and deposit liabilities, and from the point of view of reserve requirements make no distinction between notes and other immediate obligations. Such is the case, for example, in Austria, Hungary, Czechoslovakia, Finland, Bulgaria and Chile. In the United States of America, as has already been pointed out, the reserves to be held against notes and deposit liabilities are separately fixed by the Federal Reserve Act, namely, at 40 per cent gold for the former and 35 per cent gold and lawful money for the latter. It is difficult to see any adequate reason for allowing a reserve against deposit liabilities which is 5 per cent less than that considered necessary as a reserve against notes, and expression has been given in the United States to the view that it is unwise to have these two different proportions.[1]

The regulations as to reserves vary considerably in

[1] Cf. Prof. E. W. Kemmerer, Report in support of Bill creating " El Banco Central de Chile ".

different countries. French developments in this matter have been interesting. In France there was prior to 1928 no stipulation regarding the proportion of notes to be covered by gold, but the maximum note issue was fixed, the limit being raised from time to time according to the needs of trade. Between 1914 and 1926 the maximum was increased by law on a number of occasions without due regard of consequences, but when the country was on a gold basis expansion was carefully controlled. Under the monetary law of June 1928, which re-established the gold standard, the Bank of France is required to maintain a reserve in gold bullion or coin equivalent to 35 per cent of its notes in circulation and current accounts. At the same time the previous restrictions as to the maximum permissible issue were abolished. In England the Currency and Bank Notes Act, 1928, reaffirmed the time-honoured principle of the Bank of England's note issue, in virtue of which all notes issued over and above a fixed figure are covered cent per cent by gold. The fiduciary issue was fixed by the Act at £260 million,[1] which total conformed closely to the position existing at the time when the union of the Treasury and Bank notes issues was carried out. The nature of the securities held in the Issue Department is left to the decision of the Bank. In Norway and in Japan the Bank's fiduciary issue is also fixed by law, and the excess over the amount has to be covered by 100 per cent gold. In Sweden the Riksbank may issue notes to an amount of 250 million kronor, together with an amount equal to twice the metallic reserve. In Spain the absolute maximum for the note issue is fixed at 6000 million pesetas, but the issue may only exceed 5000 million pesetas on the proposal of the Supreme Banking Council and with the consent of the Government if economic conditions definitely demand an increase. The Supreme Banking Council, it should be pointed out, is the highest administrative body dealing with the private banks. A Royal Commissioner acts as President and a representative of

[1] It was raised in August 1931 to £275 million under the procedure laid down in the Currency and Bank Notes Act, 1928, Section 8.

the Bank of Spain as Vice-President. The Spanish system combines a fixed maximum issue with a minimum percentage for the gold reserve, varying with the size of the issue. If the total circulation is not above 4000 million pesetas there must be a metallic cover of at least 45 per cent, including at least 40 per cent in gold. When the circulation is over 4000 million pesetas and not in excess of 5000 million the total metallic cover must be at least 60 per cent with 50 per cent in gold.

A peculiar feature of the former Italian system was the differentiation between notes issued on commercial account and those issued as advances to the State. This distinction, while it had the merit of making clear the extent of Government indebtedness to the Bank and in normal times provided a method of limiting this indebtedness, seemed likely to lead to the mistaken impression that the former are in principle different in economic effect from the latter. In both cases a maximum issue was fixed by law which was combined with a minimum percentage for the reserve, though the proportion fixed for the State issue was lower than for the commercial issue, namely $33\frac{1}{3}$ per cent as compared with 40 per cent. These restrictions on the State issue became inoperative as additional advances had been authorised as a result of the war, and no obligation was imposed as to their cover. But following the announcement of the stabilisation of the lira in December 1927, the gold and foreign assets of the Bank were revalued and the profit was used to cancel the indebtedness of the State to the Bank previously represented by the circulation of notes on account of the Treasury.

Most other countries have fixed a minimum percentage of the note issue, or of the note issue and sight obligations combined, which must be covered by gold, but unlike Spain they have no fixed maximum issue. The percentage varies widely and must clearly depend on the circumstances of the country. Where confidence in the Central Bank is well established the reserve can safely be set at a lower limit than in a country where it is still on its trial. Thus in Chile and Colombia, with their chequered financial history, the normal minimum reserves against

notes and deposit liabilities have been put on expert advice at 50 per cent and 60 per cent respectively, and 50 per cent is the figure prescribed for the more recent Bank of Ecuador. In Latvia the reserve against notes is 50 per cent when the note issue is less than 100 million lats, but if the note issue exceeds that amount, 75 per cent of the next 50 million lats must be covered by the reserve and the whole of any issue over 150 million lats. On the other hand in Australia the reserve is only 15 per cent. In Germany the normal statutory minimum for the reserve is 40 per cent of the note issue, and in Italy since the latest reforms 40 per cent of the note issue and other sight obligations combined.

The fact that many countries have abandoned the former practice of issuing gold coin must have an appreciable influence on the amount of gold it is necessary to keep in reserve. It would suggest that a lower proportion might now be considered safe than was previously the case. Actually, of the few countries which to-day are on an effective gold or gold exchange standard most have reserves well in excess of the legal requirements,[1] but the present uneven distribution of the world's gold supply cannot be regarded as permanent, since it must be expected to be continually changing with the trend of international trade and finance. Clearly it is necessary, at any rate for the Central Banks of those countries from which gold may freely be drawn, to hold reserves substantially in excess of the legal minimum, so that they may be able to meet possible future demands without serious disturbance of credit. How the situation will develop, and whether the present reserve requirements will be found suitable to future conditions, it is impossible to foretell. If, as some authorities suggest, the output of new gold should hereafter prove insufficient, even on the basis of a reduced price level, to meet the trade demand and the monetary needs of the Central Banks, on the present basis of reserve requirements, it would be desirable for the Central Banks to reconsider in concert the question of modifying the gold proportions now laid down. There is nothing sacrosanct

[1] See pp. 171 *et seq.*

about these percentages, which are still in the state of experiment.[1] The science of credit control is continually advancing with the progress of economic development, and if the need arises, improved mechanism will in all probability enable further economies to be made in the use of gold.

Prior to the settlement of the question by the Currency and Bank Notes Act, 1928, the point had been discussed whether the United Kingdom would not be well advised to adopt a percentage basis for its gold reserves. It was known that the Treasury notes would in due course be amalgamated with the Bank of England note issue, and this, it was suggested, would furnish an opportunity for revising the Bank Act on the lines of the Federal Reserve System. If such a change were advocated on the ground that it would enable a larger superstructure of credit to be based on the present gold holdings of the Bank of England, it would be necessary to consider whether it is a good thing *per se* to expand credit and whether in the circumstances of the case the expansion could be maintained without producing the disadvantages of inflation. To explore these monetary problems fully would be beyond the scope of this book; but as the limits of credit expansion in a country on a gold basis are set by the level of external gold prices, it would seem that unless expansion in the United Kingdom had been associated with a corresponding movement in the United States and elsewhere, it would have been short-lived, as losses of gold and the need for safeguarding the gold standard would have quickly led to a policy of credit restriction. As it was decided to adhere to the traditional British system of a fixed fiduciary issue, the question of adopting another plan has become academic. It is, however, of interest to examine the practical effect of the suggested change in British policy. This can be conveniently studied on the basis of the Bank of England's return for 21st November 1928, the last return to be issued prior to the amalgamation of the note issues. For present purposes the amalgamation may be assumed to

[1] Cp. Interim Report of the Gold Delegation of the Financial Committee of the League of Nations, 1930, and the Final Report, 1932.

have taken place, and the Bank's return may be summarised and rearranged on American and Continental lines. If this is done, the Bank of England return for 21st November 1928, which showed a ratio of gold to bank-notes in the Issue Department of 89 per cent and a reserve proportion in the Banking Department of 42·8 per cent, would appear as follows:

BANK OF ENGLAND RETURN OF 21ST NOVEMBER REARRANGED AS AN AMALGAMATED STATEMENT INCLUSIVE OF TREASURY NOTES

	£000,000		£000,000
Capital. . .	14·6	Government Debt. . .	11
Rest . . .	3·2	Government Securities . .	277·6
Deposits . .	114·3	Other Securities . . .	43·5
Notes . . .	362·1	Gold and Silver . . .	162·1[1]
	494·2		494·2

This statement shows a holding of gold against notes of 44·7 per cent. But in the United States of America the normal legal minimum for the reserve is 40 per cent gold against notes and 35 per cent gold or lawful money against deposits, and somewhat similar proportions have been adopted in certain of the European countries, such as France, Belgium, Austria and Hungary for the combined reserve against notes and other immediate obligations. If the note and deposit liabilities in the hypothetical return above are taken together, the gold reserve of the Bank works out at 34 per cent. Such a proportion is lower than the standard minimum prescribed by the Federal Reserve Act, and the modern charters of representative Central Banks on the Continent. So far, therefore, from indicating an unduly high holding of gold, a comparison with American and Continental practice would suggest that the reserve was unduly low, and if that practice had been adopted it would have necessitated a policy of credit restriction. It may, however, be urged that the gold percentages laid down by American and Continental practice are higher than are required for safety. Such a contention as applied to the United Kingdom, with its special liabilities as Europe's free gold

[1] The amount of silver is not shown separately, but is relatively insignificant. In the discussion following the holding is treated as being gold alone.

market, would appear difficult to establish. In any case, if there is to be a general revision of gold percentages with a view to effecting economy of gold, it would require concerted treatment by the Central Banks. As long as other countries maintain the present reserve requirements it is not clear, so far as the United Kingdom is concerned, what purpose would be served by adopting a lower percentage gold ratio than deemed appropriate elsewhere. To justify an expansion of credit the actual gold reserve would have had to be well above the standard minimum, which would not have been the case as regards the Bank of England's gold holding at the time of the amalgamation of issues, even if a ratio of 35 per cent as in France had been adopted as compared with the 40 per cent applied in certain representative countries. Thus the adoption of the Federal Reserve plan by the United Kingdom in 1928, even with a somewhat lower gold reserve requirement, would not have released a store of credit not available under the traditional monetary system.[1]

Whether the reserve requirements of a Central Bank are determined on a proportional system, as in the U.S.A., or by reference to a fixed fiduciary issue as under traditional British practice, approximately the same quantitative result as to the amount of gold to be held may be arrived at by suitable adjustment of the figures. The question whether statutory gold reserves are appropriate to the Bank's total liabilities is entirely distinct from the question as to whether these requirements are arrived at in a way that allows sufficient scope for elasticity of control in the regulation of credit. The system of the Bank of England has sometimes been criticised from this latter point of view. It is urged that it prevents that elasticity of credit necessary to promote trade activity. It is pointed out that if the Bank of England adopted the American system it would be able to issue £100 of notes for every £40 of gold that came into its possession, while at present it can only issue fresh notes to the exact

[1] Still less would there have been scope for credit expansion on the proportional reserve system in 1929 and 1931 when the Bank of England's gold reserves were subjected to heavy reduction.

amount of new gold received. It must not, however, be overlooked that the converse also applies. For every £40 of gold withdrawn from this country the Bank of England need only contract its note issue by £40, whereas a country organised on the Federal Reserve pattern might in similar circumstances have to contract their circulation by the equivalent of £100. The question of the elasticity of currency has thus two facets and has different implications according to the conditions of the country. In countries, for example, in which agriculture in any form plays a predominant part, it is essential that the currency should be easily expanded to meet the increased demand when the crops are being moved. So much is this the case that in Canada the banks are allowed to increase the fiduciary issue of notes during certain times of the year. In the United States the inelasticity of the currency under the old régime in the face of seasonal variations was one of the strong arguments in favour of the introduction of the Federal Reserve system. But in England, when working on a gold standard, the situation is different. The effect of crop movements is seen not so much in an increased internal demand for currency, as in increased imports, which tend towards, if they do not actually produce, a demand for gold for export. In general, variations in the internal demand for currency in England are comparatively slight, whilst the demand for gold for export is highly variable and is a matter of far greater importance than in any other country. The liability of the London money market to demands for gold for export before the war was one of the chief explanations of the fact that the bank rate was more subject to fluctuations than was the case in a country such as France, but if the gold exported had been used as the basis for an issue of notes to 250 per cent of its own value, these fluctuations must inevitably have been greater than when it supported notes of equal value only. If the gold were exported as the result of an " unfavourable " balance of trade due to a maladjustment between internal and external prices, it is arguable that

the greater contraction of currency would be an advantage since it would more speedily reduce internal prices and re-establish equilibrium. But even in this case there would be no immediate benefit to trade, and the jar to industry would, if the working of the law was not tempered by counteraction on the part of the Central Bank, be more violent than under the present cent per cent system. Further, under normal conditions, London is peculiarly subject to exports of gold which may have no connection with any disparity in its own internal price level with external prices. A foreign country can always draw gold from London if it holds a credit there as the result of its balance of payments or raises one *ad hoc*; many countries hold such credits in London, and those that do not are always able to obtain one, if they are prepared to pay the price. When London fulfils its usual rôle as an international market for borrowing and a free market for gold, it must always remain liable to sudden withdrawals of gold for export on a large scale, as was illustrated in 1927 by the gold purchases of the Bank of France and again significantly in 1929 and 1931. In such circumstances there are obvious dangers from a too elastic note issue, which might lead to excessive variations in currency supply, and consequently in prices. London was in practice the only centre liable to such risks. None of the Continental countries are international gold markets in the British sense, while in the United States the reserves actually held are so largely in excess of the statutory requirements that substantial withdrawals of gold can take place without entailing contraction of the note circulation in the theoretic proportion of 100 to 40 of gold withdrawn. The shock can be absorbed in whole or part by allowing the ratio of gold to liabilities to be reduced, since it is well above the prescribed standard at the outset. The exceptional character of the gold position in the United States has directed the working of the Federal Reserve system on lines that were not contemplated by its framers, and has provided, where contraction is required, scope for an elasticity of treatment which would not otherwise have been available.

As regards expansion, it may be urged that as in the United States of America notes may be issued in the proportion of 100 to 40 of gold, the British system would not allow the currency authority here to keep in step with an expansionist movement on the part of the Federal Reserve Board. The possibility of an excessively rapid expansion under the American plan can certainly not be ignored, and this is one of the features of the proportional reserve system which calls for constant vigilance. If, however, such a development took place in the United States, the effect of it would be to raise prices there and to cause exports of gold to London and other centres. These exports of gold would continue until factors at work in the United States and outside had again restored an equilibrium. If the movement in the United States had been violent the slower response of currency expansion in England would have proved of benefit as a moderating influence. Assuming, however, that a more rapid movement was thought desirable, there are ways open to the Bank of England to speed up expansion, for although the Bank's note issue is regulated on rigid lines the ratio of the Banking Department of the Bank of England is subject to no statutory restriction, and here the proportion has always been permitted to vary widely from time to time. By these variations the Bank has been able to impart an elasticity into what otherwise would have been a rigid frame. The Bank's " proportion " (that is, the percentage of the reserve to deposit liabilities) used before the war to stand normally in the neighbourhood of 45 per cent. The late Dr. Leaf stated that 40 per cent was not regarded as a particularly low figure and that 30 per cent was generally held to be the minimum that was safe, and when that was approached a rise in bank rate was confidently looked for.[1] In the early post-war years the Bank worked with much lower proportions, but the ratio was on the whole rising, and at the end of September 1927 stood at 27·8 per cent. At the time of the amalgamation of the

[1] Leaf, *Banking*, p. 41.

note issues the ratio stood at 43·6 per cent. Between these last two dates the bank rate had remained unchanged at 4½ per cent. Thus in the case of the Bank of England the rigidity of the Issue Department is tempered by the elasticity of the Banking Department. This may be illustrated by the Bank of England's operations after the reintroduction of the gold standard in the United Kingdom in 1925.[1] For the first three and a half months after the return to gold there was a continuous inflow of gold into this country, but it was realised that this was likely to be only of a temporary duration and should not therefore be used as the basis of credit expansion. The Bank accordingly reduced its loans and sold securities as the gold came into the country, with the result that there was no increase in the deposits of the Banking Department; the notes issued against the new gold were used to strengthen the reserves and were not put into circulation. During this period the reserve proportion rose from 22 to 31 per cent. During the following three and a half months the movement was reversed; the Issue Department lost £17,000,000 and cancelled an equivalent amount of notes. This outflow was not, however, due to unduly high internal prices, so that the situation did not call for a restriction of credit; such a restriction would, moreover, have had a serious effect on trade, which was already depressed. The Bank, therefore, bought investments and increased its loans to the market. Deposits were as a result maintained at the same level, but the reserve proportion declined during this period from 31 to 21 per cent. A wise handling of the market is not therefore a mere matter of subservience to legal obligations as to gold reserves and note issues, and the system of a fixed fiduciary issue may be harmonised with the requirements of an elastic credit control.

The action of the Bank of England and of the Federal Reserve authorities in countering the disturbing effects that variations in their gold holding might otherwise exert suggests that the practical effect of the difference between

[1] See *Midland Bank Review*, March-April 1926.

the two systems in working may easily be exaggerated. The important point to note is that under each system scope exists for latitude and discretion. The actual gold position in London and the peculiar liability of London to gold exports point, as previously suggested, to the drawback of adopting a system which might increase the range of currency and credit movements. The allegation of inelasticity in the working of the traditional British system when viewed as a whole has been seen to be ill-founded. A certain good-will, moreover, attaches to that system with its established record, and this in itself was worth retaining, especially when the alternative was to experiment with a scheme of which the advantages in the case of the United Kingdom appear altogether problematical.

In the preceding pages the relation of the metallic reserve to notes has been under discussion, but certain points also arise as to the nature of the reserve itself. Since the abandonment of silver and bimetallic standards the holding of silver in note reserves has tended naturally to disappear. A metal of fluctuating value such as silver is unsuitable, whether in the form of token coins or bullion, as an asset against liabilities in gold. In countries such as Spain, Poland and Japan, where some silver is allowed in the reserve, the amount is strictly limited. Between 1861 and 1928 the Bank of England had not made use of its powers to issue notes against silver, but on the unification of the Treasury and Bank notes issues in November 1928 recourse was had to the right, given by the Currency and Bank Notes Act, of holding a limited amount of silver coin in the Issue Department, where it is reckoned as part of the cover of the fiduciary issue. This silver is a remnant of redundant coinage. The policy is to reduce the holding, and no doubt its place will in due course be taken by securities of the ordinary type.

In the older bank charters what was ordinarily meant by a reserve was actual gold or silver in the vaults of the Bank. Owing, however, to the increasing disuse of gold as currency, the view widely held in the last century that a Central Bank's cash reserve should consist only of actual metal has in

recent years undergone important developments, and many of the newer Bank charters allow foreign claims in gold to be reckoned as part of the legal reserve, the nature of such claims being carefully defined so as to ensure that they are absolutely secure and can be quickly liquefied. Thus in Germany 40 per cent of the value of notes issued must be covered by gold or "Devisen", that is bank-notes or bills of not more than fourteen days' currency, cheques and claims due from day to day payable in foreign currency by banks of known solvency. Of this 40 per cent, three-quarters must be in gold. The law also provides that apart from the statutory cover for the note issue the Reichsbank shall at all times "hold assets in the form of demand deposits in Germany and abroad, cheques on other banks, bills of exchange running for a period of not more than thirty days, or in loans payable from day to day representing not less than 40 per cent of the Bank's deposit liabilities apart from those on reparations account". This clause is open to the criticism that deposits in, or claims on, other banks in Germany do not constitute a true reserve to the Central Bank, seeing that at a time of stringency they could not be withdrawn or discharged without forcing the banks holding them to re discount eligible paper at the Reichsbank. The result would be that the cash reserve of the Reichsbank would be used to make advances to the commercial banks to enable them to repay the sums previously deposited with them by the Reichsbank.

In Belgium 40 per cent of notes and other immediate liabilities must be covered by gold or foreign values convertible into gold, and of this three-quarters must be gold. In certain other cases the proportion of the reserve to be held in gold is not specified. In Austria all notes and immediate liabilities in excess of the existing Federal Loan Debt must be covered by a cash reserve which is to be gradually increased to $33\frac{1}{3}$ per cent. The cash reserve may include foreign currency and foreign values, foreign currency being defined as foreign notes which have not undergone violent fluctuation of exchange, and foreign values as bills made out in the above currencies, credit balances and cash deposits

payable at leading banking centres in Europe and America; the bills must be vouched for by banks of unquestioned solvency and must fulfil certain requirements as to length of maturity and the number of signatures. Until cash payments are introduced, the law provides that 25 million gold crowns must be held in credits and deposits of the kind specified above at the chief banking centres of Europe and America. In Chile the 50 per cent reserves against notes and deposits may include deposits payable in gold on demand in London and New York. Provisions on the above lines are found in Czechoslovakia, Hungary, Italy, Poland, Bulgaria and Finland.

The countries which include claims on gold abroad in some form in their cash reserves are, it will be noticed, countries which are, or prior to the summer of 1931 were, for all practical purposes on a gold exchange standard, that is, countries which have not yet reintroduced gold payments but are maintaining the stability of their currencies in relation to foreign gold currencies, such as the pound and dollar. The issue of notes against foreign values is an effective method of ensuring this stability, since it provides the means of withdrawing notes that may become redundant. Where, as in Germany, Belgium and Chile, the Bank is definitely empowered, as a part of permanent policy, to redeem its notes in foreign drafts or foreign currencies as an alternative to redemption in gold, the inclusion of foreign values in the cash reserve is an obvious corollary of this policy. It has the advantage not only of ensuring stability but also of effecting an economy in gold itself when exchanges have reached one or other of the gold points. If the exchanges are such that gold would naturally be exported, the sale of drafts on a gold centre, by providing a claim to gold at that centre, obviates the necessity of actual transfer of the metal, whilst the cancellation of the notes received in payment for the drafts will, by reducing the currency in circulation, set in motion forces tending to bring the exchange back to equilibrium. Conversely, when the exchanges point to an import of gold, the Bank, if it wishes

to check the transfer, can do so by operating in exchange. It will take over the gold credits abroad, which will form the cover of corresponding issues of paper money at home. Thus the currency will be increased as the state of the exchanges demands, without any actual transfer of gold. The right to issue notes against external assets might also prove important in times of crisis when actual gold might be difficult to obtain in sufficient quantity at short notice without creating a disturbance of credit. The nature of the credits admissible as part of the legal reserve vary in different countries. There is a distinction, for example, between deposits payable in gold on demand in London or New York, which is the sole form of foreign claim allowed to the Bank of Chile, and bills of fourteen days' currency payable in foreign currency such as the Reichsbank is empowered to hold. But the object in all cases is the same, the essential matter being to provide that the claims in foreign currency reckoned as part of the metallic reserve should be so restricted by definition as to be to all intents and purposes as good as gold. This substitute for gold suffices in all ordinary times, but there is always the contingency, however remote, that a country may be driven off the gold standard by some exceptional event such as war, and that credits ordinarily payable on demand in gold may suddenly become incapable of withdrawal in that form. Where notes are freely convertible into gold, as normally in the United Kingdom and as is the case in the United States of America, the prescribed cash or metallic reserve should consist of gold and gold alone. Additional expense is necessarily incurred by the Banks in these cases, as a larger part of their resources has to be kept in actual metal, but this is part of the price paid for the maintenance of a free gold market, without which no country could act as an international centre of finance. It is noteworthy that the French currency reform of 1928 has provided that the 35 per cent reserve of the Bank of France against notes and deposit liabilities should be in the form of gold only, and no part of the reserve is convertible into gold exchange.

Insistence on adequate reserves is the great safeguard against over-issue, but no system, however carefully devised, can ensure that the Central Bank will never find itself in difficulties. If in the face of a crisis leading to a rush on the Bank, the reserve requirements are rigidly preserved, the Bank may be unable to meet the demands made on it, although it has gold in its possession. In the last resort it is more important to use the gold than to keep the legal reserve percentage intact. Consequently, many Central Banks are allowed to reduce their reserves below the normal minimum on payment of a tax, graduated so that it increases as the reserve percentage falls. At the same time the Bank is generally required by law to raise its discount rate by specified amounts. This latter requirement is not found in all cases, but it is a foregone conclusion that with a seriously reduced reserve the rate of discount would be raised as a matter of course. The introduction of a graduated tax on the infringement of the standard reserve is intended to prevent the Bank from benefiting by the raised discount rate. The imposition of this tax will not, however, necessarily act as a deterrent against the reduction of the reserve, as the amount of the tax is likely to be insignificant from the point of view of the balance sheet of the Bank, and in many instances it is illusory as representing at least in part a payment that would otherwise come to the State through its share in the profits of the Bank. Practical experience of the working of the note tax, which has operated at times on the Continent before and after the war, is not extensive, but regulations on the above lines are found in Germany, Austria, Hungary, Czechoslovakia, South Africa, Denmark, Chile and Colombia, and since 1931 in Spain. In Germany the agreement of the General Council, with not more than one dissentient vote, is required before the reserve requirements can be abrogated. In the United States of America the sanction of the Federal Reserve Board, and in South Africa and Estonia of the Government, is necessary. Such arrangements are not, however, confined to countries where the minimum reserve is fixed on a percentage

basis. In Japan, as in the United Kingdom, there is a fixed fiduciary issue, limited normally to 120 million yen. But if an increase in the circulation of money is deemed necessary in view of the condition of the market, the Bank of Japan may, with the sanction of the Ministry of Finance, issue notes against Government Loan bonds, Treasury bills or reliable commercial paper in excess of the above amount, on payment of a tax which is fixed by the Minister of Finance but may not be less than 5 per cent. An arrangement on similar lines exists in Norway.

It will be noticed that some of the Banks referred to above can set aside the normal limitations on their note issue at any time on their own initiative; in other instances the permission of a Government department or controlling authority is necessary. The need for superior sanction introduced in these latter cases seems desirable, as it emphasises the importance of the emergency and enables the authority concerned to associate its consent with any conditions it may deem advisable. This has always been recognised in British practice. Prior to 1914 the only way by which the Bank of England in times of crisis could increase its fiduciary issue was through the suspension of the Bank Act by Parliament, and it was therefore open to the Government of the day to lay down its requirements as to the rate of discount as a condition precedent to the application to Parliament. By the Currency and Bank Notes Act, 1914, the Bank of England and the Scottish and Irish Banks of Issue were permitted temporarily, as a war measure, to issue notes in excess of the limit laid down by law so far as this might be authorised by the Treasury, and subject to any condition attached to that authority. The Committee on Currency and Foreign Exchanges after the War (Cunliffe Committee) in their first report recommended the continuance of this arrangement, subject to the qualification that it should be obligatory to inform Parliament at once by means of a Treasury minute laid before both Houses of any action taken. This suggestion was given effect to in the Currency and Bank Notes Act, 1928, which made some

noteworthy changes from previous British practice. The Act laid down that the Bank of England's fiduciary note issue should be fixed at £260 millions. Provision was made for the reduction of this figure by the direction of the Treasury at the request of the Bank. The existence of such power might be of utility to the Bank, if it became expedient hereafter to sterilise any inconveniently large accretions of gold that might otherwise lead to inflation. The Act also laid down that if the Bank should represent that an increase in the fiduciary note issue above the figure of £260 millions would be expedient, the Treasury might authorise such additional issue for a maximum period of six months in the first instance. The increased issue may be renewed from time to time, provided that it is not extended beyond two years in all from the original grant without the express sanction of Parliament, which is to be at once informed of any increase authorised above the statutory figure. It was explained in the course of the discussions in Parliament on this important clause that these powers of increasing the fiduciary issue were not intended merely as a substitute for the well-known " crisis " letter, but were meant to anticipate an emergency before it had actually arisen. The elasticity provided by these reserved powers might, for example, enable a sudden foreign demand for gold, not due to anything intrinsically unsound in the internal situation, to be met without entailing excessive disturbance. It was in circumstances of this order that the fiduciary issue was raised to £275 million in August 1931, when in the course of the development of the crisis, which was to drive Great Britain off the gold standard, the Bank's gold resources were subject to drain by the demand for foreign remittance.

These new arrangements give Parliament the opportunity of raising a discussion on any increase made in the fiduciary issue, and though the increase will already be a *fait accompli*, it must be remembered that even with the pre-war system the emergency conditions which necessitated the suspension of the Bank Act might call for immediate action on the part of the Government in advance of the

approval of Parliament. The difference in the machinery is therefore less than might appear at first sight, but the two methods may have different effects on the attitude of the Bank and of the public. It might be suggested that the efforts to avoid any increase in the fiduciary issue would possibly be less strenuous if it can be authorised by an executive department as a part of recognised procedure than if the sanction of the Legislature to the suspension of an Act of Parliament were required. This might in some circumstances be a disadvantage. On the other hand, if the increase in the fiduciary issue can be authorised by the Executive, the situation may be deprived of the catastrophic appearance that is inevitably associated with the temporary suspension of an Act of Parliament, and the psychological effects of this difference in atmosphere may be of genuine practical importance.

It remains to consider the regulation of the note issue apart from the reserves. If it is to fulfil its functions satisfactorily the note issue must be capable of being quickly adapted to the needs of the moment, and the method by which the notes are issued and the securities, other than gold, on which they are based may have an important influence in this connection. This can be most readily illustrated by the position in the United States of America before the passing of the Federal Reserve Act. The notes of the national banks were issued against Government United States bonds of an equal par value. As the bonds stood for many years at a premium, the profit made by the banks on the transaction was small. They therefore tended to increase their note issue when the price of Government bonds fell, and to sell bonds, thereby decreasing the note issue, when the price rose. Thus the price of Government debt rather than the trade needs of the country became a governing consideration in regulating the volume of notes. The disadvantages of this system were intensified by the fact that, as experience showed, the price of Government bonds often rose in times of trade prosperity and fell when trade was depressed. Thus it frequently happened

that when trade was slack and currency should have been contracted the banks were inclined to increase their note issues for the sake of the greater profit. Conversely, when trade was active and the need for currency increased, the banks found it least profitable to issue notes, and this inelasticity of the note issue in times of expanding trade led to serious practical difficulties.[1] This serves to demonstrate the evils that may arise when the issue of notes is in the hands of profit-making organisations, and the importance of ensuring that it shall by some means be related to the real trade needs of the moment. The method adopted by the Federal Reserve System is the issue of notes, other than those covered by the gold reserve, against collateral in the form of notes, drafts, bills of exchange and acceptances which conform to certain requirements under other sections of the Federal Reserve Act; that is to say, under the original law notes might only be issued against paper which represents genuine commercial transactions, and which is automatically liquidated on their completion. This has been modified by the Glass-Steagall Act, 1932, which, for a limited time and under special conditions, allows notes to be issued also against securities of the United States Government. Similarly, in Germany the notes not covered by the cash reserve are held against discounted bills or cheques of a type that the Bank would be able to accept for discount. Regulations on these lines are found in most countries where the reserve is fixed as a percentage of the total note issue.

The notes of a Central Bank are created ordinarily with the object of serving as a legal tender throughout the country. This may be appropriately specified in the Bank's charter, as it is in the case of Germany, Japan,[2] Poland, Chile and elsewhere. In the United Kingdom bank notes are legal tender not only for payment generally but under the Currency and Bank Notes Act, 1928, for payments by the Bank of England itself. Such a condition must repre-

[1] Kemmerer, *The A B C of the Federal Reserve System*, pp. 11-15.

[2] In Japan the point is dealt with in the Convertible Bank Note Regulations.

sent practice when there is no legal obligation to redeem in gold coin. In countries where the Central Bank is obliged to convert its notes on demand into gold currency, a note, even if otherwise legal tender, cannot be a legal tender in payment by the Bank itself. Thus the charter of the South African Reserve Bank lays down that no tender of a note is a legal tender by the Bank. The right of conversion into gold, when it is in force, should normally be exercisable either at the Head Office of the Bank or its branches, but in the case of branches provision may be made, as for example by the Netherlands Bank and some other Central Banks, for a brief space of time, *e.g.* twenty-four hours, in which to obtain gold from the Head Office. Alternatively, as in the case of Chile, payment may be made in drafts at par on the Head Office. This is merely a precaution in case of a local shortage in the supply of metal, which is more suitably stored in bulk at the Head Office. Failure to redeem notes in gold or foreign currency, unless due to *force majeure* and recognised by the State as such, indicates, of course, a breakdown of the whole central banking scheme. In such circumstances, as also for any other breach by the Bank of an essential condition in the charter, the State should have the right to step in and to forfeit the Bank's privileges. Such a situation is expressly provided for in some charters, for example, those of Austria, Hungary, Czechoslovakia and Chile. In Chile the law laid down with almost brutal frankness that in the event of a failure by the Bank to redeem its notes as provided, it shall be declared "bankrupt on account of suspension of payments" and shall be liquidated in accordance with the law. But it goes without saying that no Government could do otherwise than intervene if the monetary system collapsed, not owing to forces beyond control, but owing to the incapacity of the Central Bank to discharge its responsibilities. The whole position would have to be reviewed, and the Government should be free to take action regardless of any previous commitment to the Bank. In practice the relations between the Bank and State should be such as to preclude any failure by the Bank to observe the terms of the

charter unless the departure is previously authorised by the State in recognition of compelling circumstances.

The restrictions imposed on Central Banks in the matter of the issue of notes and the regulations regarding cover have special reference to the necessity of ensuring as far as possible against the risks of over-issue. But there are other matters concerning the circulation of notes in which the State cannot disinterest itself although it may hand over to a Bank the task of regulating the issue itself. It is accordingly a common feature to prescribe rules regarding the denominations of notes, or to lay down in general terms that these should be settled between the Bank and the Government. In Japan the denominations are fixed by the Convertible Bank-note regulations. In Poland and Chile they are to be fixed by the Bank with the approval of the Government. In South Africa the denominations are to be prescribed by the Treasury. The exact method is of minor consequence. The important thing is to secure that the Government should have a voice in determining the denominations of currency in the form of notes, in which the business of the country will be conducted. In the United States the Controller of the Currency provides the plates for the printing of notes and supplies the notes themselves. The form and material of the notes may properly be subject to Government approval, even in cases when the Central Bank is in charge of the issue itself. No State can be indifferent to the appearance of its currency, which must be designed with view to security against forgery and also with view to aesthetic effect. The Bank should also be definitely required to maintain the quality of the circulation for reasons of convenience and hygiene. Torn, worn or dirty notes should not be reissued. Typical references to this matter are to be found in the charters of the Reichsbank and the National Bank of Czechoslovakia.

Finally, the advisability of imposing some form of taxation in the ordinary fiscal sense on the note issue remains to be considered. This question is a part of

the broader question of the profit-sharing arrangements between the Central Bank and the State which is discussed in Chapter III. The modern tendency is to abandon specific taxation on particular parts of a Central Bank's business and for the State to take instead a share of the Bank's profits. If specific taxes on notes are levied, a smaller sum will accrue to the State through its share in, or approportion of, the residual profits. There is a certain simplicity and convenience in allowing the whole question to be dealt with in a comprehensive profit-sharing scheme, and in the case of a unique institution like a Central Bank exemption from Government taxation is free from the objection that it involves unfair advantage in competition.

CHAPTER VI

RELATIONS BETWEEN THE CENTRAL BANK, COMMERCIAL BANKS AND THE MONEY MARKET

THE Governor of the Bank of England, in the course of his evidence before the Royal Commission on Indian Currency and Finance, gave the following reply to a question as to the duties of a Central Bank :

It should have the sole right of note issue ; it should be the channel, and the sole channel, for the output and intake of legal tender currency. It should be the holder of all the Government balances ; the holder of all the reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, so far as it could, suitable contraction and suitable expansion, in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emergency credit might be obtained in the form of rediscounting of approved bills, or advances on approved short securities, or Government paper.

Some of the grounds for the view that a Central Bank should be " the holder of all the reserves of the other banks and branches of banks in the country " were referred to in Chapter I., where emphasis was laid on the advantages to be derived from the concentration of banking reserves in the hands of a Central Bank, so that they might be mobilised for use at any threatened point. It is only by the concentration of the banking reserves of the country in this way, and by placing on the bankers' bank the obligation of maintaining extreme liquidity, that the availability of

the reserves can be assured against a time of crisis. This view was reflected in the British Currency and Bank Notes Act, 1928, which included a clause empowering the Bank of England to require persons in the United Kingdom owning gold exceeding £10,000 in value to sell such gold to the Bank at the Bank's statutory buying price. This right to commandeer gold does not, however, apply to gold held for immediate export or for industrial purposes, and the provision is evidently directed against the internal holding by private bodies of gold which, on public grounds, would be more advantageously held by the central institution.

If a Central Bank is to be in a position to control credit, it must have an unchallengeable voice in deciding the volume of credit to be available from time to time. If the banking reserves of the country are in the hands of a Central Bank, it is able to regulate the credit position on its appreciation of the situation as a whole and in the light of changing developments. If, on the other hand, reserve balances representing potential credit are held by the commercial banks themselves, it would be easy for them to pursue a credit policy independent of that of the Central Bank, and possibly conflicting with it. The very idea of a Central Bank presupposes that the commercial banks will deposit their cash resources, other than till money, with it, and that a system will be established under which the commercial banks will not counter the credit policy of the Central Bank by any action on their part. If the commercial banks were to set themselves deliberately to oppose the policy of the Central Bank, for example, by expanding credit when the central institution was aiming at credit restriction, it would obviously be possible for them, in certain conditions and subject to limitations imposed by the necessity of not compromising their present or future stability, to neutralise, at least temporarily and to a partial extent, the action of the central authority. It is, therefore, important to recognise the part played by the co-operation and participation of the commercial banks in the scheme of credit control, and it follows that contact, however informal,

should at all times be maintained between them and the Central Bank. The commercial banks, which finance the business of the country, are entitled to expect of the Central Bank that it will give careful consideration to their views on matters of common concern, subject always to their recognising that when the Central Bank, with its special responsibilities, has formulated a line of credit policy, their own policy should be made to conform with it. The situation may be illustrated from practice in the United Kingdom. The cash reserves held by the commercial banks may be regarded as a percentage of their liabilities to the public, and though the banks have no uniform, or legally prescribed, ratio the percentage held in the form of cash and balances with the Bank of England is in the neighbourhood of 10 to 15 per cent of deposit liabilities.[1] Though this proportion is higher than is needed for the purpose of bank working, that is, for the requirements of clearing and till money, the fact that the banks have laid a restriction on themselves in the matter of the cash reserves they hold, involves a practical limitation on the amount of additional credit they can create. At the same time, apart from the obligation of maintaining the cash ratio, they have no inducement to contract credit, seeing that this would entail a reduction of profits. Thus the decision as to whether expansion or contraction of credit should be effected rests, in the main, with the Bank of England, which by its credit policy or by its operations in bills or securities increases or decreases the market supplies of cash, thus permitting an expansion or compelling a curtailment of the volume of credit. Before the war the action of the Bank of England in this matter was directed mainly by the strength or otherwise of its reserves. In the post-war years, as was evident from the gold policy of the Federal Reserve Board and of the Bank of England, other considerations, such as the preserva-

[1] Dr. W. Leaf, *Banking*, p. 129. In his address to the shareholders of the Midland Bank on 28th January 1929, the Rt. Hon. R. M'Kenna pointed out that the Bank had reduced its cash ratio from 13·3 to 11·5 per cent over the year in order to provide the basis for credit expansion.

tion of stability in business conditions and prices, exercised greater weight than the mere proportion of gold held.[1]

As the credit policy of a Central Bank finds its expression through its effect on the cash position and lending capacity of the commercial banks, the question arises whether the Central Bank's discount and loan operations should be restricted by its charter to operations with the commercial banks. In other words, the suggestion is that the Central Bank should not enter into direct relations with the general market. Even on the theoretic side such a rigid conception of the requirements of a Central Bank is defective. The state of the exchanges, excessive speculation or other unhealthy symptoms of trade may indicate the need for credit restriction, at a time when the resources of the commercial banks are large enough to make them virtually independent of the Central Bank. On such occasions the mere raising of the discount rate, already *ex hypothesi* out of touch with market conditions, would be fruitless as a check. If, therefore, the Bank seeks to reduce the market supplies of money, the corrective is to be applied by the sale by the Central Bank on its own initiative of bills or securities. The payment for these has the effect of reducing the resources of the commercial banks and of transferring them to the Central Bank. The process has only to be continued until the Bank's rate of discount becomes effective, so that it is again in a position to dominate the market. These open market operations are a most potent weapon in the hands of a Central Bank; for cash to a commercial bank is the base on which an inverted pyramid of credit is raised to several times its

[1] Cf. "Federal Reserve credit policy in 1926 was formulated with reference to the business and credit conditions that prevailed during the year, as briefly described in the preceding section of this Report", and "Thus the credit policy of the Reserve System in 1926, a year of stable conditions in business and in credit, was to maintain the discount rates at the reserve banks unchanged at 4 per cent, except for adjustments at the New York Bank, and to continue the system's open-market investments with relatively small fluctuations, near the level prevailing at the opening of the year" (Annual Report of the Federal Reserve Board for 1926).

volume. A diminution of available cash supplies, therefore, quickly forces a policy of credit restriction on the commercial banks. But it is not only for this purpose that open market operations are of importance. The purchase of bills and securities, by which the cash of the commercial banks is increased, forms the quickest method by which a Central Bank can of its own motion relieve a sudden stringency or prevent its coming by anticipatory action.

Further, unless the power of direct dealing is provided, the Central Bank may find itself on occasions left high and dry with no adequate outlet for its resources, and although profit-earning is an entirely subsidiary consideration with a quasi-public institution like a Central Bank, it would be difficult to justify restrictions which had the effect of inhibiting the Bank from employing its resources remuneratively, under appropriate conditions and safeguards, provided that the fulfilment of its primary function of credit control is in no way impeded thereby. Actually for the reason already emphasised, the fulfilment of this function, so far from being impeded, is positively assisted by the power of dealing direct with the market. This has been the experience in the United States, where increasing importance attaches to the open market operations of the Federal Reserve Banks in the exercise of credit control.[1]

As regards the initiative of the Bank of England, it is in constant relation with other constituents of the money market besides the Joint Stock Banks whose balances it holds. Certainly the Bank could not function efficiently unless British practice underwent substantial change, if it had not the power of dealing direct with the bill-brokers and discount houses, and it is well known that by its open market operations the Bank is able to maintain relatively stable conditions when carrying out large money operations connected with Government and international finance, and to mitigate the disturbances that would otherwise be caused by large transfers of funds between the State and the taxpayer, and by other factors of a similar type. The stabilis-

[1] See *Report of the Federal Reserve Board*, 1923.

ing influence of the Bank's open market operations has been often illustrated. An example may be of interest. In 1928, when the effect of gold accretions, amounting to about £21 millions, between February and September was counteracted by an almost identical decrease in the Bank's holdings of securities. The Bank's action checked the weakening tendency of discount rates in the face of large gold arrivals, as this in the Bank's view, which later events justified, would have been contrary to the requirements of the international situation. When, conversely, in 1929 heavy gold losses occurred, the Bank promoted stability by increasing its holding of securities.

While the power of direct dealing with the market is necessary, a Central Bank should exercise this power with discretion, always regarding it as subsidiary to its main purpose of controlling credit. The cardinal duty of a Central Bank is to safeguard the currency standard and to maintain sound conditions in the money market. The efficient discharge of this duty imposes on the Bank the obligation of conducting its credit policy with a high degree of independence, unhampered by any particularist interest in actual trade and commerce. For this reason it must not be directly associated or identified with that class of business connection inseparable from ordinary commercial banking. Though in the long run there can be no conflict of interest between the sound financial policy which it is a Central Bank's object to ensure and the requirements of trade, a Central Bank may at times have to enforce a credit policy unwelcome to merchants, manufacturers or the commercial banks. This is likely to be the case especially when a contraction has to be brought about in the volume of credit, as traders are naturally averse to measures involving a curtailment of available facilities and a readjustment of the conditions of production entailed by a movement towards a lower level of prices. In order that the Central Bank may carry out its task with the maximum degree of freedom and impartiality, it should be exempt from the commitments that direct credits to industry involve; and

since the customers of a bank look to it for credit, it is desirable that a Central Bank should be free from the pressure to lend that the custody of private accounts may bring in its train. This points to the advantage of imposing restrictions on a Central Bank in the matter of the receipt of deposits from private customers. This view has been carried to its logical conclusion in the Federal Reserve Act, which does not allow the Federal Reserve Banks to receive deposits from private persons. Generally speaking, in other cases private deposits are not prohibited by law, but limitations on the Central Banks' business of this class arise indirectly as a consequence of the provision that they should not be allowed to pay interest on the deposits they receive. The question is further discussed in the following chapter.

The grounds for excluding Central Banks from such association with industry as is legitimate in the case of commercial banks are strengthened by the consideration that the business of a Central Bank must be conducted on the safest lines and on a basis which will maintain its resources in the highest degree of liquidity. Avoidance of direct commitments to commerce will keep down bad debts, and will assist liquidity, as loans to traders have a well-known tendency to require renewal. It also has the advantage that it limits the competition between the Central Bank and the commercial banks. The establishment of harmonious relations between the Central Bank and the commercial banks will clearly be helped by demarcating their spheres of operations as far as possible. The desirability of this is emphasised by the fact that the Central Bank not only generally has the important advantage of holding the Government balances and the balances of the commercial banks free of interest, but it also on occasion has to advise the commercial banks as to the line of action that it is desirable on national grounds they should follow.[1]

[1] In Czechoslovakia the duty is laid on the Bank, " in the interest of orderly banking, to ascertain the amount of the commercial credits throughout the State and control them, in order to prevent as far as possible their misuse ". For this purpose the Bank is authorised to require reports from outside parties.

This aspect of Central Bank activity has assumed increased importance in recent years, and there have been noteworthy instances of its helpful exercise in Germany[1] and the U.S.A., where the Federal Reserve Board invoked the aid of the member banks in its efforts to check the use of credit for purposes of Stock Exchange speculation in 1928 and 1929.

The Central Bank's credit policy, as already shown, will be worked out through the transactions of the commercial banks. The existence of a sound Central Bank, apart altogether from the general benefits it confers on a country, brings special advantages to the commercial banks, in that they can look to it for guidance as regards policy, and for facilities by which their cash reserves may be increased on occasions of need. Rediscounting at the Central Bank of approved commercial paper or the grant of loans by it on approved short term securities are the recognised means by which a commercial bank that has conducted its business on prudent lines can strengthen its cash position at the shortest possible notice, and the grant of these facilities by the Central Bank is a unique service that it can render to the commercial banks. It gives a confidence which could probably not be supplied by any other means. The extent to which these facilities may be demanded in a special time[2] of crisis has been illustrated by the figures previously furnished regarding Japan. Similar opportunities for assistance by the Central Bank on a colossal scale arose out of the credit crisis of 1931 in Germany and Austria. In Austria the total of bills discounted rose from schillings 148 million at the beginning of 1931 to schillings 907 million on 31st December 1931. In the case of the Reichsbank the value of internal drafts standing among the Bank's assets on 31st December 1931 was RM.4030 million as compared with RM.2075 million a year previously. Though these were happily quite abnormal situations, they serve to demonstrate in an extreme form the nature of the services that a Central Bank can, and does, render to the commercial banks in differing degrees

[1] Vide *Report of Reichsbank for 1927.*

[2] See *supra*, p. 10.

from time to time as the need for temporary additional credit arises. This does not mean that the Central Bank should act without discrimination or a careful scrutiny of each case. Were it to do so there would be no incentive to the observance or development of sound banking tradition. It is no criticism of a Central Banking system to point out that in countries where Central Banks are established bank failures and business crises occur. Advocacy of a central banking system rests not on the view that it is a panacea or a substitute for prudent banking, but on the view that it affords the best basis for a sound banking and business economy and the surest safeguard for the stability of the currency.

In examining the banking activities of the Central Banks in different countries and their relations with the commercial banks, it is convenient first to refer to the situation in the United Kingdom, where banking evolution has proceeded on lines different from elsewhere. Central banking theory is a comparatively modern development, and though the importance of regulating the output of paper currency was early recognised, owing to the obvious facility for its abuse, the banking side of the Bank of England was left free from statutory regulation. Hence there are no legal restrictions on the Bank of England's banking business, apart from its note issue. Under the British system the joint-stock banks do not look directly to the Bank of England as the source for increasing their cash supplies when occasion requires, and the assistance of that institution is invoked not by the rediscounting of bills by the banks, but by the withdrawal by the banks of funds lent by them at call or short notice on the market, with the result that bill brokers and other borrowers have to make recourse to the Bank of England to obtain the means of repayment. Thus the Bank is, as suggested in the passage quoted at the beginning of this chapter, "the ultimate source from which emergency credit" is to be obtained by the market "in the form of rediscounting approved bills, or advances on approved short securities, or Government paper". Under American and Continental practice the arrangements for the supply of

temporary additional credit are in result the same, though they differ in detail as the commercial banks rediscount directly with the central institution.

The systems of Central and Reserve Banking established on the Continent of Europe and in the United States of America differ from the English system not only in respect to the relationship of the Central Bank with the commercial banks, but also with regard to the legal regulation of banking business. Intermediate in time, the Continental system is also intermediate in type. The nature of the business that the Continental Central Banks and the Federal Reserve Banks may undertake is strictly defined in each case, but the form of the governing laws or charters as well as the line of development shows a difference of conception in the framers of the two sets of institutions as regards the relations to be established with the public and the commercial banks. In the case of the Bank of France and the Reichsbank with their numerous and widely distributed branches there was obviously never any question of restricting their ordinary business dealings to banks and cognate institutions. The Bank of France was intended from the outset to bring banking and discount facilities within the reach of the small tradesman as well as the great corporation, and the governing statutes make no distinction in terms between business with the other banks and business with the public. Generally speaking this procedure has been followed in drawing up the constitutions of other European Central Banks.

Closer conformity to the view that the charter of a Central or Reserve Bank should be drawn with special view to its position as a bankers' bank is realised in the typically American pattern. The Federal Reserve Act, and the law constituting the Southern and Central American Banks, which were drawn up in the light of United States experience, define in the first instance the character of the business to be transacted between the Central Banks and the commercial banks. The nature of the business to be transacted with the public is separately prescribed.

The Federal Reserve system differs also from the Euro-

pean system of central banking as regards the obligations imposed on the commercial banks in relation to the central institution. When a commercial bank keeps the account of a private customer, it is open to it to require a certain minimum balance to remunerate itself for the labour and responsibility involved, or alternatively to levy some charge on the customer in substitution. It may be asked: Should a Central Bank require from the commercial banks a balance of an amount prescribed with relation to their deposit liabilities, and should this requirement in respect of the balance be laid down by law or should it be regulated by negotiation between the two parties? The Central Bank which performs vital services for the whole banking system of the country is entitled to expect material as well as moral support from the constituents of that system, who in their turn look to the Central Bank for assistance at times of stress. In England, France and other European countries the question of the amount of the balances to be held at the Central Bank by the commercial banks is left free from statutory regulation. But in the United States, certain of the South American republics and South Africa a different policy has been followed. In the United States the member banks are required to keep as a minimum balance with the Reserve Banks an amount representing, according to the place where the member bank is situated, 7 to 13 per cent of their demand deposits and 3 per cent of their time deposits. In Chile the corresponding proportions are 20 per cent and 8 per cent, and in South Africa 10 per cent and 3 per cent for demand and time liabilities respectively.[1] In Colombia the member banks are obliged to keep certain statutory reserves against their deposit liabilities, and non-interest-bearing deposits in the Central Bank are reckoned as legal reserves up to the amount of half their legal reserve requirements. When, as in the United States, Chile and Colombia, the commercial banks subscribe the whole or part of the

[1] A demand deposit or liability for this purpose comprises in the three countries named deposits or liabilities payable within thirty days, and time deposits all deposits or liabilities payable after thirty days.

capital of the Reserve Bank, their obligatory deposits contribute to the earning of a dividend from which they benefit. Moreover, the prescribed reserve balances are not necessarily immobilised, as member banks in the United States of America may, under rules laid down by the Federal Reserve Board, draw upon them for meeting existing liabilities, provided that no new loans are made or dividends are paid until the statutory balance is restored. In Chile provision also exists for a reduction of the balance below the prescribed proportion, subject to the payment by the Bank of a fine varying from 2 to 4 per cent on the amount of the deficiency. In South Africa the law prescribes a penalty of 10 per cent per annum, recoverable by action in a competent court, on the amount of a deficiency in the prescribed balance with the Reserve Bank. In that country the commercial banks were required to contribute to the original subscription of capital of the Reserve Bank, but they are no longer obliged to keep a part of their capital so invested. This is now left to their option.[1]

In the case of the United States and other countries which have followed its example the provisions discussed above are part of a scheme for the control or supervision of commercial banking which may be exercised either through the Reserve Bank organisation as in the United States or by a specially constituted official agency as in Chile. In such a scheme detailed rules regarding balances to be held with the Reserve or Central Bank have an appropriate place. But such rules may create a sense of false security as suggesting that compliance with them is sufficient to maintain a sound position, and further experience must be awaited before it is possible to pass judgment on the success or otherwise of schemes for the official supervision of banking. The main advantage of statutory deposits would seem to be to develop the Central Bank as a bankers' bank *par excellence*. On the other hand, a Central Bank must in the last resort justify itself by its work, and if its authority is

[1] *Vide* evidence before Commission of Enquiry on the resumption of gold payments in South Africa, 1925: Questions 3389-3392.

sufficiently established, it is probably better, as in Europe, that the relations between the Central Bank and the other banks should be worked out by negotiation between them with the minimum of legal stipulation, and that recourse should only be had to legislation if other methods of achieving the desired result are not sufficiently encouraging. A system based on legal requirements necessarily sacrifices an element of elasticity in the relations between the central and commercial banks, and militates against a diversity of arrangement to suit the requirements of different cases. The conditions in each country must, however, clearly be taken into account when considering which system is the more suitable. In European countries, where the number of commercial banks is comparatively small, sufficiently close and satisfactory relationships can be secured between the Central Bank and the commercial banks without defining them by law, but the problem was different in the United States, where the number of commercial banks involved was so great[1] that more precise methods for linking them with the central organisation may well have been necessary. In some instances when the Central Bank is superimposed on an existing banking system the commercial banks which have maintained themselves previously without it may perhaps not fully appreciate its advantages, and, jealous of their position, may question the expediency of the innovation. To overcome this prejudice, it may be necessary to insist on a scheme for obligatory deposits by the commercial banks with the Central Bank, for if these deposits are withheld the central banking organisation cannot achieve its full purpose. In this connection it is also worth noting the influence that the system of compulsory deposits with the Reserve Bank may have on the development of a sound standard of banking. If the reserves of the commercial banks have been deposited with one another and used for loans for speculative purposes, as was the case formerly in the United States of America, the legal requirement of a specified

[1] On 31st December 1930 there were 8052 member banks in the Federal Reserve System (*Seventeenth Annual Report of the Federal Board*, p. 16).

deposit with the central organisation has material advantages. In the view of Professor Kemmerer the "divorcing of the legal reserves of over 9500 commercial banks from the speculative and capital loans of the stock market is one of the big achievements of the federal reserve system ".[1]

It is natural to inquire how far these distinctions in the matter of the statutes as between the Continental and American type of Central Bank have practical effect in working. Although the charters of the Continental Central Banks handle the question of the Bank's business without distinguishing between business with commercial banks and with the public, the nature of the business to be performed shows it to be largely of a rediscount character, and such Banks as, for example, the Bank of France and the Reichsbank, in addition to their other functions, definitely discharge the duties of a bankers' bank. On the other hand, it is to be noted that while emphasising their rôle as bankers' banks, American practice allows the Federal Reserve Banks to deal in eligible paper, securities, gold and exchange with the open market. This also applies to the Central Banks in South America based on the United States pattern. The dealings of the Federal Reserve Banks with the market reach large dimensions, and apart from the non-admissibility of private deposits in their case it would seem that in working practice the difference of form in the governing constitution of the two types of Central Bank tends to apply rather as one of mode of expression than of kind. If it is recognised that a Central Bank to function efficiently must be allowed for reasons already stated to conduct operations in the open market,[2] the question as to the kind of business that the Banks should, in the public interest, be allowed to perform is likely to prove in the end of more practical significance than the definition of those with whom they should perform it, since the character of the business will itself largely determine the parties with whom it is conducted.

[1] Kemmerer, *The A B C of the Federal Reserve System*, p. 37.

[2] This point was emphasised in the Report on the resumption of gold payments by the Union of South Africa by Prof. E. W. Kemmerer and Dr. Vissering, § 46 *seq.*: U.G. No. 13, 1925.

CHAPTER VII

DEALINGS IN GOLD AND FOREIGN EXCHANGE, DISCOUNTS, LOANS AND OTHER BUSINESS

The efficient functioning of a Central Bank depends in the main on the restriction of its sphere of operations to business proper to a bank entrusted with a great national responsibility, and on the punctilious adherence by the management in letter and spirit to the rules laid down for this purpose. The sections in the Bank's charter dealing with this branch of the question are thus of the greatest importance. If any weak joint is allowed in the frame of principles that regulate the permissible business, the whole structure may be fatally compromised. Hence, as will be seen from the abstracts of the charters in Appendix I., there is a striking similarity in the general range of activities allowed. While in some cases the authors of the statutes have felt obliged to make concessions to local conditions which go somewhat beyond the dictates of strict doctrine, it will be apparent, especially in the case of the more recent charters based on the ripest experience, that effort has been made to confine such departures to actual necessities, and in some cases to limit them in point of time. As regards the older Central Banks, it must always be remembered that though the charters may seem unduly wide the practice of the Banks is in advance of their regulations, and that in working they rigidly eschew many classes of business that could be brought within the range of their permissible activities as technically defined. In the case of the Bank of England, whose banking as distinguished from note-issuing operations are virtually unrestricted by law, it is probably true that if a charter

were drawn up in the light of actual practice it would, allowing for the special conditions of the London money market, conform in regard to loan and discount operations closely to the principles that compliance with central banking theory requires and with the actual prescriptions of the more recent statutes.

A broad statement of the general scope of a Central Bank is to be found in the first clause of the Bank Law of August 1924 regulating the Reichsbank, which defines the duties of the Bank as being " to regulate the circulation of money in the whole area of the Reich, to facilitate the clearance of payments and to provide for the utilisation of available capital ". The main operations in which a Central Bank engages derive from these responsibilities, and are set forth in a summary form below :

(1) The issue of notes.
(2) Dealing in precious metals and foreign exchange.
(3) Discounts, loans and advances.
(4) Deposit business, especially in relation to commercial banks, and the organisation of arrangements for clearing.

Of the above, the Bank's policy in regard to heads (1) to (3) has a special connection with the regulation of the monetary circulation and credit and the maintenance of the established parity of the currency. An efficient discharge of its responsibilities under these heads will be reflected in the conservation of the money resources of the country and the proper utilisation of available credit. The provisions by which the note issue is regulated by various Central Banks and the relations between the Central Bank and the State have been separately discussed. The present chapter is concerned in particular with (2), (3) and (4). Reference will also be made to certain subsidiary business, such as the execution of transactions for third parties and the receipt of objects of value, securities, etc., for safe custody, which Central Banks are authorised in many cases to undertake, and in conclusion a brief account will be given

of the definite restrictions that in some instances have been imposed upon their activities.

Dealing in Precious Metals and Foreign Exchange

So long as gold is the standard of value it is necessary that some authority in the State should be required to buy gold or gold exchange at a price fixed in relation to the established parity, and to sell at a price correspondingly determined. Only if such provisions exist is there security that the local currency will neither rise above nor fall below gold parity by more than a small percentage representing the cost of moving bullion to or from the country concerned. Hence the law or charter of a Central Bank should provide that the Bank should be able to deal in gold. In the case of the United Kingdom the Bank of England is under obligation to buy gold at the price of £3 : 17 : 9 per ounce standard,[1] and, until the suspension of the gold standard in September 1931, was obliged to sell it at £3 : 17 : 10½ per ounce standard in quantities not less than 400 fine ounces. The object of imposing a quantitative limit was to ensure that the demands for gold on the Bank should be those arising from banking requirements for foreign remittance, and that demands for gold of a retail character for domestic consumption should be supplied through other channels. Under the Gold Standard Act of 1925,[2] the Bank was relieved of the obligation to issue gold coin, and the great importance of economising the circulation of gold was thus recognised. The usual method of expressing the Central Bank's obligation with regard to the sale of gold takes the form of requiring the Bank to redeem its notes in a specified weight of fine gold, and this is the objective assumed in the charters of various Central Banks, *e.g.* Czechoslovakia and Poland, which have been working on the basis of a gold exchange standard, and are

[1] There is no legal bar to the Bank's paying more than this figure, and on occasion, *e.g.* in the course of 1929, the Bank has at times done so under motives of high policy.

[2] See Appendix II.

directing their policy towards the resumption of specie payments to be introduced hereafter, when the ground has been duly prepared. Meanwhile, the obligatory repayment of notes in gold is in abeyance.

As regards the compulsory purchase of gold at a fixed price in local currency, this is free from the risks and responsibilities attaching to the obligatory sale, and has, in consequence, been adopted by certain countries working at present on a gold exchange basis and aiming at the adoption of specie payments hereafter. In cases where the State is prepared to issue gold certificates or gold currency in exchange for gold bullion, the obligation to buy gold at a stated price naturally devolves on the State. This is the case in the United States of America. Similarly, in the United Kingdom the Royal Mint was formerly under an obligation to buy gold from the public at £3 : 17 : 10½ per ounce standard, the small difference between this figure and the Bank of England's price representing an interest charge, as the seller of gold to the Bank obtained payment forthwith, while a sale of gold to the Mint involved some delay between the delivery of the gold and the receipt of the coined sovereigns. By the Gold Standard Act of 1925 the right of the public to bring gold bullion to the Mint to have it assayed and delivered back in the form of gold coin was terminated. The right now applies only to gold brought to the Mint by the Bank of England. In the case of France the obligation to buy gold at a fixed price is imposed upon the Bank of France by the monetary law of 1928. Before the war it was generally convenient for the Central Banks to buy gold at a price fixed in relation to the Mint par, even in cases where the legal obligation was imposed not on the Bank but on the State. Under modern conditions where a gold circulation is generally in abeyance, and gold bought is paid for in notes or bank balances, it is natural to concentrate the obligation of buying and selling gold at fixed prices in relation to the currency standard on the Central Bank, which can pay for it in notes issued against the gold, and this is the course

that was recommended in the case of the proposed Reserve Bank for India. In this respect its practice would have conformed to the legal position in the United Kingdom.

Central Banks are also normally authorised to deal in silver, and in special cases, such as Russia and Lithuania, in platinum. Token silver currency is ordinarily provided through the Central Bank by the State, which retains the profits, and purchases of silver for coinage would therefore not be on the Bank's own account. Silver is a metal liable to serious fluctuations in gold value, and though the generality of Central Banks are authorised to deal in it, there is no reason for thinking that they do so on their own account. Sales of silver that has become redundant may at times be carried out by Central Banks, but it would seem that losses involved in such transactions should be for the account of the State, by which the original profit on the coinage would ordinarily have been appropriated. In a few cases, for example the Federal Reserve Banks of the United States and the Reserve Bank of Chile, only dealings in gold are allowed.

Closely connected with the function of dealing in gold is the function of operating in foreign exchange, ordinarily permitted to Central Banks. This has a special significance in the case of those countries which have elected to link their currencies with gold through the medium of one or more foreign currencies freely convertible into gold and exportable in that form. Owing to the cost of maintaining large supplies of inert gold, and to the desirability of restricting the world demand for gold, the adoption of the system has been greatly extended since the war. This is the position in those countries, such as Belgium or Italy, where the redemption of notes may be effected *at the Bank's option* in gold or foreign currency representing the price of an equivalent amount of gold in the foreign country concerned, subject to a deduction corresponding to the cost of shipping gold thither from the home country. In Germany the Reichsbank is compelled to buy bar gold at the fixed rate of 1392 reichsmarks for one pound fine, but is under no corresponding obligation as regards the sale of gold, though

it has been stated on behalf of the Bank that it is prepared to release gold if required, and it has in fact done so. The Reichsbank law contemplated that the Bank should be placed under obligation to pay its notes *at its option*:

(1) in German gold coins of authorised weight and fineness at their par value;

(2) in gold bars of not less than 1000 reichsmarks and not more than 35,000 reichsmarks at their value in pure gold in terms of German gold coins of authorised weight and fineness;

(3) in cheques or orders to pay in foreign currency equivalent in value to the market value of the currency concerned in the matter as expressed in gold. . . . The Reichsbank may in such cases charge a commission not exceeding the proportionate cost of transmission of large sums of gold to the place of business of the foreign bank concerned, together with interest.

The acceptance of this obligation required a formal resolution of the Bank's Managing Board and of the General Council, which was issued in April 1930, in connection with the introduction of the Young Plan for Reparations. An interesting example was provided by the Free State of Danzig, which until September 1931 was working on a sterling exchange standard. The stability of the Danzig gulden in relation to the pound was provided for by the following requirements:

(1) On payment at its counter in Danzig of a minimum sum of 1000 gulden in Danzig coin or bank-notes, the Bank had to deliver pound cheques upon its pay-office in London, as long as the gulden were offered, at a rate of not more than 19s. 10d. for every 25 gulden.

(2) On payment of pounds sterling at its pay-office in London, the Bank had to deliver gulden cheques upon its pay-office in Danzig for amounts not less than 1000 gulden at a rate of not more than £1 : 0 : 1 for every 25 gulden.

This scheme, it is interesting to note, was adopted in November 1923 before the United Kingdom had itself returned to a gold standard. Since September 1931 a gold exchange standard has been substituted for the sterling exchange standard.

It is evident that to enable such obligations to be fulfilled the Central Banks that function on these lines must be authorised to deal in foreign exchange, that is, foreign currencies and approved bills of short maturity payable in international centres of finance. The same observation applies to other Central Banks, such as those of Austria, Hungary and Czechoslovakia, which envisage an eventual return to obligatory gold payments but, meanwhile, have been seeking to maintain the parity of their currencies in relation to an international gold currency. Thus, as from the inauguration of the National Bank of Czechoslovakia in March 1926, the currency of that country became legally stabilised within the limits of $2·90 to $3·03 per Czechoslovak crowns (C.Kr.) 100.[1]

In several countries, which have sought to restore their financial position by stabilising their exchanges in relation to an external currency, attempts have at times been made to strengthen the position of the Central Bank by giving it a degree of control, greater or less in different cases, over the external trade of the country. The purpose is to enable the Central Bank to acquire foreign exchange resulting from export transactions, to influence import transactions involving a demand for foreign exchange, and to check speculative dealings. In Poland, for instance, the commercial banks agreed in 1926 not to accumulate large supplies of foreign exchange or to ask of the Bank of Poland more foreign bills or currency than were required to meet the economic needs of the country. They also undertook

[1] On the basis of an agreement between the Government and the National Bank of Czechoslovakia a currency bill was voted in the autumn of 1929, fixing the value of the Czechoslovak crown, which has been legally stabilised by the law of 23rd April 1925, at the rate of 44·58 milligrams fine gold.

to hand over supplies of foreign bills and currency to the official Bourse or direct to the Bank of Poland.[1] In Italy banks with a paid-up capital of less than 100 million lire might only engage in foreign exchange business with the approval and under the auspices of the Banca d'Italia.[2] In Bulgaria the National Bank at one time was given complete control over all foreign payments.[3] "Toutes transactions portant sur les moyens de paiement étrangers (devises et billets de banque) sont effectuées exclusivement par la Banque Nationale de Bulgarie." Rates of exchange were to be fixed by the Bank, and the commercial banks' purchases and sales of foreign exchange "for real and justified requirements" were to be conducted through the National Bank, which also controlled other external transactions, such as loans and discounts. These drastic powers, or indeed controls of a less rigorous kind, are impediments to trade and business and must as such be condemned. As expedients they are usually ineffective owing to the facility with which they can be evaded, and in cases where they have been imposed the aim should be to discard them as soon as possible, just as in the United Kingdom the embargo on external loans, which was maintained for a time after the return to the gold standard, was abandoned as early as practicable. A Central Bank must find in its credit policy, and not in direct intervention in the country's trade, the weapon for securing exchange stability; but these special arrangements deserve notice not only as a phase of the post-war methods of financial rehabilitation, but also as a symptom of the financial crisis of 1931, for unfortunately over a large part of Central Europe and of Central and South America the most drastic forms of exchange controls have been introduced with the object of maintaining the nominal parity of the currencies.

[1] See *Economic Review*, 30th April 1926. The Polish restrictions on transactions with other countries in foreign currency were abolished in November 1927.

[2] *Banca d' Italia Annual Report*, 1926, p. 43.

[3] Provision was made for the abolition of this control under the scheme adopted in agreement with the League of Nations, March 1928.

Apart from the cases of Central Banks whose charters definitely adopt a gold exchange basis and those which are actually working on this basis and may continue to do so for an indefinite period, the power to deal in foreign exchange has an important bearing for all Central Banks, including those under an obligation to issue gold on demand at a fixed price against tender of local currency. Before the war the continental Central Banks habitually held foreign bills in their portfolio, and the practice has extended widely with the general suspension of a gold circulation. It is now generally recognised that the power to deal in foreign exchange is necessary for efficient Central Banking, but a Central Bank should not embark on exchange operations purely for profit-making purposes, but only in so far as they are essential for the discharge of its duties as a Central Bank. The proceedings of the Bank of England as regards foreign exchange are not revealed, but it was stated before the war that the Bank did not buy foreign bills and that it was not its custom to discount any bills payable in foreign countries.[1] As the Central Bank of a creditor country the Bank was able to draw gold, and as the leading gold centre in the world it followed the policy of holding its reserves in that form. The war has introduced some new factors, and in particular has left the United Kingdom with the obligation of making large annual payments to the United States Government. Close relations have been established between the Bank of England and the Federal Reserve Bank of New York, and the two Banks act as agents for each other in their respective spheres. As regards the question whether the Bank of England holds foreign assets in New York or elsewhere figures are not disclosed, but there is nothing in the law that prevents it from doing so, and it is certain that in present conditions the faculty of operating in foreign exchange is as important to the Bank of England as to other Central

[1] See National Monetary Commission papers, United States of America. *Interviews on the Banking and Currency Systems of England, etc.*, 1910, pp. 22-23 (Senate, 61st Congress, 2nd Session. Document No. 405).

Banks. So far as the Federal Reserve system is concerned, the Act definitely empowers the Federal Reserve Banks under regulations prescribed by the Federal Reserve Board to maintain accounts in foreign countries, and to establish agencies in such countries for the purpose of conducting certain transactions there.

If it is asked whether it is necessary or desirable that those Central Banks that are under an obligation to issue gold on demand should have the right to operate under appropriate conditions in foreign exchange, an answer of general application may be suggested. It is desirable to confine gold movements, which are expensive, to marginal needs so far as possible, that is to say, to the settlement of balances of payment which cannot be adjusted otherwise. A portfolio of bills payable in London or New York provides as effective and convenient a method as a bullion remittance of settling an international debit and is capable of employment before exchanges have moved to points involving an export of gold. Thus, the power to intervene in the exchange market enables a Central Bank to reduce fluctuations in exchange rates and to promote exchange and business stability, one of the major purposes it is designed to serve. Moreover, the economy of gold itself, which a system of partial reliance on gold exchange by Central Banks permits, is in itself a definite advantage. These advantages are particularly apparent in the case of those Central Banks, and they are many, as was pointed out elsewhere,[1] which reckon certain specified credits held abroad as the equivalent of gold for the purposes of cover to their note issues. Discretion is, of course, needed in the choice of these foreign assets, as there is always a risk, which in abnormal times may unfortunately become an actuality, that even the strongest country in which such assets are held may be driven off the gold standard by *force majeure*. As the holding by a Central Bank of assets abroad involves a degree of dependence on the stability and permanence of financial policy in a country whose Government is beyond

[1] See pages 90-93.

the Central Bank's sphere of influence, it is a question for the Bank to determine in the light of circumstances how it should divide its assets between those held at home and those held abroad. In settling this question the Bank should not emphasise unduly the gain from interest on assets held abroad in comparison with unproductive gold held at home. Though no rule can be prescribed, and each Central Bank must decide its policy with reference to its own circumstances, an increased measure of independence is itself an asset for which some sacrifice of profit is justifiable.

Discounts and Advances

The operations of a Central Bank, under the heads of discounts and advances, are of special importance in relation to its responsibilities, as it is by these activities that the supply of available credit is ordinarily regulated. Changes in the discount rate are habitually announced to the public as they are made. The rate in force should apply impartially and uniformly to paper of identical class, whether tendered at the Head Office or branches of the Bank. In framing conditions for the business that a Central Bank should undertake, regard must in particular be directed to the considerations of security and liquidity. To function effectively a Central Bank requires to hold a portfolio of bills continuously maturing into cash, which in its turn may be converted into bills in unceasing process. The bill offers particular advantages over other forms of credit device from the point of view of a Central Bank. First, it reveals, or should reveal, to the expert the purpose for which the finance is required, thus enabling the Bank to distinguish between cases in which money is being sought for speculative purposes and those in which it is required for furthering the production or marketing of goods. Again, a bill is drawn for a stated amount, and has a stated date of maturity when it must be met. The fact that a bill has a definite maturity enables a Bank to regulate its purchases according to its particular requirements from

time to time. The degree of definiteness attaching to a bill as a formal document places it in a different category from a cash credit or advance, which, whatever time limit may be assigned to it in the first instance, is liable to continue under the pressure of the borrower for extended periods. Further, a bill is capable of endorsement by a theoretically unlimited number of parties, and the addition of other signatures to that of the acceptor, especially if these include a bank of established credit, converts the promise to pay of a single firm or individual into guaranteed paper of first-class quality. Lastly, a bill is a negotiable instrument, and when endorsed in the manner just indicated will be assured of ready marketability, so that it provides one of the requirements essential to the assets of a Central Bank, namely, that of free convertibility into cash. It is for these reasons in the interest of a Central Bank to encourage the development of an active bill market by every means in its power.

It is not surprising to find that the Federal Reserve Act, which contemplates that the supply and control of credit should be exercised mainly by the Federal Reserve Banks' rediscounting of eligible paper for member banks, and by their open market operations, is much concerned with defining the range of paper admissible and has little to say on the subject of advances. There is no occasion to reproduce here the provisions of the Federal Reserve Act on the subject, which are summarised in the Appendix.[1] In general the conditions that the Federal Reserve Act requires in paper eligible for discount or purchase by the Federal Reserve Banks are similar to those required by the charters of other Central Banks that have been framed in the light of modern experience, though it is to be remembered that the United States law emphasises specially the rôle of Federal Reserve Banks as banks of rediscount for commercial banks, and there is thus a more visible presumption than is to be found in most other charters, that the bills rediscounted will bear a bank endorsement. In the case of

[1] See pages 436-440.

the United Kingdom, as already mentioned, the joint-stock banks do not rediscount bills with the Bank of England. But this is a peculiarity of United Kingdom practice.

To comply with the tests of eligibility for purchase or discount by a Central Bank, the paper should conform to certain requirements in respect of the purpose for which it has been created, its period of maturity and its quality. As regards purpose, the prime desideratum is that the paper should be drawn to provide finance required for *bona-fide* commercial purposes, which would cover outlay incidental to the production, transport and marketing of agricultural and industrial goods. Such bills are of their own nature self-liquidating, as the sale of the commodity provides funds for the payment of the bill. These requirements are not satisfied by paper drawn to finance the carrying of stocks and shares, and if any such paper is to be admitted as an asset of a Central Bank there is need for definition. The Federal Reserve Banks are, however, allowed to discount paper of not more than 90 days' maturity endorsed by member banks and drawn for the purpose of carrying or trading in bonds and notes of the United States Government. A similar provision, also limited to Government securities, is to be found in the law applying to the Reserve Bank of South Africa. In the case of Chile, paper not exceeding 90 days' maturity, carrying as collateral high-grade mortgage bank or corporation bonds of a market value not less than 25 per cent in excess of the par value of the paper, may be re-discounted for the member banks, but the total of such paper bearing the endorsement of any one member bank must not exceed one-fourth of its paid-up capital and surplus. There is nothing corresponding to these provisions in the statutes of the Central Banks in Austria, Germany, Hungary, Poland, Czechoslovakia, Belgium and certain other countries, which apparently exclude such paper from their range of rediscounts. The laws of the Swedish Riksbank and the Netherlands Bank do not specify the kind of paper eligible for discount, but this should not be interpreted as meaning that the practice of those Banks is necessarily different

from that of the others just cited. Their statutes, which are older in date, are, however, lacking in the precision which modern practice generally adopts. In some cases the statutes of Central Banks, for example in Austria, Hungary and Bulgaria, specifically provide for the admissibility to discount of public warehouse receipts or warrants, subject in other respects to the conditions applicable to bills. The Banks are generally expressly authorised to rediscount securities and interest coupons of the State of strictly limited currency.

The extent to which a State may suitably be permitted to have direct recourse to the Bank for credit has been referred to in Chapter II. In the present context the question arises as to whether it is advisable to impose any specific limit on the Bank's operations in the way of rediscounting for third parties Government securities of short currency, such as Treasury bills or similar obligations. In Belgium, apart from certain securities representing the Government debt to the Bank and subject to amortisation, the amount of Government obligations of a currency not exceeding 100 days that may be held in the Bank's portfolio at one time is limited to Frs. 100 million. Restrictions of a somewhat similar character are also found in the case of the Central Bank of Chile. A specific maximum which may appear suitable at one time may, of course, become inappropriate at another as circumstances change, and any limitation is liable to be set aside in an emergency, since the refusal on the part of the Central Bank to rediscount obligations of the State with a currency not exceeding three months is hardly to be contemplated. But the existence of a maximum to the Central Bank's legal power to discount or make advances against Treasury bills would make it difficult for the Government to issue such obligations as the limit is approached, and the Bank is thereby placed in a strong position for putting pressure on a Government pursuing an improvident course of finance to return to sound practice. In the case of Japan the amount to be applied to the discount of Government bonds or notes and

the amount of loans to be made against public securities are to be decided every ten days by the Administrative Board of the Bank, whose decision requires the approval of the Finance Minister. The invocation of the Finance Minister, an interested party, is open to obvious objection. The Central Bank, which is in continual touch with the market, is likely to be the best judge of the amount of floating debt that a State can safely maintain at any particular time, as, if the amount becomes excessive, the demand on it for rediscounts is likely to increase rapidly with serious consequences to the credit position. In the charter of the Bank of Greece an attempt has been made to deal with this problem on comprehensive lines. The amount of Government Treasury bills to be discounted or accepted as collateral by the Bank is limited to a prescribed maximum. The total of direct advances to the Government is similarly limited. The aggregate of the above, representing financial aid from the market to the Government, direct and indirect, is further limited to one-tenth of the ordinary revenue budget as passed by the Legislature. Over and above these restrictions the Greek Government undertake not to seek short-term advances or to issue Treasury bills or other similar short-term obligations in excess of a specified figure.

This provision recognises that the issue of short-term Government bills to the market may, if carried beyond a certain point, prove as dangerous as excessive recourse by the State to temporary advances from the Bank direct. If such danger threatened, it would be incumbent on the Government to take prompt steps for the reduction of its floating debt in accordance with the advice that would doubtless be tendered by the Central Bank. Although, therefore, in a number of charters no formal restriction has been placed on the extent of a Central Bank's holding of short-term Government bills and similar obligations, or on the issue of such securities by the State, it is not to be inferred that the authors of the charters would regard it as proper for a Central Bank to pile up its holding of such

assets indefinitely, or that the matter is not one which requires continuous watching on the part of the Government and the Bank. There is always present the underlying assumption that the State will not in any matter adopt a line of conduct that would impair the Central Bank's control of credit, as if this fundamental principle is ignored the whole structure is bound, sooner or later, to come to grief.

As regards the maturity of bills, acceptances and warrants eligible for discount by a Central Bank, the desideratum of liquidity indicates that bills which have other than a short currency at the time of purchase should be inadmissible. Generally, the bank laws or charters (*e.g.* Austria, Germany, France, etc.) take a period of three months, sometimes expressed as 90 days (United States of America), 92 days (Czechoslovakia), 100 days (Belgium and Japan), as the period to run as from time of acquisition by the Central Bank. Power to extend the period in special cases exists in the case of Latvia and Lithuania. In South Africa the period specified in the Act of 1920 was 90 days, but this has since been increased to 120 days, and a similar period, expressed as four months, is allowed in Italy as the maximum currency of bills eligible for discount by the Banca d' Italia. In the case of Holland the period of the bill is described as "not longer than required by trade custom", and in Sweden the maximum period is six months. This longer time limit is conceded in the case of bills drawn for agricultural purposes in certain countries, for example, Hungary, South Africa and Chile, and in the United States, where the limit is nine months, as account may reasonably be taken of the fact that allowing for harvesting and marketing the process of agricultural trading is longer than that of ordinary industry.

The security required in its assets by a Central Bank makes it necessary to strengthen the paper it admits to its portfolio by more than the promise to pay of a single firm or individual, however excellent their credit. Hence Central Banks habitually require a minimum of two good signatures,

and in some cases (for example, Austria, Germany, Hungary, Belgium and France) three signatures are specified in the statutes as the normal minimum, that is, two names as endorsers beyond the original acceptor. In Germany it is laid down that the third signature may be dispensed with if special security is provided as collateral, but the total number of bills in this class must not exceed 33 per cent of the Bank's portfolio of discounted bills. In most instances discretion exists with the management as to the insistence or otherwise on the third signature, a question which obviously turns on the quality of the first two signatures. In Japan, merchandise or warehouse warrants of value equivalent to the bill may be accepted as collateral in replacement of one signature. In any case the requirement of additional names of recognised solvency beyond that of the party on whom the bill is drawn gives the Central Bank a practical assurance, if it conducts its business with prudence, of getting its money on maturity, and should free it from the risks and inconvenience of having to dispose of goods or merchandise in default of payment. In practice the requirement of two or more names will lead to a large proportion of bills carrying the endorsement of a bank. As regards the currency in which paper discounted is payable, it is sometimes provided, as in the Austrian, Hungarian, Polish and Swedish statutes, that this should be in the national currency. In that case dealings in foreign bills must be covered by separate provisions regarding operations in foreign exchange.

Certain charters, including those of the National Banks of Belgium and Bulgaria, the Bank of Lithuania and the Bank of Japan, lay down special machinery for the scrutiny of bills offered to the Central Bank. In general the object is to ensure that local knowledge is utilised in dealing with application for credit. In the case of Belgium and Japan the Discount Committees are appointed by the General Council of the Bank (*i.e.* Directors and Auditors). This kind of work demands expert knowledge, and the statutes of the National Bank of Czechoslovakia lay down

that the Bank should consult Chambers of Commerce, Agricultural Boards and other such bodies as to the choice of its censors, whose office in this case is honorary. Sometimes, as in Japan, fees are payable for this service. As regards the scrutiny of bills, a Central Bank should be under no obligation to give reasons for refusal to discount a bill, and some charters, for example, that of the National Bank of Austria, definitely lay this down.

The principles applicable to discounts also determine in general the other loan operations of a Central Bank. The advances should be for short periods only, and most Central Banks make three months the limit,[1] and it is for the administration to take steps against continuous and indiscriminate renewals of advances. This is a question which has recently exercised the attention of the Federal Reserve Board, and in their report for 1926 the Board alludes to the action they have taken with a view to checking continuous borrowing by member banks, and the considerations that tell against the obtaining of continuing credit by means of rediscounts are of at least equal cogency in regard to ordinary advances. As unsecured credits should not be granted by a Central Bank, it is necessary that the Bank charters should define the classes of collateral eligible as a basis of loans. Recent tendency has been properly in the direction of increased precision, and such a vague provision as that in the law regulating the Commonwealth Bank of Australia, namely, that it may make advances on any security that it "thinks sufficient", would be out of place in the charter of a true Central Bank. In deciding on the range of collateral it will admit, a Central Bank must seek to confine itself to security which will be readily saleable without loss in the event of its having to realise them. Four classes of collateral suggest themselves in this connection:

[1] The Swedish Riksbank statutes allow of advances up to six months. The Federal Reserve Banks, on the other hand, are only permitted to make advances to member banks on their promissory notes for a maximum period of fifteen days, provided that the promissory notes are secured by paper eligible for rediscount or purchase by Federal Reserve Banks or by bonds or notes of the United States. See Appendix I. pp. 437, 438.

(*a*) precious metals;
(*b*) Stock Exchange securities;
(*c*) commercial bills payable in the home market;
(*d*) foreign currencies and bills payable abroad.

(*a*) As regards precious metals, the charters of typical modern Central Banks allow advances to be made against gold and silver.[1] Gold as the basis of the currency standard is obviously appropriate, but even if in practice the provision is ignored, there seems no reason for treating silver on the same legal footing. Here the example of the Federal Reserve system and the South African Reserve Bank, which it was proposed to follow in the case of the projected Indian Reserve Bank, and which admits gold only, seems distinctly preferable.

(*b*) As regards securities, the Bank should only accept those of the highest class carrying a fixed rate of interest, and shares of which the value is liable to fluctuation owing to changes in dividend and in market sentiment should be excluded. Owing to the difference of conditions in the various markets, it is perhaps impossible to frame an identical rule suitable for enforcement in all countries, and reliance must to a large extent be placed on the judgment of the Bank in its choice of securities to be admitted. The Austrian, Hungarian and Polish charters admit stocks quoted on the Stock Exchange. The Reichsbank law specifies the eligible securities with greater precision. It is desirable that the securities should be of free marketability and of as short currency as local conditions allow, and that, if their maturity extends beyond a few months, the advance should be limited to an amount leaving an adequate margin in relation to the market value of the security, as in Belgium, where even Government securities are only reckoned at four-fifths value. Again, a limit should be placed on the amount of Government securities taken as collateral. These are in practice likely to predominate among the securities offered as a basis for loans, and it is important

[1] The Bank of Lithuania allows platinum, and presumably also the Russian State Bank, as the Bank holds this metal in its reserves.

that they should not be permitted to obtain a position in the Bank's business that might lead to the subordination of credit policy to State exigencies. In the case of Chile, the Central Bank is ordinarily only allowed to advance against Government, municipal, railway and similar securities up to an amount not exceeding 20 per cent of the Bank's paid-up capital and surplus, though the proportion may in special circumstances be raised for a period of not more than six months to 30 per cent. In Germany, advances against Government or municipal bonds maturing within one year may only be made to banks of known solvency and up to three-quarters of the market value of the securities. The holdings of three months Treasury bills by the Reichsbank must not exceed RM.400 million. Power may be granted in special circumstances by the General Council of the Reichsbank for the acceptance of bonds of the Reich of distant maturity if, apart from the security, two obligees are liable for the loans (one to be a bank doing business in Germany). The total loans against these distant maturities may not exceed the amount of the Bank's capital and reserves.

(*c*) As regards the bills admitted as the basis for loans, these should be of the same type as those eligible for rediscount. Most European Central Banks allow bills due within six months as collateral for advances, and the security is improved if, as should be the normal practice and is prescribed in the case of the Reichsbank, the amount of the advance is kept well below the market value of the bill. In the case of Lithuania, where loans against precious metals are only made up to 90 per cent of the value of the collateral, the percentage that the admissible advance bears to the value of the bill is put at 70 per cent, and the currency of the bills does not ordinarily exceed three months, a figure taken as the standard in the Federal Reserve Act and in the charters of the National Bank of Bulgaria and the Bank of Chile.[1] The aim is to maintain the maximum fluidity of

[1] As observed in the case of discounts, it is usual to allow a longer currency in the case of agricultural paper. For details see Appendix I.

the assets of the Central Banks, so that they should be capable of conversion into cash within three months, or as near that period as possible.

(*d*) The arguments indicating that a Central Bank should be allowed to deal in foreign exchange have been already discussed. Foreign currency payable in gold in a country on the gold standard, or a short term bill, similarly payable on an international market and bearing the endorsement of a Bank of repute, are clearly sound and liquid assets for advances.

(*e*) It may be asked whether a Central Bank, in addition to allowing precious metals, securities, bills and foreign values as collateral for loans, should also be prepared to make advances against merchandise. Such advances are more properly within the sphere of commercial banks, and the practice of the Federal Reserve system and the Reserve Bank of South Africa, which exclude such advances, is to be commended as consonant with the position of a true Reserve Bank, which should be protected as far as possible from the risks inseparable to dealings with commodities. The practice of the European Central Banks in this respect is different. In Austria, Hungary and Poland the receipts or warrants of public warehouses are eligible for discount. The laws of the Netherlands Bank allow advances against the security of goods and warrants, and those of the Swedish Riksbank against stock warehoused or held at its disposal by a third party of good credit. The Reichsbank allows loans against merchandise warehoused up to 66⅔ per cent of its value. The Banks of Latvia and Lithuania allow advances against goods not easily perishable and warehouse warrants relating thereto. In South Africa, though the Bank may only discount bills with two or more signatures, a recent amendment has allowed advances against bills or promissory notes with only one signature, provided they are secured by documents of title representing staple commodities with extensive markets. The loan in such cases is limited to 75 per cent of the market value of the commodities. These provisions must be regarded as departures from the strict doctrine of Central Banking,

and indicate a certain intrusion into a sphere of business which it would be preferable to leave to the commercial banks. But whatever collateral is admitted as a basis for loans it is for the Bank administration to see that the continuous renewals of loans should not place particular business interests of the country in a position of permanent reliance on credit creation by the Central Bank. There is a provision in the charter of the Bank of Japan which only allows one renewal of loans on maturity except by the special permission of the General Council of the Bank. A somewhat similar rule is to be found in the statutes of the Bank of Estonia as regards the renewal of maturing bills discounted by the Bank.

Before leaving the subject of admissible loans and advances a word must be said on the relative parts played by discount and loan business in the Bank's credit operations. The special advantages in respect of security, liquidity and negotiability offered to a Central Bank by the commercial bill have been referred to above. The Banks will naturally direct their efforts to stimulate the creation of these credit instruments. This can be done by moral influence and also by pecuniary inducement. It is significant, therefore, that various modern charters contain provisions intended to promote the custom of drawing bills and the obtaining of credit by their rediscount as against the alternative habit of obtaining advances by the tender of collateral. The rate charged on advances will ordinarily be less favourable than that on discounts, but the statutes of the Central Banks of Austria, Hungary and Czechoslovakia, for example, definitely prescribe that if the total of the Bank's loans exceed the total of bills held, the rate charged on advances is to be raised to one and a half times the discount rate.

Other Business

The remaining branches of Central Banking business that call for remark are:

1. Deposit business.
2. Clearing and internal circulation.
3. Commission business.

Deposit Business

Central Banks should, as already explained, hold the reserves of the commercial banks and the Government balances as the official bankers. Reference has also been made to the question whether they should be allowed in addition to receive deposits from the public.[1] Though there can be little question that the independence of the Central Bank will be increased and the risk of its being involved in undesirable loans minimised by the exclusion of private deposits from the ordinary public, it is only the Federal Reserve Act that definitely forbids them. It is noteworthy that Central and the South American Reserve Banks which are based on the United States model are allowed to receive such deposits, but in none of these countries is there so highly developed or so widespread a banking system as was the case when the Federal Reserve system was introduced in the United States. It is probably true that no country has left the foundation of a central banking organisation to such a late date in its economic development as the United States, and there was clearly no need in that instance to provide additional banking facilities for private persons, while on the other hand it was advisable to reduce to a minimum the area of competition between the Federal Reserve Banks and the existing commercial banks. As regards the deposit business of the Bank of England, the expanded form of statutory return which the Bank has issued since November 1928 distinguishes between bankers' deposits and other private accounts, which latter represent about 33 per cent of the total "other deposits". It may, however, be assumed that while the deposits of British banks other than members of the London Clearing House are included under Bankers' deposits, the accounts of foreign Central Banks figure under "other accounts". The precise amount of the Bank of England's ordinary private deposit business is thus not revealed even in the enlarged form of return. It is, however, important to observe that the Bank of England does not go out of its way

[1] See *supra*, p. 111.

to seek private deposits from British nationals, and, so far as the non-clearing banks and foreign Central Banks are concerned, the financial position is strengthened by the concentration of the reserves of the former and of the balances in the United Kingdom of the latter at the Bank of England. It is worth noting that the Swedish Riksbank, though it is empowered under its charter to accept private deposits, is more than any other European Bank a bankers' bank.

Whatever deposits are accepted by the Central Bank, it is highly desirable that interest should not be paid on them. The payment of interest even on time deposits is better left to the commercial banks, with whom the Central Bank should not compete for ordinary banking business. The payment of interest on deposit accounts involves an additional claim on the income of the Bank, and the need for meeting this might force the Bank to devote undue attention to the earning of profits, and in consequence to incur business risks inappropriate to a Central Bank. The refusal to allow the payment of interest to customers may therefore be viewed in the same light as limitations on the amount of dividends to shareholders. Both provisions are desirable if the Bank's policy is to be directed solely by national considerations without undue regard to the question of profits. It is important, therefore, that the rule prohibiting the payment of interest should be explicit. This is the case in certain instances, as in the law constituting the Reichsbank and the South African Reserve Bank, but in some other countries, of which Austria, Hungary and Denmark are typical, the law is not absolute. This does not imply anything as to the extent to which the Central Banks in these countries do in practice pay interest on deposits. The Riksbank, for example, which is definitely empowered to open deposit accounts at interest, has never utilised its powers in this connection. The charter of the Bank of Greece allows the payment of interest at a rate of not more than 1 per cent per annum on the deposit and current accounts of

other banks.[1] The object of this is to induce the largest number of commercial banks to centralise their reserves with the new Central Bank. At the same time the concession, though deemed necessary in this case, is to be deprecated. The fundamental importance of the principle of not allowing interest on deposits is recognised in the established custom of the Bank of England, which has only departed from it in exceptional circumstances arising out of the war.

It is open to a Central Bank which deposits funds at a foreign Central Bank to arrange with the latter, as its agent, for the remunerative employment of these deposits or part of them, on terms to be agreed. This is to be distinguished from the payment of interest by the foreign Central Bank itself on a deposit, and is in harmony with the view that Central Banks should look to one another as agents for the conduct of business arising out of their external relations. A Central Bank must maintain an appropriate amount of its assets in a completely liquid form, but this does not mean that its total credits with a foreign Central Bank should be unremunerative. As a practical matter it would be unreasonable to suggest that a Central Bank should leave unemployed its foreign balances which may at times reach large dimensions, and for the stability of the market where they are held it is more satisfactory that they should find their way into bills and securities rather than they should be used to acquire gold. This not only makes for economy in the demand for gold itself, but the management of the balances of the foreign Central Bank, through the domestic Central Bank, is also likely to lead to their employment, and subsequent withdrawal as necessary, in a manner that will produce the minimum of dislocation.

Clearing Arrangements and Internal Circulation

The opening clause of the law governing the Reichsbank mentions among the objectives of the Bank that it should

[1] See also footnote on page 38.

regulate the circulation of money and facilitate the clearance of payments. Similar phrases are to be found in the statutes of other Central Banks. The responsibility of a Central Bank for the regulation of money and credit with reference to the exchange and the provision for meeting foreign payments has already been considered. On the internal side it is for the Central Bank, as the currency authority, to arrange for the provision of such currency and credit as trade conditions require throughout the country, and to set up an expeditious and economical machinery for the clearance of drafts and settlement of internal accounts. As holder of the balances of the commercial banks a Central Bank is specially qualified for this duty. The Commonwealth Bank Act, for example, provides for the settlement of balances between Australian banks by cheques drawn on and paid into the Commonwealth Bank. In Colombia the Bank of the Republic is required to act as the clearing house for member banks in Bogota and any city in which it has a branch. In the United States the Federal Reserve system has been able to introduce important improvements in the pre-existing practice. Formerly the collection of cheques by a bank on behalf of another bank in a different place involved a charge for collection. These charges, which were not uniform, were a source of profit to collecting banks, and their existence led on occasion to routing of cheques, not with a view to speedy clearing but for the purpose of avoiding their passage through an expensive centre.[1] The Federal Reserve authorities have brought all districts into proper relation, have greatly reduced transit charges, and are well on the way towards establishing a clearing system throughout the country by which cheques may be presented for payment free of cost. The cost of collecting and clearing cheques for member banks is borne by the Federal Reserve system. Though the loss of profits was resented by the commercial banks, there can be no doubt that the change in practice is greatly to the advantage of business as a whole.

Among the responsibilities of a Central Bank in relation

[1] Kemmerer, *The A B C of the Federal Reserve System*, pp. 20, 21.

to internal organisation is the regulation of the supply of token metallic money. This should be issued by the State through the Central Bank and distributed through the country by the agency of the commercial banks. The State should not issue token coin direct, as this might prejudice the position of the Central Bank as the currency authority. Provision to this effect is included in the law regulating the National Banks of Czechoslovakia and Bulgaria. In the case of the Bank of Chile, the Government is under obligation "to respect the opinion of the Bank's Board of Directors as to future issues of fiduciary coins . . . and not to increase the circulation of such coins at times when the Board of Directors of the Bank by seven affirmative votes request it not to do so, on the ground that the circulation of fiduciary coins is becoming redundant and thereby interfering with the Bank's obligations to the public of maintaining the gold standard". This expresses succinctly the purpose of a stipulation which derives importance from the temptations to a State to issue token coinage by reason of the profits obtained therefrom. The point figured also in the bill for setting up a Reserve Bank in India, by which the Government of India would have been prohibited from issuing coined rupees except through the medium of the Bank.

If silver token currency issued through the Central Bank becomes redundant to the needs of the country, this would be shown by its accumulation in excessive quantity with the Bank. The State might perhaps expect the Bank to hold a moderate amount over actual immediate needs against anticipated requirements later, but if the amount reached serious proportions it would be reasonable for the State, which would have taken the profits on coinage, to relieve the Bank of the incubus of a non-liquid asset.

Commission Business for Third Parties

If a Central Bank is permitted to receive deposits from private customers, these will naturally look to the Bank to

carry out financial and miscellaneous transactions on their behalf usually discharged by commercial banks. These transactions will include the execution of purchases and sales on the Stock Exchange, the collection of sums due (*e.g.* interest on securities), the making of payments, the issue of drafts and letters of credit and the custody of articles of value. It must be recognised that these functions are not properly within the province of a Central Bank *qua* bankers' bank, and hence they do not figure within the range of duty of the Federal Reserve Banks. They are, however, included in the permissible operations of Central Banks in Europe and elsewhere. In carrying out agency business a Central Bank must, of course, see that it incurs no risk of loss thereby, and it is worth noting the express provision in the Reichsbank law that the Bank is only authorised to buy Stock Exchange investments on account of third parties "after having in advance received cover in respect thereof", and to sell the same "after previous delivery to the Bank".

Special Restrictions on Business of a Central Bank

The business proper for a Reserve or Central Bank to undertake must be hedged round by conditions which will make for the maximum of safety and promote the maximum of liquidity in its assets. In addition, therefore, to prescribing the permissible business in unambiguous terms, there are advantages in barring explicitly certain kinds of business inconsistent with the primary requirements already discussed. This makes for security and relieves the bank from possible risk of pressure to stretch its powers in a sense that might be inimical to its stability and responsibilities as a Reserve Bank. Thus we find that the acceptance of an interest in a commercial undertaking is barred by the constitution of the banks in a number of cases, for example, in South Africa, Belgium, Czechoslovakia, Lithuania and Bulgaria. The National Bank of Bulgaria was required to free itself of commercial commitments as a condition for

the grant of assistance through the League of Nations for the rehabilitation of the country's finances. The reorganisation of the Bank of Estonia in 1927 included the repayment of a substantial portion of its long-term industrial loans by means of a foreign loan raised by the Government. These industrial loans were to be taken over by the Government and transferred for realisation to a Mortgage Institute created for the purpose. In the case of Germany the business proper to the Reichsbank is clearly demarcated from that of the Gold Discount Bank, a separate official organisation created at a time of stress to afford needful credit for the reconstruction of business. Presumably the Gold Discount Bank is not to be regarded as a permanent feature of German banking organisation, as it seems undesirable that the Reichsbank should by its close connection with it have such direct contact with trade and industry. It has to be recognised that in the course of business a Central Bank may find itself constrained on occasion to take over the commercial assets pledged by a borrower, but in that case the statutes should provide that the Bank should dispose of these assets within a strictly limited period. One of the governing considerations that led the Royal Commission to recommend the creation of a new Reserve Bank in India as preferable to the conversion of the Imperial Bank of India into a Central Bank, was that the Imperial Bank was deeply immersed in the commercial operations of the country, and that its de-commercialisation would have involved the loss of the services it could render in promoting the growth of banking habits in India. On somewhat similar grounds the creation in Greece of a new Central Bank was preferred by the League of Nations to the conversion of the National Bank of Greece. In the case of Australia also, where the question of establishing a true Central Bank is now under discussion, one of the issues that will have to be faced is that the Commonwealth Bank of Australia is under the present law permitted to engage in general banking business to an extent inconsistent with the responsibilities of such an organisation.

A Central Bank requires worthy premises from which to conduct its business, but, apart from this, freehold property is an unsuitable asset for a Central Bank to hold, as it is non-liquid and liable to serious fluctuations of value. Thus in a number of cases real estate is, with good reason, expressly excluded from the range of the Bank's admissible investments, except in so far as the property is required for the purpose of the Bank's own operations. This point may be illustrated by reference to the statutes applicable to Germany, South Africa, Belgium, Poland, Chile and Czechoslovakia. In the case of the Federal Reserve Banks of the United States executive provision goes further, and the Banks are being required to write off the capital cost of their premises over a period of 50 years.[1]

Ordinary commercial investments are obviously out of keeping with the basic conception underlying a Central Bank. As regards long-term Government securities, these, like other similar investments, are liable to depreciation, as Banks have learnt to their cost on many occasions, and such Government securities as the Central Bank may hold should as far as possible be restricted to short maturities. While the South African Reserve Bank is permitted to deal without limit in Government securities of not more than six months' currency, it is only permitted to invest a sum not exceeding its paid-up capital and reserve in Government securities up to two years' maturity. The staff and superannuation funds may be invested in Union Government securities of any maturity. These limited departures from the general principle of avoiding investments in the usual sense are perhaps to be explained by the facts that where there is a deficiency of short-time securities some alternative outlet must be found for part of the Bank's resources, and that only in a somewhat extreme case would a Central Bank have recourse to its capital and statutory reserves to cover losses, and that staff funds are a continuing fund, current demands on which may be largely met from current con-

[1] W. P. G. Harding, *The Formative Period of the Federal Reserve System*, p. 250.

tributions. Analogous provisions are found in certain other charters. The Netherlands Bank is authorised to invest its Reserve fund and one-fifth part of its share capital, though in this case there is in terms no restriction as to the investment being in Government securities. The National Bank of Belgium may with the authority of the Government acquire public securities up to the amount of its capital and reserves. The reserve fund of the Bank of Poland may only be invested in Government bonds, and its statutes make no other provision for long-term investments. The National Bank of Bulgaria may invest on its own account up to 20 per cent of its capital in Bulgarian Government securities, and in the case of the Bank of Lithuania the limit is one-third of the Bank's capital stock. The charter of the Bank of Greece allows the investment of an amount not exceeding the paid-up capital and resources of the Bank in Greek Government or other bonds quoted on the Stock Exchange of Athens or foreign financial centres, provided that interest and capital are payable in currencies stabilised on gold.

It should, of course, be clearly laid down that no Central Bank should make unsecured loans or overdrafts, and specific provisions to this effect are to be found in the statutes of the Reserve Bank of South Africa, Bulgaria and Chile. In the case of Germany and Czechoslovakia, the acceptance of bills or guarantees for third parties is explicitly barred on the same principle, namely, that a Central Bank must have the maximum security for all its transactions, a condition which requires that its credit should only be available against more than one endorsement or signature.

The stocks of Central Banks properly enjoy high esteem with investors, but they are not a suitable security for a Central Bank to buy on its own account or to accept as collateral for loans. The purchase of its own stock by a Central Bank is virtually equivalent to a reduction of its capital, and to that extent diminishes the security of its depositors. Loans against its own stock might in the event of default by the borrower lead to the stock coming into the

hands of the Bank, a result open to objection on the grounds just stated. Provisions designed to remove the risk of these contingencies are included in the Federal Reserve Act and the statutes of the Reserve Bank of South Africa, and the Central Banks of Belgium, Poland, Czechoslovakia, Chile and Lithuania.

An important question is that of borrowing by a Central Bank. Such a Bank should not ordinarily require to borrow in the domestic market, either for its own needs or for the purpose of exerting control of the market, as it can increase its cash assets and diminish the supply of funds in the market by selling bills or securities. A Central Bank should also not have recourse to external borrowing for the purpose of providing assets against which the note issue may be expanded as the foreign assets obtained by a loan are balanced by a corresponding liability to repay in foreign currency. The use of such external credits as a basis for the creation of a further liability, *i.e.* notes, is therefore unwarrantable. Certain Banks, including the Bank of England, the Reichsbank and the Bank of France, have borrowed abroad on occasions, but some modern charters make no provision for this ; in other cases restrictions are imposed. The Bank of Lithuania is formally prohibited by its charter from borrowing for its own needs, and the revised statutes of the National Bank of Belgium prohibit it from borrowing except for certain defined purposes.[1] This power was apparently intended to enable the Bank to borrow abroad if necessary for the purpose of the stabilisation of the currency, which was then being undertaken. The Swedish Riksbank is also authorised to borrow abroad in the event of necessity up to a total fixed by the Bank Administration, at present at

[1] Extract from Article 18 of Statutes of the National Bank of Belgium : " Elle (la Banque) ne peut emprunter sauf dans les cas prévus au 2° de l'article 17."

Article 17. " Les opérations de la Banque consistent : . . . 2°. A réescompter à l'étranger les effets de son portefeuille ; à remettre ces effets en gage ; à garantir la bonne fin de ces effets ou des opérations d'escompte et d'avances y relatives ; à acquérir des avoirs ou obtenir des crédits à l'étranger."

20 million kronor. The borrowing of a moderate sum abroad for a short period might on occasions enable a Central Bank to discharge its obligations more advantageously than would the immediate disposal of its foreign assets, and provision enabling it to take such action is perhaps free from serious objection. But as regards any extensive operations, it must be recognised that the repayment of external loans, if the currency should after all depreciate, must entail losses, which may be overwhelming, and that the operation is therefore one requiring special circumspection. In view of the fact that such external borrowing would normally be connected with the Bank's national responsibility as regards the exchange, and that it involves a peculiar risk, prudence would suggest that a Central Bank should not be allowed to borrow abroad on security or otherwise unless this course is specially approved by the Government of the country. It is worth noting that when the United Kingdom reverted to the gold standard in 1925, Parliamentary authority was sought by the Government for borrowing abroad if necessary any funds required for the purpose of exchange operations in relation to the policy of the return to gold, and credits amounting to $100,000,000 were arranged for through a firm of American bankers. At the same time the Bank of England arranged for credits amounting to $200,000,000 to be available if needed through the Federal Reserve Bank of New York. Actually no use was made of these credits, but the point to be noted is that in this case the whole transaction, including the part in it of the Bank of England, was connected with the scheme for the return of the United Kingdom to a gold basis and had the approval of the Government of the day. Similarly, arrangements were made in concert between the Danish Government and the National Bank of Copenhagen in regard to the raising of a credit for the Bank in the United States in connection with the stabilisation of the Danish currency under the Act of 1924. If foreign borrowing for such purposes has to be contemplated, it is more appropriate that the loan, as in the above case, should be raised on behalf of the Govern-

ment and the proceeds placed at the disposal of the Bank, rather than that the loan should be obtained by the Bank itself from such quarters, in the main other Central Banks, as are open to it. It is relevant to observe that the credits raised by the Bank of England in the summer of 1931 in Paris and New York were raised on behalf of the Issue Department of the Bank of which the profits and losses are for account of the State. These credits are therefore analogous to the credits raised subsequently in the same markets on behalf of the British Government.

CHAPTER VIII

CO-OPERATION BETWEEN CENTRAL BANKS

In considering the duties and responsibilities of a Central Bank and the form of its constitution, attention has hitherto been mainly directed to the services it can render in conserving sound conditions in the internal money market, but the creation of a network of Central Banks, with, broadly speaking, similar objectives, opens the door to greater opportunities of helpfulness and benefits to industry. The resolutions of the Financial Commission of the Genoa Conference of 1922 emphasised the importance of continuous co-operation between Central Banks of Issue, and pointed out that such co-operation would provide opportunities of co-ordinating policy without hampering the freedom of the various Banks.[1] Subsequent events have served to reinforce the wisdom of this view, and, though the policy has not been adopted with full effect, there is good reason for the belief that it is being more and more constantly acted upon by Central Banks of Issue.

In Europe and America the establishment of business relations between the Central Banks has made rapid

[1] Cf. Resolution 3, adopted by the Financial Commission at Genoa, 1922: Measures of currency reform will be facilitated if the practice of continuous co-operation among central banks of issue or banks regulating credit policy in the several countries can be developed. Such co-operation of central banks, not necessarily confined to Europe, would provide opportunities of co-ordinating their policy, without hampering the freedom of the several banks. It is suggested that an early meeting of representatives of central banks should be held with a view to considering how best to give effect to this recommendation.

headway in recent years. This is shown by the increasing number of Central Banks which maintain accounts with other Central Banks, especially those of the great money centres. The French monetary reforms of June 1928 included provisions for the development of relations between the Bank of France and foreign banks of issue. It is self-evident that by working together the Banks can render valuable services in facilitating the great volume of international payments between Governments in the form of debts and reparations which the war has bequeathed. The amounts and times of these payments are known in advance, and the Banks, being in constant touch with ever-changing market conditions, can aim at arranging the transfers in such a way as to involve the minimum disturbance to trade and money markets.

The results of war and post-war conditions have led to a demand in certain of the belligerent countries for capital far beyond the capacity of the local money markets to provide. So far as this has been the case on the Continent borrowers have turned in the main to London and New York for their requirements. These loans, though they serve the needs of the moment, leave behind them the burden of annual interest and sinking fund. Thus, unless controlled, they might become a danger to the currency standards of the borrowing States, and a break-down in the credit of any important debtor country would upset the confidence of the great lending centres. Here, there has been a fruitful sphere for the exercise of guidance by Central Banks. An illustration is afforded by the case of Germany, where the Reichsbank has endeavoured, with varying success, to limit the incurring of external obligations to real necessities.

The whole system of the compensatory reactions of the exchanges and gold movements hinges on the effect of discount policy not only in the internal, but also in the external, markets; and, as has been strikingly shown by the world-wide reactions from the rise in money rates in the U.S.A. in 1928–29 and the credit crisis of 1931, no

important money market can be indifferent to what takes place in another. If full advantage is to be derived from the existence of a chain of Central Banks, it is desirable that contact, at any rate between the leading Banks, should be close and continuous. The maintenance of confidential relations implies no lack of independence, but unless there is frank discussion between the Banks there must always be a risk that mistakes of policy producing avoidable disturbance of the money market will occur through ignorance of the intended actions of another Bank. The meetings between the Governors of the leading Central Banks are a recognition of their community of interests.

The post-war restoration of the gold standard in Europe, though an act of official policy in each country concerned, was achieved in a large measure by the co-operation of Central Banks. A striking example of such international co-operation was furnished by the scheme for the rehabilitation of Belgian finance, in which a group of Central Banks, including, among others, the Bank of England, the Bank of France, the Reichsbank, the National Bank of Switzerland, the Federal Reserve Bank of New York and the Bank of Japan, all participated.[1] Again, in connection with the Polish stabilisation scheme of October 1927, the Bank of Poland arranged credits from fourteen Central Banks, and a similar demonstration of solidarity was manifested in the support given by Banks of Issue to the National Bank of Roumania at the time of the monetary reform of 1929. Speaking generally, the various schemes of currency reform fostered by the League of Nations in various countries have also presupposed a measure of co-operation between Central Banks, especially in regard to the issue of such foreign loans as have been considered necessary for paving a way to the

[1] " La collaboration de l'étranger à cet assainissement monétaire et financier, sous les auspices de la Banque d'Angleterre, offre un exemple réconfortant de solidarité internationale. Elle s'est faite sous la forme d'une action coordonnée d'un groupe d'établissements privés et d'un groupe de banques d'émission. La Suisse est représentée dans les deux groupes " (Report of Banque Nationale Suisse, 1926).

return to the gold standard. In this connection it is worth recalling that the decision to revert to the gold standard by the Netherlands in 1925 synchronised with the same decision by the United Kingdom.

The effective working of the gold standard has been entrusted to the Central Banks, with which it rests to regulate the monetary demand for gold in accordance with such supplies as may be available, without forcing any serious departure from the existing level of gold prices. This means that the Central Banks must refrain from engaging in, and so encouraging on the part of others, a scramble for gold, which would have the effect of raising the commodity value of gold and would lead to a period of economic stress while the conditions of industry were being adjusted to this enhanced value. The appetite that certain Central Banks have shown for gold raises a doubt as to whether the dangers of such developments are yet sufficiently realised.

A striking opportunity for concerted action arises in relation to the practice recognised in various modern charters, such as those of the National Banks of Austria, Hungary, Belgium and others, of treating certain defined assets in stable foreign currencies or currencies so deemed, such as the pound or the dollar, as the equivalent of gold for the purpose of cover for their note issues. This has given all countries that have adopted this rule a direct and peculiar interest in the stability of those foreign currencies recognised as legitimate cover for their notes. In so far as they hold sterling or dollar credits in this way, the Banks of Issue concerned are able to reduce the amount of their non-interest-bearing assets, and are in effect putting on to the shoulders of others the burden of carrying gold. They have therefore a moral obligation as well as a material interest in not making the burden excessive, and should recognise the duty of conducting their credit policy and gold operations on lines that will not unnecessarily weaken the position of the external Central Banks or upset the money markets for which the latter are responsible. This,

means that when a foreign Central Bank wishes to convert its external credits into gold by purchasing in a foreign market, it should act in concert with the Central Bank of the market concerned. It has been suggested that the amount of the operating reserves of foreign Central Banks held in the form of dollar exchange is perhaps as much as $1,000,000,000, while the holdings in London were also of large amount until the suspension of the gold standard. Such a situation indicates the need for discretion on the part of Banks holding external credits in the exercise of their power to draw gold. The argument has always been of particular cogency as regards the United Kingdom, where the margin of gold that could be spared without affecting the credit position was far smaller than in the case of the United States. This aspect of the case was abundantly illustrated by the anxiety occasioned in London through the foreign drain on the Bank of England's gold reserve in 1929, and was proved disastrously in 1931.

Those Central Banks which have the privilege of serving gold centres, and where business and profit are obtained from this situation, have on their side to recognise the exceptional responsibilities attaching to their position, and in particular the increased vulnerability of their gold reserves. On their stability depends in an exceptional degree monetary stability throughout the world. It must therefore be their special care to conduct their credit policy on cautious and even conservative lines and to maintain reserves abundantly adequate to their responsibilities.

There has in recent years been an increasing recognition of the practical bearing of these considerations. No more striking proof of this exists than is furnished by the policy of the United States, which, as the holder of the main stocks of monetary gold, in the period of post-war reconstruction was in the supreme position of being able to influence the commodity value of gold and thus to determine the level of gold prices throughout the world. The stream of gold imports into America since the war has been the subject of frequent discussion, and it is not necessary to

trace the details of the movement here. The significant fact is that in recent years the gold reserves of the Federal Reserve Banks have been greatly in excess of legal requirements, and the reserve ratio to notes and deposits combined, though, of course, subject to fluctuations, has consistently stood at a figure overwhelmingly in excess of the normal statutory minimum of 40 per cent as regards notes and 35 per cent as regards deposits. This gold holding would, if taken by itself, have justified a large expansion of credit. The Federal Reserve authorities, however, properly took a different view. They declined to regard the large gold accretions as necessarily permanent, realising that a return of gold to those countries where stocks have been denuded or unduly reduced by the war and post-war reactions, was a contingency, on many grounds desirable, that might arise hereafter. The fact that between the spring of 1927 and the end of 1928 the monetary gold stocks of the United States were reduced by about 500 million dollars vindicated this view, and proved that a policy, aiming at anything like the full expansion sustainable by the post-war gold holding of the country, would have entailed a drastic reversal later. Such a double disturbance of an existing stability was obviously to be deprecated. But a far more important consideration was that a release of credit on a scale that the gold reserves would permit would have induced an upward movement of prices, not only in the United States, but throughout the world, which was seeking to find again in gold the stable standard of value that after the war-time and post-war upheaval it so sorely needed. The steps that the Federal Reserve Board took to prevent the heavy gold imports from exerting their normal influence in the direction of credit expansion and advancing prices are therefore worthy of special note. So successfully was this policy pursued that in the years 1922–29 the wholesale index number of United States prices according to the statistics of the Labour Bureau remained astonishingly stable, as will be appreciated from the following figures, which are based on the index of 100 for 1913:

1922	138
1923	144
1924	141
1925	148
1926	143
1927	137
1928	139
1929	137

Thus the level of gold prices in the United States in 1927 was practically identical with that of 1922, and the range of fluctuation in the interval was extremely moderate. From 1927 to 1929 there was a fall, which at first was of a moderate character, in the index number. This decline should be studied in relation to recent credit policy which has had widespread reactions. The imposition of dear money rates culminating in 1929 was due to a desire to restrain the excessive utilisation of credit for the purpose of Stock Exchange operations in the United States. The situation that developed has raised in an acute form the problem as to how far the central monetary authority is justified in attaching weight to such considerations if conflicting with the more far-reaching interest involved in the stabilisation of the general price-level. The responsibility of the central organisation for maintaining stable prices has been so far stressed by certain American authorities that in 1926, and again in 1928, proposals for amending the Federal Reserve Act were introduced by Mr. Strong, a private member of the Legislature, which aimed at imposing on the Federal Reserve Banks the duty of conducting their policy with a view to promoting a stable-price level for commodities in general. The desirability of the objective does not necessarily mean that it can be appropriately provided for by legislation. The proposals were criticised by the late Mr. Governor Strong of the Federal Reserve Bank of New York. He pointed out that the project, if carried into law, was bound to lead to misunderstanding, and that though the Federal Reserve system had power to influence prices, the power was not absolute, but was subject to important qualifications. Within certain limits the amount

of credit employed in the country and the cost of that credit could be influenced by the banking authorities; but there might be cases, both of upward and downward movements of prices, that it might be beyond the power of the Federal Reserve authorities to counteract.[1] No general agreement has yet been arrived at on this complex matter. It may, however, be stated that the policy pursued by the Federal Reserve authorities tended, until it was deflected by the speculative boom, towards the maintenance of stable gold prices in the United States and, consequently, elsewhere, and is an outstanding example of the services that a wise monetary policy can render in the international sphere.

It has been suggested on occasions that the policy of holding an unnecessarily large quantity of unproductive gold entails needless expense to the Federal Reserve system. When this point was specifically put to Governor Strong of the Federal Reserve Bank of New York by the Royal Commission on Indian Currency, he remarked:

I wholly disagree with the theory of the cost to the nation of this gold. One might say that it costs any nation an unnecessary amount of income, which it might otherwise obtain, to have a high bank reserve. In other words, if, under the conditions which now exist in the world, it seems appropriate or necessary —not in a selfish sense, but with regard to the interest of monetary restoration in the world—that the United States should run its banking system as now reorganised with a reserve which is, say, 20 or 25 per cent above what has formerly been regarded as, we will say, the apprehension point of bank reserve, it simply means that we have so many millions of gold in bank reserves in the United States which we have received in exchange for goods sold to the rest of the world, which we would prefer, as a matter of national policy and protection, to allow to remain idle as a surplus, or as an excess, or as an unduly large reserve, rather than to permit it to earn money when the earning of that income

[1] See "Stabilisation of the Federal Reserve System", Professor T. E. Gregory, *Economic Review*, 15th June 1927, and Hearings before the Committee on Banking and Currency, House of Representatives, Seventieth Congress, First Session on H.R. 11806 (U.S. Government Printing Office, Washington, 1928).

would result in a disastrous inflation. In that sense I do not think we can regard the loss of interest—which is a cost—and the loss to our Federal Government of the amount of franchise tax which it would otherwise receive from the Federal Reserve Banks, as a national loss. It would possibly be a more proper characterisation to regard any such loss of income as an insurance premium which we are quite willing to pay for protection against all the disorders of a highly rapid fluctuation in prices.

Certain well-qualified authorities hold that the future output of gold may not suffice to meet the monetary and other demands on the basis of the present level of prices, with inevitable reactions on production, wages and employment. Already the danger of a shortage of gold is being guarded against by the general reluctance to introduce a gold circulation. If an actual dearth of gold threatened to arise, it would be incumbent on Central Banks to develop still further their policy for the reduction of the monetary demand for gold and to harmonise their efforts to this end.

To this wide aspect of common interest is evidently to be ascribed in large measure the advocacy by the International Committee of experts on Reparations, which reported in June 1929, of the creation of the Bank for International Settlements. Though the first function of the Bank was to take over the external administration of the reparations payments, the experts observed :

"In the natural course of development, it is to be expected that the Bank will in time become an organisation not simply or even predominately concerned with the handling of reparations, but also with the furnishing to the world of international commerce and finance important facilities hitherto lacking. Especially is it to be hoped that it will become an increasingly close and valuable link in the co-operation of Central Banking institutions generally—a co-operation essential to the continuing stability of the world's credit structure."

In pursuance of this objective the experts proposed that the Bank, which by its constitution would be divorced from

political influences, should be linked up with Central Banks through its board of directors, which, it was suggested, should consist of the Governors of Central Banks and persons appointed by them.

The Bank for International Settlements was duly formed on the general lines recommended by the experts and opened its doors in May 1930. The Bank is not a Central Bank, and a detailed examination of its Charter lies perhaps beyond the scope of this work. In view, however, of the part that the Bank has played in forwarding co-operation between Central Banks a few remarks may not be amiss. As the Bank has been formed under the auspices of leading Central Banks and is under the control of the Governors of Central Banks or their representatives, assurance is provided that its activities will accord with central banking policy. So far as the handling of international payments is concerned, it is probably the case that the purely financial functions of the Bank might have been discharged through previously existing banking organisations as satisfactorily as through the new Bank, provided that the goodwill of all parties could be obtained. The very constitution, however, of the new Bank gives ground for hoping that this goodwill may be more easily obtainable than it might have been had the Bank not existed. It is easy to imagine circumstances in which the Bank may be able to execute financial operations from funds received from Central Banks which the individual Banks themselves might, for political or other reasons, have been unwilling to carry out. The fact that the Bank has invested its assets in a wide variety of markets should in itself help towards international collaboration. In the first report of the Bank it was stated that over 20 per cent of the Bank's assets had been invested in Germany. This in itself must have contributed towards helping German economy through a period of stress. The Bank is able to perform useful functions in facilitating international transfers of funds, and as an independent authority under the control of no individual nation is able to approach international problems from a detached angle. Evidence of its

usefulness in this regard was supplied by the rôle assigned to it under the Young Plan for Reparations, and it fell to its lot to investigate the possibility of payments and transfers by Germany in connection with the crisis of 1931. But altogether apart from particular financial functions, it is probably fair to say that the most useful service that the Bank can provide is to furnish a continuous platform for regular meetings between the heads of Central Banks or their representatives. That such meetings should be held regularly and frequently is an urgent need. Prior to the creation of the Bank for International Settlements, the occasions for direct exchange of views had to be specially arranged, and in such circumstances it is easy to see that the intervals between meetings may tend to be too great and that favourable opportunities for arriving at decisions of common interest may be lost. With the creation of the proposed Bank for International Settlements, provision has been made not only for regular and automatic meetings between the heads of leading Central Banks or their representatives, but there are also frequent opportunities for informal discussions and the development of personal contacts, the value of which in international relations can scarcely be overrated. It may, therefore, be hoped that the future will witness a powerful advance in the combined efforts of international banking authorities for the joint control of the gold standard which post-war developments have shown to be necessary in the interests of the participants in it. The contribution that a prudent monetary policy on the part of Central Banks co-operating all the world over can make towards creating and maintaining stable conditions for industry and employment is immense. This power is perhaps second only to that of government in the broadest sense, which, according as it is directed, wisely or not, affects for good or ill the destiny of whole communities.

CHAPTER IX

CENTRAL BANKS AND THE CRISIS

SINCE the last edition of this book was published, the world has experienced a financial depression of unparalleled intensity. The credit and exchange systems on which internal and external trade rest are to a great extent paralysed, and in many instances the Central Banks have been forced to abandon the gold standard. It is not the purpose of this work to give a history of central banking in recent years, or to attempt a complete survey of the causes of our present discontents, but since the Central Banks in a large number of countries have failed to carry out their first responsibility, namely, the maintenance of the stability of the currency unit, it is obviously germane to any study of their constitutions to consider whether the present situation is in any way linked up with weaknesses in their organisation.

Though the general features of the present crisis are well known, it may be desirable here to show briefly to what extent the Central Banks have been forced to abandon the currency standards they had been charged to maintain and how far central banking machinery has broken down.

The annexed table exhibits the actual facts regarding the exchange situation in December 1931. It has been divided into two parts, the first containing countries where the market quotation conforms to the requirements of gold parity, and the second containing those countries where the gold standard is in suspense. The lists do not, of course, cover all the countries of the world with a more or less

developed exchange market, but they comprise all the more important financial centres and include most of the territories of which the Banks of Issue are surveyed in this book.

FOREIGN EXCHANGE RATES

AVERAGE OF DAILY QUOTATIONS FOR DECEMBER 1931 FOR CABLE TRANSFER IN NEW YORK

(In cents per unit of foreign currency)

I. COUNTRIES IN RELATION TO WHICH THE PUBLISHED EXCHANGE RATES CONFORM TO THE REQUIREMENTS OF THE GOLD STANDARD

	Par of Exchange.	December 1931.
(A) *Free Exchange Dealings Permitted*		
United States	..	..
Belgium	13·90 per belga	13·9039 per belga
France	3·92 per franc	3·9229 per franc
Netherlands	20·20 per florin	40·2338 per florin
Switzerland	19·30 per franc	19·4805 per franc
Poland	11·22 per zloty	11·1902 per zloty
(B) *Restrictions on Exchange Dealings in Force*		
Austria	14·07 per schilling	13·9460 per schilling
Bulgaria	·72 per lev	·7148 per lev
Czechoslovakia	2·96 per crown	2·9626 per crown
Germany	23·82 per reichsmark	23·6192 per reichsmark
Greece *	1·30 per drachma	1·2879 per drachma
Hungary	17·49 per pengo	17·4580 per pengo
Italy	5·26 per lira	5·1094 per lira
Roumania	·60 per leu	·5959 per leu
Chile †	12·17 per peso	12·0669 per peso
Colombia	97·33 per peso	96·5692 per peso

* Greece and Chile have formally suspended the gold standard since December 1931.

The Union of South Africa, which adhered to the gold standard on its suspension in the United Kingdom in September 1931, may also be classed in the first group of this category.

[TABLE

II. Countries in which Rates of Exchange Indicate the Suspension of the Gold Standard

	Par of Exchange.	December 1931.
Great Britain	486·66 per pound	337·3707 per pound
Denmark	26·80 per krone	18·5875 per krone
Finland	2·52 per markka	1·6938 per markka
Norway	26·80 per krone	18·4831 per krone
Portugal	4·42 per escudo	3·2302 per escudo
Spain	19·30 per peseta	8·3992 per peseta
Sweden	26·80 per krona	18·7098 per krona
Canada	100·00 per dollar	82·7064 per dollar
Argentina	96·48 per peso	58·5196 per peso
Brazil	11·96 per milreis	6·2010 per milreis
India	36·50 per rupee	25·3612 per rupee
Japan	49·85 per yen	43·4614 per yen

There also fall in this category certain countries whose currencies are linked, in one way or another, with the pound sterling, such as the Irish Free State, Egypt and the Straits Settlements. Australia and New Zealand have permitted their exchanges to decline below parity with depreciated sterling.

The division of these names into two main groups does not, however, adequately represent the degree of havoc wrought on the currencies of the world by the economic crisis. In a number of countries in the first group the exchange parity has only been preserved artificially by the abandonment of free exchange dealings, the imposition of stringent exchange controls or by the admitted postponement of debt repayments as an alternative to a compulsory moratorium. Obviously, if a country under one guise or another suspends foreign payments that are due, or prohibits transactions involving transfer of funds, the quoted exchange rate is not an index of the true state of affairs. In certain European and also in some Central and South American countries the transfer of funds to meet foreign liabilities has been restricted or suspended. Exporters are obliged to hand over foreign exchange to the Central Bank, which provides it for importers according to proved needs, with the aim of rationing the available

exchange to pay for such goods as are more urgently required. These measures are inconsistent with the proper working of the gold standard and are indicative of the failure of policy to produce equilibrium in the balance of payments under a normal condition of international dealings.

To distinguish the countries where the gold standard was functioning at the end of 1931 without artificial restraint, it is necessary to separate off those where the quoted rate of exchange is made to conform with the legal par by the restrictions on foreign remittance. This is done in the preceding lists, and it will be noted how small is the number of countries in which the gold standard is being maintained under conditions of free exchange dealings. The range comprises important financial centres like New York, Paris, Amsterdam and Zurich. But outside it are to be found London, Berlin, the Scandinavian group, the British Dominions, Argentina, Brazil, India and Japan. It is not, however, by numbers that the significance of the list is to be judged. The most emphatic evidence of the failure of monetary policy lies in the fact that London, despite its long-established creditor position and the prestige of its position as a financial centre, was constrained in September 1931 to suspend gold payments after raising foreign credits to the extent of £130 million in the effort to maintain the gold basis of the pound.

The failure to maintain the external stability of currencies represents, however, only half the picture. As is unhappily too apparent, the failure to maintain internal stability has been as marked and even more disastrous. Although the departure from the gold standard was the more sensational and roused more public excitement than the changing value of gold itself, it was in fact only the symptom of a disorganisation due to causes all linked more or less closely with the general fall in price levels. The following table shows the course of wholesale prices in the United Kingdom, France, Germany and the United States during the last few years.

WHOLESALE COMMODITY PRICES

1913 = 100

	United Kingdom.	France.*	Germany.	U.S.A.
1927				
Average . . .	138	128	138	137
1928				
Average . . .	135	129	150	140
1929				
January . . .	130	126	139	139
April . . .	129	125	137	139
July	129	122	138	140
October . . .	124	118	137	138
1930				
January . . .	118	113	132	134
April . . .	112	110	127	130
July	107	108	125	120
October . . .	100	102	120	118
1931				
January . . .	91	97	115	110
April . . .	90	97	114	105
July	86	91	112	100
October . . .	90	83	107	98
1932				
January . . .	90	81	100	94

* The figures express approximately movements in prices in terms of the pre-war franc.

The last two entries for the United Kingdom, which exhibit a small recovery in the price level, relate to the period after the suspension of the gold standard and represent quotations in depreciated sterling. It will be observed that until after the latter part of 1929 price movements in the United States, where an effective gold standard has prevailed throughout, do not indicate a collapse of prices. The figure of 138 for October 1929 may be compared with 149, the average for 1922 (see page 159), showing a decline of only 8 per cent over eight years. From the beginning of 1930 the decline in prices exhibits the symptoms of a catastrophe. By the end of 1931 the average level of wholesale prices in the United States had fallen to the pre-war point. In the great mass of countries that had hitherto adhered to the gold or gold exchange

standard a similar tendency is to be observed. Despite falling prices, however, high bank rates have at times prevailed, as the annexed statement shows. Towards the end of 1929 the abnormal combination of dear money and falling prices was found in all the three leading financial centres of New York, London and Berlin. Doubtless there were special circumstances, such as the reactions of the New York Stock Exchange boom culminating in 1929, which account for this unusual situation, but the fact that it could occur shows that there must have been some fundamental error in the shaping not necessarily only of financial but also perhaps of political policy to produce this result. But in these circumstances it is not surprising to have to record the world-wide breakdown of the gold standard and to deplore the undoing of a large part of the work of economic rehabilitation achieved in the early post-war period.

BANK RATES: 1928–32

(The rates are those in force at the beginning of the month)

	London.	Paris.	Berlin.	New York.
	%	%	%	%
1928				
January	4½	4	7	3½
April	4½	3½	7	4
July	4½	3½	7	4½
October	4½	3½	7	5
1929				
January	4½	3½	7	5
April	5½	3½	6½	5
July	5½	3½	7½	5
October	6½	3½	7½	6
1930				
January	5	3½	7	4½
April	3½	3	5	3½
July	3	2½	4	2½
October	3	2½	4	2½
1931				
January	3	2½	5	2
April	3	2	5	2
July	2½	2	7	1½
October	6	2	8	1½
1932				
January	6	2½	7	3½

The effects of this downward swing in prices on the world economy has of late attracted so much attention and is so universally realised that it is not necessary to elaborate here the connection between falling prices and trade stagnation. It might be possible to imagine an Utopian economic system which was so elastic and so adaptable that costs could be quickly adjusted to meet the new conditions. The world to-day is far removed from such an ideal. The element of fixed interest and other fixed charges, the comparative inelasticity of wages, the loss occasioned in a time of falling prices by the delay between the initial outlay and the final return, have all contributed to the present depression.

The effect of fixed interest charges has, however, not only been felt in the sphere of production. The war has left a legacy of international indebtedness on an unprecedented scale, and the real value of these debts and the interest thereon has risen proportionately with the fall in prices. With a decline of approximately 33 per cent in gold prices the burden of debts fixed in gold has been enhanced 50 per cent in the last decade. The disturbing effects of these international debts would have been serious even had prices remained stable. In the present circumstances their existence is little short of calamitous. They have helped to render the world less capable of adjusting itself to rapidly and continuously falling prices. For this reason, if for no other, the present crisis stands apart from any previously experienced.

The fall of prices and the existence of vast international debts are, however, not entirely disconnected phenomena. It is outside the scope of this work to discuss in detail the causes of the present rise in the value of gold, but it is becoming more and more widely recognised that one of the most potent factors is the transference of gold from the debtor to the creditor nations, where it has accumulated in quantities far beyond those needed for healthy currency purposes. As a result large quantities have in effect been removed from active circulation.

The following table sets out the holdings of the leading

countries from July 1928 to January 1932 at half-yearly intervals and covers the period from the legal stabilisation of the French franc in June 1928.

GOLD HOLDINGS OF CENTRAL BANKS

(Figures for beginning of month in millions of gold pounds)

	1928.	1929		1930.		1931.		1932.
	July.	Jan.	July.	Jan.	July.	Jan.	July.	Jan.
England . .	173·2	154·2	154·4	150·5	156·3	145·9	163·3	120·7
United States (Gold Stock) .	844·4	851·0	888·6	880·4	931·8	943·8	1018·5	916·7
France . .	236·7	263·1	295·2	341·8	355·6	432·6	452·7	554·4
Belgium . .	22·9	25·8	28·8	33·6	34·3	39·2	41·0	72·8
Netherlands .	35·9	35·9	36·7	37·0	35·7	35·2	41·1	73·3
Germany . .	107·3	137·8	102·5	119·1	135·5	119·4	75·3	53·7
Italy . . .	53·3	54·6	55·8	56·1	56·3	57·3	58·1	60·9
Switzerland .	17·7	20·5	19·7	23·6	22·9	28·4	33·4	93·1
Spain . . .	103·4	101·5	101·6	101·7	98·0	96·7	96·3	89·1
Japan . .	108·9	108·8	108·8	107·3	90·2	85·4	87·3	48·1
Argentina . .	107·2	105·2	92·1	89·2	89·2	84·8	65·0	51·6

While gold in moderate quantities is held by Central Banks or Governments not included in the above list, it would be tedious to elaborate the case further. The salient facts leap to the eye. On the 31st July 1931, that is, before the suspension of the gold standard in England, the United States and France held together £1471 million gold, as compared with £1081 million gold in July 1928, by which date the legal stabilisation of the franc had been effected. The increase of £390 million exceeds the gold production of three years (about £260 million) by about £130 million, which was in the main surrendered by other gold standard countries. The total of £1471 million held by France and the United States in July 1931 compares with £661 million held by the remaining nine countries on the list. The Federal Reserve Bulletin gives figures for the gold holdings of forty-seven countries, which is for this purpose virtually coextensive with the money-using world. In December 1931 the United States and France held

$6751 million gold as compared with $11,259 million held by the total forty-seven countries—that is, more than one-half. Whether this result is viewed from considerations such as the sum of populations, foreign trade values or the requirements of financial centres, the disproportion is grotesque. The experience and practice of London over many years has shown that colossal gold holdings are unnecessary for the discharge of the responsibilities of an international market, provided that the gold standard is not abused.

But it is not only in the United States and Paris that the accumulations of gold are disproportionate. It will be noted, by comparing the figures in the final with those in the penultimate column, that after the suspension of the gold standard in England in September 1931, there was a very striking increase in the gold holdings of such other countries as Belgium, the Netherlands and Switzerland, where gold payments remain in force. This is to be ascribed largely to the blow which the suspension of gold payments administered to the gold exchange standard, and to the practice of holding currency reserves in the form of foreign exchange. London had always been regarded as a secure home for the deposit of such reserves, but on the depreciation of the pound foreign Central Banks holding credits in sterling were faced with heavy losses, and in various cases, such as the Bank of France and the Netherlands Bank, the help of the State was solicited for the adjustment of the losses in the Bank's accounts.

The extent to which the gold holdings have been used as the basis of currency is illustrated by the following table, which shows for certain countries the relation of gold to note and deposit liabilities of the central banking systems at the end of 1931.

[TABLE

GOLD RESERVES AND LIABILITIES, END DECEMBER 1931

	Gold. (1)	Notes. (2)	Deposits. (3)	Notes + Deposits. (4)	Ratio of Gold to Col. 4.
Federal Reserve Banks. $000	2,989	2,625	2,125	4,750	63
Bank of France. Fcs. 000,000	68,481	83,547	29,513	113,060	61
National Bank of Belgium. Fcs. 000,000	12,751	18,015	1,294	19,309	66
Netherlands Bank. Guilders 000	887	1,024	179	1,203	74
National Bank of Switzerland. Fcs. 000,000	2,347	1,609	962	2,571	91
Bank of England. £000,000	120·7	364	175	539	22
Reichsbank, RM. 000,000	984	4,776	755	5,531	18

The disparities illustrated by these figures are noteworthy. The actual ratios in the first five cases may be contrasted with the legally prescribed ratios that vary from 35 to 40 per cent. In the case of the Reichsbank the normal minimum gold ratio is 30 per cent and applies to notes alone, but the limit has been specially reduced owing to the crisis. It is not surprising that with such violent departures from nominal reserve requirements and with such an unreasonable distribution of gold, there should be grave economic and financial dislocation. The international gold standard was not devised for such perverted use as the figures cited indicate, and there can be no hope of a general permanent return to gold until more rational distribution of the world's gold has been achieved and suitable international provision made for the avoidance of a similar situation in future.

Though the above survey makes no claim to give a complete analysis of the present situation and its causes, enough has been said to show that the problems involved are essentially international in character. In this respect the present crisis is in striking contrast to the national crises of inflation in the post-war period. Inflation due to

unbalanced budgets and excessive borrowing by the Governments from the Central Banks can only be dealt with country by country. To-day it is impossible to strike at the root of the trade stagnation and widespread depreciation by any local measures; international co-operation is the first requisite.

There has been a tendency in certain quarters to regard the failure of the independent Central Banks to maintain the stability of the currency as an argument for introducing Government control. But since the present situation can only be dealt with internationally, it is important that bodies such as the leading Central Banks and the Bank for International Settlements that may handle these problems should be as far removed as possible from national or international political currents. The difficulties of dealing with the present issue are unfortunately greatly enhanced by the fact that the economic and financial disorganisation is connected with the burden of non-commercial debts and artificial restraints on trade, both internal and external, that is to say, with factors that have their roots in the strongest national emotions. The best hope of a reasonable solution is that the problems should be considered in an atmosphere as free as possible from national jealousy and animosity. Such a desideratum is not easy of achievement; it would be doubly difficult if the Central Banks or the Bank for International Settlements represented the political views of changing Governments rather than the more stable and detached outlook of informed economic thought. If the leaders of international financial opinion could come to an agreement on the need of a fundamental change of policy in certain international problems, they might hope gradually to change the attitude of the Governments concerned. But this means that the Bank for International Settlements and the Central Banks must stand outside the turmoil of politics. Interference with their independence at this juncture would most seriously jeopardise the hopes of future prosperity.

As the present world wide depression is closely linked with

political questions, it is idle to saddle the main responsibility for the economic crisis on the Central Banks. This is not the place to criticise or defend in detail the actions of the Central Banks during recent years. The point to be made here is simply that, however wise and far-seeing their guidance had been, they could not have hoped to strike at the root of the trouble. At the best they could only mitigate the difficulties the world is having to face to-day, and in certain instances there is no question but that they have been able to exert an alleviating influence. When the collapse of credit institutions in Austria and Germany threatened to bring normal business to a standstill, the Central Banks laboured by extending credit at the points of danger to stem the flood of liquidation. In the month following the revelation of the losses of the Credit-Anstalt für Handel und Gewerbe in Vienna the National Bank of Austria increased its discounts from schillings 69·5 million (7th May) to schillings 475 million (31st May), and with the aggravation of the credit crisis this figure had risen to schillings 907 million by the end of 1931. Again, after the break of the Stock Exchange boom in New York in the autumn of 1929 the Federal Reserve system was ready with facilities, designed to carry concerns, temporarily unliquid, through the period of adjustment. It is, moreover, to the Federal Reserve system that the United States are now looking to provide the means of breaking what has come to be known as the vicious spiral of deflation. Special means have been taken by the Glass-Steagall Act and otherwise to facilitate the creation of revitalising credit, which may help to dissipate the prevailing lack of confidence and remove the stagnation of industry. But it is in Germany that the year 1931 has most clearly seen the value to a country of the Central Bank. When the credit crisis, spreading from Austria, held Germany in its grip and on 13th July 1931 the Darmstadter and National Bank closed its doors, two days bank holiday were declared to provide time for concerting measures for the support of the German credit structure and for the maintenance of

the currency. The crisis was simultaneously internal and external in character. Measures of unparalleled severity were invoked. Credit restriction, involving the immobilisation of deposits, and advances in the discount rate to 15 per cent were deemed necessary. The Reichsbank co-operated with the Government in carrying through large schemes for the reorganisation of the banking system of the country, and in due course the credit restrictions were relaxed. Though the economic situation on the Continent is admittedly grave, it was a remarkable achievement to have steered the German economy through the critical summer months of 1931 without a complete collapse.

But though the Central Banks have in certain directions been able to act as buttresses, it must be confessed that in the international sphere they have failed to do as much as was possible owing to the lack of adequate co-operation. As was pointed out in the previous chapter, with the increase in the habit of keeping gold reserves in foreign centres, the need of a sense of responsibility as between the different Central Banks becomes increasingly important. This is a comparatively new conception which unfortunately has not yet been fully realised, and this failure has intensified the problems involved in the present crisis. The diseases of inflation and deflation are both characterised by a loss of confidence. Inflation causes a flight from money by reason of its continuously diminishing purchasing power. Deflation, on the other hand, causes a flight to money, as the value of goods continuously declines. It thus easily turns into a race of liquidation. Now if Central Banks participate in this contest by recalling their external credits in the form of gold, the disease is necessarily aggravated. The Central Banks of debtor countries will lose gold and will sooner or later raise their rates and restrict credit, thus adding further weight to the downward tendency of prices and intensifying the loss of confidence. In the end, as is unfortunately apparent, there will be widespread suspensions of the gold standard.

There is little question that from the point of view of

central banking the lesson of the present crisis is the need to develop still further the idea of international co-operation. Until recently the aims of Central Banks have been to meet the currency needs of the country and to help towards a healthy development of trade and industry, taking into account always the importance of maintaining the currency unit. The idea that the Central Banks of the world should concern themselves co-operatively with questions connected with world prices is still but partially recognised in practice. During the rise in world prices in the third quarter of the nineteenth century after the opening of the Californian and Australian gold mines, or during the period of falling prices in the last quarter of the century, there was no machinery which would enable the Central Banks by concerted action to deal with the situation. But such machinery does now exist in the League of Nations and the Bank for International Settlements, though devised for different purposes.

Doubtless the technical side of central banking will develop with experience according to changes in the nature of the national requirements, but such developments must be considered in the light of international, as well as national, interests. The stipulations regarding reserves may be modified, if a shortage of gold should render existing ratios inappropriate, and the practices of different Banks relative to the holding of foreign exchange in reserves may change. These and similar questions are suitable subjects for survey not only by the individual banks, but also by the Bank for International Settlements and by the League of Nations, which has already initiated inquiries regarding gold. By these means the international aspect of the problem will be kept in view.

The need for international study and action in relation to such questions and every aspect of the problem of world prices cannot be overstressed. Without this there can be little hope of remedying the present stagnation. Moreover, since it is probable that in the future there may be a shortage of gold quite apart from any question of mal-

distribution, it seems likely that the future may be even blacker than the present unless as much thought is given to the development of the machinery for financial action on international lines as has been given to the development of central banking in the past. But both the Central Banks and any international body will be helpless if the Governments of the world do not come into line. Sound finance internally, a change of policy with regard to international indebtedness and the removal of restrictions on international trade are essential if there is to be a return to prosperity in the world; the international handling of the major banking and financial problems is no less vital if the prosperity is to be maintained. Signs of a realisation of these facts are not lacking.

When at the most critical phase of the German economic position in the summer of 1931 the consideration of the situation was deputed to the international bankers, an important step was taken, and a further move of the same kind was witnessed when the Bank for International Settlements was called upon to examine the latest phase of the reparations question. If this kind of co-operation between central banking and international statesmanship can be developed there may be ground for hoping that the worst features of the recent financial crisis and the existing trade depression may not be repeated. But this involves not only soliciting advice from competent quarters, but also the adoption of the recommendations when received. It is unreasonable to expect financial co-operation, however well conceived, to neutralise the blunders of misguided national or international policies. Co-operation between Central Banks requires to be supplemented by co-operation on wide issues between the Central Banks and the Governments. Only by these means is it possible for the Central Banks to develop to make their full contribution to the promotion of economic and social progress.

APPENDIX I

SUMMARY OF LAWS, CHARTERS AND STATUTES REGULATING BANKS OF ISSUE

[In the following summary of the laws of Central Banks it has not been possible, owing to considerations of space, to reproduce textually the clauses concerned. The purpose has been to present the substance of the more important sections and to arrange them in such a way as to facilitate comparison between the legal requirements in different countries. The laws, etc., have accordingly been analysed and their main provisions classified under identical headings.]

AUSTRALIA

COMMONWEALTH BANK OF AUSTRALIA

Capital, Profits and Reserve Fund

9.[1] Authorised capital £20,000,000, consisting of:

(*a*) £4,000,000 transferred from Reserve Fund and Redemption Fund in accordance with following section.

(*b*) Such sum not exceeding £6,000,000 granted to Bank by Government from moneys borrowed under this Act.

(*c*) Such sum (if any) as is raised by issue of debentures.[2]

Capital of Bank is available for all purposes of Bank.

9 A. Of amount at credit of Bank Reserve Fund on 31st December 1923, £2,000,000 shall be transferred to Capital account, and of amount at credit of Redemption Fund on same date £2,000,000 shall be so transferred. Any balance at credit

[1] Numbers refer to Clauses of Commonwealth Bank Acts, 1911–29.

[2] None have so far been issued.

of Redemption Fund after this transfer shall be transferred to Bank Reserve Fund.

53. The Bank may issue debentures as it thinks necessary, but the total amount thereof current at one time may not exceed £10,000,000.[1]

55-56. Such debentures shall be guaranteed as to principal and interest by the Commonwealth and shall be redeemable at par.

30. 1. The net profits are divided half-yearly as follows :

(*a*) half to the Bank Reserve Fund ;

(*b*) half to the National Debt Sinking Fund.

2. The Reserve Fund is available for the payment of any liabilities of the Bank.

Branches

22, 23. The Board may establish branches and agencies in any part of the Commonwealth, and with the consent of the Treasurer it may establish a branch in London or any other place beyond the Commonwealth.

Management

11. Board to consist of Governor and seven other Directors, composed of :

(*a*) Secretary to the Treasury ;

(*b*) Six persons who are or have been actively engaged in agriculture, commerce, finance or industry.

12. The Governor, Deputy-Governor and Directors shall be appointed by Governor-General, and shall hold office for a period not exceeding seven years, being eligible for reappointment.

12 A. The Governor and Deputy-Governor shall devote whole time to their office. The Governor is Chief Executive Officer of Bank.

12 B. There shall be a London Board of Advice consisting of three members appointed by Governor-General on recommendation of Board of Directors. The term of office is for four years, and members are eligible for reappointment.

15 A. Each Director and member of London Board shall make declaration of fidelity and secrecy.

[1] None have so far been issued.

15 B. Following are ineligible for Directorship or London Board :

(*a*) A director of any corporation (other than the Commonwealth Bank), the business of which is wholly or mainly banking ;

(*b*) an officer of any similar corporation.

15 D. Board shall meet at least once a month and otherwise as Chairman directs. The Chairman shall be chosen by Board from its own members for 12 months' office.

15 E. Board may appoint from its own members Executive Committee of not less than three members to carry on business between meetings of Board.

17. Directors and officers of Bank shall not borrow from Bank, except that an officer may with consent of Board borrow for the erection or purchase of a home in which he intends to reside.

NOTE ISSUE AND RESERVE

60 B. State notes to be discontinued.

60 C. The Issue Department of the Bank to be kept separate from all other Departments.

60 F. All assets and liabilities of the Treasury under the Australian Notes Act, 1910–14, to be transferred to the Note Issue Department.

60 H. Australian notes shall be :

(*a*) issued from the Commonwealth Bank ;

(*b*) legal tender throughout all territories under the control of the Commonwealth, except for payments due by the Issue Department ;

(*c*) bear the promise of the Treasurer to redeem the notes in gold (or silver in the case of a single 5s. note) on demand at the Head Office of the Bank.

Notes may be issued for 5s., 10s., £1, £5, £10, or any multiple of £10.

They shall bear the signature of the Secretary to the Treasury (or other officer of the Treasury), and the Governor of the Bank (or other officer of the Note Issue Department).

60 I. Part of the moneys derived from the issue of Australian notes shall be held by the Board in gold coin for the purposes of the reserve. The remainder may be invested ;

(*a*) on deposit with any bank ;
(*b*) in securities of the United Kingdom, the Commonwealth or of a State ;
(*c*) in trade bills with a currency of not more than 120 days.

60 J. The profits from the note issue shall be expended :
(*a*) on the working expenses of the Note Issue Department ;
(*b*) in payment of a commission at a rate to be approved by the Governor-General to the Bank for purposes of its general business ;
(*c*) in payment of the balance to the Treasury.

60 K. A reserve of gold coin and bullion to be held equal to not less than 15 per cent of the notes in circulation.

General Business

7. The Commonwealth Bank is authorised :
(*a*) to carry on general business of banking ;
(*b*) to acquire and hold land ;
(*c*) to accept money on current or deposit account ;
(*d*) to make advances by way of loan, overdraft or otherwise ;
(*e*) to discount bills and drafts ;
(*f*) to issue bills and drafts ;
(*g*) to deal in exchange, specie and bullion ;
(*h*) to borrow money ;
(*i*) to do anything incidental to any of its powers.

7 A. The Bank may acquire business and take over assets and liabilities of any banking business with consent of Treasurer.

7 B. The Board may require any person to furnish to the Bank particulars in writing of gold coin and bullion held by that person and may require such gold to be exchanged for Australian notes.

7 C. On the recommendation of the Board the Governor-General may by proclamation prohibit the export of gold from the Commonwealth.

34. The Bank may invest :

(*a*) in any Government security approved by Treasurer;
(*b*) on loan on security of land; or
(*c*) in any other prescribed manner.

Nothing in this section shall prevent Bank from making advances to a customer "on any security which the Board thinks sufficient".

26. The Bank may act as Agent in Australia for any bank carrying on business in or outside the Commonwealth.

35–52. Commonwealth Savings Bank of Australia. Regulations governing the Savings Bank are laid down in clauses 35–52 of the Commonwealth Bank Act, 1911–1929.

60 A B B-60 A B P. A Special Rural Credits Department of the Bank has been established for the purpose of making advances under specified conditions on the security of primary produce placed under the legal control of the Bank.

60 A C. Settlement of balances between banks to be made by cheque drawn on Commonwealth Bank.

62 A. Bank may act as trustee for charitable or public purposes.

Relations with the State

18. Board shall furnish Treasurer with quarterly statements of assets and liabilities of Bank, and of business of Bank, to be published in *Gazette*, and also other periodical statements as required.

19. Bank is subject to inspection and audit by Auditor-General of Commonwealth not less often than half-yearly, and report shall be made to Treasurer of each examination.

20. Half-yearly balance sheet shall be submitted by Board to Auditor-General, who shall transmit it with report to Treasurer and also to both Houses of Parliament.

32. The Board may, with consent of Treasurer, make rules not inconsistent with Act or regulations thereunder for the good government of the Bank and for any matter necessary for the conduct of the Bank's business.

33. The Commonwealth shall be responsible for the payment of all moneys due by the Bank, but no creditor of the Bank may sue the Commonwealth in respect of his claim.

10. Treasurer may borrow moneys not exceeding amount necessary to grant Bank £6,000,000. Bank shall pay Treasurer

half-yearly interest on grants so made, the rate being the effective rate paid on the loan raised by Government for the purpose as determined by the Auditor-General.

See also: Capital, Profits and Reserve Fund, 9 and 30 (1).
Management, 11 and 12, for Government representation and appointments on the Board.
General Business, 7 A and 34, for business requiring Government consent.
Note Issue, 60 F and H.
Returns, 60 L and A D.

Returns

60 L. A monthly return of notes issued and gold reserve held against them shall be forwarded to the Treasurer for publication in the *Gazette*.

60 A D. All Banks to supply quarterly statistics in form prescribed to Treasurer for publication in the *Gazette*.

Term of Charter

No fixed duration.

AUSTRIA

AUSTRIAN NATIONAL BANK

Purpose of the Bank

1.[1] The Bank is established for the purpose of regulating the circulation of money in Austria, of facilitating clearing of payments and of providing for the utilisation of available capital within the limits of the statutes. Its main function is to prepare the introduction of cash payments (redemption of notes in specie) by forming a reserve in metal and deposits payable in stable currencies, and to ensure the continuance of cash payments when once introduced.

Meanwhile, the Bank is to use all means at its disposal to ensure that its notes, when expressed in currency of a country on a gold standard or a stable currency, shall at least not depreciate.

Capital

5-8. Capital, 30,000,000 gold crowns in 300,000 shares of 100 gold crowns each, fully paid. Share capital can only be increased

[1] Numbers refer to Articles of Statutes of Austrian National Bank, 1930.

or decreased by decision of General Meeting and subject to the approval of Legislature. Shares to be " bearer ", and may be inscribed on application.

Profits and Reserve Fund

99-100. After deduction of all expenses, profits shall be dealt with as follows :

five per cent (minimum) to employees' pension fund; allocations to pension fund shall cease as soon as it reaches an amount actuarially sufficient to cover pension claims;

ten per cent to reserve, to be reduced to 5 per cent when reserve equals 20 per cent of share capital; then 8 per cent to shareholders.

Out of residue provision may be made for special reserves. Then one-third of surplus to shareholders up to 10 per cent dividend, remaining two-thirds to State.

Of remainder, provided the shareholders' profits do not exceed 12 per cent, one-fifth to shareholders and four-fifths to State.

Of the remainder one-seventh to the shareholders and residue to the State.

Reserve fund is to cover losses or amounts written off, of any kind. If it reaches 50 per cent of paid-up capital, no further payments to it shall be made from profits, so long as it remains at this figure.

Branches

3. Branch offices shall be established in capitals of Federal Provinces. Other branches may be established subject to Finance Minister's approval.

Management

Board of Directors

25. The Board of Directors consists of Chairman (President) and 13 members (with 4 substitutes).[1]

[1] Councils of employees may delegate a representative to discuss matters concerning their class with the Board. In executing their office these representatives shall have the same powers and duties as the Directors, but each shall have a vote only in such matters as regard the group of staff he represents (25).

26. The Chairman is appointed by Federal President on nomination by Federal Government.

Office expires on day of fifth annual meeting following appointment. Chairman is eligible for reappointment.

27. Vice-Chairmen (first and second) to be elected from among its members by the Board, subject to approval of the Federal Government.

Terms of office as for Chairman (*vide* 26).

22-23. Directors are elected by ballot by general meeting. Following are ineligible: Federal Civil Servants, members of National Assembly, Federal Assembly or Provincial Diets. Nominees to Board must include a representative of each of following:

(1) Banking Institutions;
(2) Savings Banks;
(3) Industry;
(4) Trade and Commerce;
(5) Agriculture;
(6) Labour.

Three names for each category proposed by representative organs of professions concerned to be put before General Meeting by Board. Not more than four members of Boards of banking institutions shall be members of Board of National Bank. Foreigners eligible as Directors, but not to exceed four.

28-30. Term of office of Director five years. Directorship is honorary, except that travelling expenses are allowed.

31. Chairman and all members of Board take oath of fidelity and secrecy.

33. Board to meet as a rule once a month, but meeting must be summoned on request of four Directors, General Manager or State Commissioner. State Commissioner to be invited to all meetings of the Board.

36 A. Urgent decisions in matters reserved for Board may be taken by Executive Committee consisting of Chairman, two Vice-Chairmen, General Manager and Senior Manager. Such decisions to be submitted to Board at next session.

Board of Managers

37. General Manager to be in supreme control of all business

departments. Attends Board in advisory capacity and may submit motions to the Board.

38. Board of Managers consists of General Manager and three to five Managers. Responsible for execution of decisions of Board of Directors.

40-41. Board of Managers to meet as required, and meeting shall be called at least once a month by Chairman. State Commissioner to be invited.

Auditors

44. Five auditors chosen by General Meeting shall report on annual balance sheet at meeting. They may require explanations from Board and inspect books.

General Meetings

11. General meetings of shareholders :

(*a*) annual before end of April ; and

(*b*) extraordinary as required. Extraordinary meetings must be called if requested by shareholders representing a quarter of the votes to which all members of the general meeting are entitled.

14. Twenty-five shares carry one vote : but no shareholder to have more than 100 votes on his own account.

15. A Proxy is entitled to a maximum of 100 votes as such, apart from the votes to which he is entitled on his own account.

20. Purposes of meeting include :

(*a*) to receive report of Board of Directors on year ;

(*b*) to approve balance sheet after hearing Auditors' report ;

(*c*) to deal with surplus and fix dividend ;

(*d*) to elect Directors, Auditors and substitutes ;

(*e*) to decide regarding motions for altering Statutes, and for increasing or reducing capital, as required by law ;

(*f*) to decide on whether to apply to Government for prolongation of bank-note privilege or to continue without it or to wind up Bank.

NOTE ISSUE

80. Monopoly of issue is granted to Bank for duration of privilege.

Denominations of notes to be fixed in concert with the Federal Minister of Finance.

82. Notes to be compulsory legal tender till cash payments are adopted.

83. If Government and Board agree that time for this has arrived, the Government must propose it in Parliament. Until adoption of cash payments, Bank is not obliged to redeem notes in specie.

84. If after adoption of cash payments Bank fails to redeem notes presented at Head Office in specie within 24 hours, privilege of issue to be forfeited, unless failure is due to *force majeure* recognised as such by Government.

Reserve

85. Following cover for notes is prescribed *pending adoption of specie payments*:

Total note issue and immediate liabilities less Federal Loan Debt to be covered by cash:

to 20 per cent for first 5 years;
to 24 per cent for next 5 years;
to 28 per cent for next 5 years; and
33⅓ per cent thereafter.

As cash may be reckoned notes in foreign currencies which have not undergone any violent fluctuations of exchange and bills (including credit balances and cash deposits) expressed in such currencies, payable at leading banking centres in Europe or America, and vouched for by banks of unquestioned solvency and otherwise admissible for discount by Bank.

Until cash payments are resumed, foreign credits as above of at least gold crowns 25 million are to be held—amount not to be reduced except by decision of Board agreed to by at least eight Directors and Chairman.

86. Note issue and immediate liabilities in excess of Federal Loan Debt to be covered by:

(1) cash reserve as in 85;
(2) admissible discounts;
(3) foreign currency (including drafts and deposits), other than that reckoned as cash under 85;
(4) foreign bills payable in Austria and conforming otherwise to conditions of admissibility to discount;

(5) subsidiary coins of Austria (including silver at intrinsic value).

For five years, loans on pledged movable property granted under statutes are allowed as note cover. On the expiration of this transition period the Federal Ministry of Finance may order that loans on pledged movable property shall no longer serve as cover for the note issue. Assets other than those enumerated may not be used as cover for bank-note circulation.

87. *After cash payments are resumed*, one-third cash cover, as defined in 85, is required for notes and all immediate liabilities. Balance to be covered by assets as in 86 and Federal Loan Debt.

88. If prior to adoption of cash payments, cash ratio in 85 is not maintained, Bank to pay a note tax on excess note issue equivalent to discount rate plus following increases :

(*a*) one per cent if cover amounts to less than 20 per cent (or 24, 28 or $33\frac{1}{3}$ according to respective periods), but more than 18 per cent (or 22, $25\frac{1}{2}$ or 30 per cent), and

(*b*) a further $1\frac{1}{2}$ per cent for every further 2 per cent or fraction of 2 per cent by which cover falls below 18 per cent (or 22, $25\frac{1}{2}$ or 30 per cent).

Taxation rate must not be less than 5 per cent.

89. After resumption of cash payments note tax to be paid as soon as cover ratio (*vide* 87) falls below 40 per cent on following scale :

Discount rate plus following increases :

(*a*) 1 per cent if cover is less than 40 per cent but more than $33\frac{1}{3}$ per cent ;

(*b*) a further $1\frac{1}{2}$ per cent for every 3 per cent or fraction thereof by which cover falls below $33\frac{1}{3}$ per cent.

Note tax must in no case be less than 5 per cent.

92. After legal ratio of currency has been established, the Bank to be obliged to buy gold bullion on demand at mint parity in exchange for notes. Charges for assay, etc., to be to seller's account.

93. Bank to be obliged to exchange its notes for notes of other denominations.

GENERAL BUSINESS

57-79. The National Bank may :

(*a*) discount and negotiate commercial drafts and promissory notes, drawn in Austrian currency and payable in Austria, securities eligible as collateral for loans (*vide* (*b*)), interest certificates and warehouse receipts. None of above to exceed three months' currency. Bills to bear, as a rule, three good names and in any case two ; warehouse certificates to bear two good signatures. Subject to above conditions Bank may discount (*a*) bills relating to sums borrowed to meet Customs and other State taxation liabilities, presented by Departments concerned, and (*b*) bills issued by commercial undertakings of Federation, Provinces or Municipalities, whose accounts are separate from those of State ; Bank may also discount securities on which loans may be granted and dividend warrants connected therewith if payable within three months. (Bills to be examined by Committees of scrutiny) ;

(*b*) grant loans on movable property for not more than three months against :

(1) gold and silver, minted and unminted,

(2) securities (other than shares) quoted on Vienna Stock Exchange,

(3) bills in Austrian or foreign currency due within six months, and eligible for discount,

(4) foreign values (Devisen [1]) and foreign currency.

Directors shall establish the terms for loans granted and shall decide what securities may be accepted as collateral by Bank and to what extent of quoted value, and up to what total value.

[1] The term " Devisen " is defined in Article 85 of the Statutes as covering foreign bills of exchange in currencies not having undergone any violent fluctuations for exchange, payable at leading banking centres in Europe or America, and vouched for by banks of unquestioned solvency, but otherwise fulfilling conditions of admissibility for discount. Credit balances and cash deposits, available at any time and held on similar conditions, are also covered.

If Bank's loans exceed volume of bills held, rate charged on advances to be raised to one and a half times rate of discount. The grant of Lombard loans [1] to Issuing Houses on securities issued by them is prohibited.

(*c*) open current, deposit and clearing accounts, interest-bearing or otherwise, except that no interest is allowed on current and clearing accounts ;

(*d*) issue cheques on its own funds ;

(*e*) execute transactions on commission, buying after receiving cover and selling after having received delivery.

(*f*) deal in gold and silver, minted and unminted ;

(*g*) deal in foreign exchange.

Relations with the State

45. Government to appoint State Commissioner and Deputy with powers of supervision to ensure that Bank acts in accordance with Statutes.

Bank may be required to defray cost.

46. State Commissioner may attend all meetings of Boards in advisory capacity, and has right to protest against any decision which he may consider contrary to existing laws or statutes.

47. Any decision, so protested against, to be suspended and to be settled, if possible, in agreement with Government. Failing this, matter to be referred to arbitration of Court composed of President of Supreme Court and four members, two appointed by Government and two by Bank.

50.[2] Neither Confederation nor provinces nor communities in any way, either directly or indirectly, to have recourse for their own purposes to resources of Bank unless they have first paid in equivalent of notes received in gold or foreign values. The Bank may, however, discount Federal Treasury Bills up to 75 million schillings if tendered by any person of known solvency other than the Federation provinces or communities or the undertakings of these bodies.

[1] Lombard loans are loans on the security of movable property.

[2] Revised by Act of 31st March 1927.

Government is bound not to issue State paper money during term of Bank's privilege, and to undertake no measures likely to hinder Bank in fulfilment of obligations under Article 1, paragraph 2 (*vide supra*).

Board has right of complaint to Court of Constitution (Verfassungsgericht) if above obligations are infringed.

Bank may demand that, pending decision, measure complained of should be suspended. President of Court to give decision on such application within 24 hours.

51. Bank to carry out transactions on commission for and on account of Government, provided such transactions do not result in balance to debit of Government.

Bank to manage Government account.

State so far as possible to concentrate its money transactions at Bank.

Bank may enter into other transactions, authorised by statutes, with State; but such transactions must not entail granting of loans or credit by Bank.

113. Assets and revenue of Bank shall not be liable to taxation, with exception of tax on real estate.

114. Books and vouchers of Bank and deeds drawn up by it shall be exempt from stamp and other duties.

See also paragraphs:

99-100 under Profits and Reserve Fund for Government share of profits,
3 under Branches *re* opening of branches,
26, 27 under Management for State appointments,
80 under Note Issue *re* fixing denomination of notes,
103 under Term of Charter *re* Liquidation.

Returns

96. Annual balance to be drawn up as on 31st December.

Securities to be shown at current price, except that if higher than cost price, latter price shall be basis.

Only administrative expense which may be spread over several years is cost of issue of new forms of notes.

101. Return of assets and liabilities as on 7th, 15th, 23rd and last day of each month to be published in prescribed form not later than on seventh working day thereafter.

Balance sheet and profit and loss account to be published not later than eight days before annual general meeting.

Term of Charter and Liquidation

102. Term of Charter to 31st December 1957.

Two years before expiry of privilege, notice must be given to Government.

103. Company may be liquidated with authorisation of Legislature before expiry of privilege. Such consent shall not be required if Government infringes obligations laid down in the law of 24th July 1922 regarding Bank of Issue or in these statutes. Decision to liquidate requires three-quarters of votes at extraordinary meeting called *ad hoc*.

104. Federal Government is, with sanction of Legislature, entitled to take over business of Bank at its real value in event of expiry of privilege (102), loss of privilege (84) or liquidation before expiration of privilege (103).

BELGIUM

NATIONAL BANK OF BELGIUM

Capital

Art. 6.[1] Capital—200 million francs in 200,000 registered or bearer shares of 1000 francs each.

Profits and Reserve Fund

Art. 14. The Reserve to be used :

(*a*) to make good any losses of capital ;

(*b*) to make the annual dividend up to 6 per cent of the nominal capital.

When the right of issue of the Bank ceases, three-fifths of the reserve to be acquired by the State.

Art. 15. Premium on the issue of new shares to be credited to reserve.

Art. 37. To arrive at net profits after bringing all expenses to account, there must be deducted for the benefit of the State the profit resulting from the difference between 3½ per cent and the actual rate of interest on discount or loan operations.

[1] Numbers refer to Articles of Statutes of January 1927.

Art. 38. The annual net profits to be divided as follows :

1. six per cent to shareholders, any deficiency below this amount being made good from the reserve fund.
2. Of the excess :
   (*a*) ten per cent to the reserve fund,
   (*b*) six per cent to the staff or staff organisation.
3. Of the surplus after payment of 2 :
   (*a*) three-fifths to the State,
   (*b*) two-fifths to the shareholders as additional dividend, unless the Council decides to pay this two-fifths, in its totality or partially, to a special reserve fund.

Branches

Art. 2. Branches and Agencies in the chief towns of the judicial areas (*arrondissement judiciaire*) and in any other desired locality on agreement with the Government.

Management

Art. 43. The Bank is directed by a Governor with a Board of Directors, and administered by an Administrative Council (Conseil de Régence), and is under the supervision of a Board of Censors.

There is also a Discount Committee.

Method and Conditions of Appointment : Governor and Board of Directors

Art. 44. The Governor is nominated by and can be dismissed or suspended by the Crown. The appointment is for a term of five years, which can be renewed.

Art. 46. The Governor may not be a member of either Chamber or hold any State pension.

Arts. 47, 48. The Board of Directors consists of the Governor as President and three Directors, elected by the General Meeting for six years and eligible for re-election. They must be Belgian subjects by birth.

Art. 52. Neither the Governor nor Directors may be on the directing bodies of any commercial or industrial body, with the exception of the Colonial Bank of Issue.

Administrative Council

Art. 53. The Administrative Council consists of the Governor, Directors and nine Regents.

Art. 54. The Regents are elected by the General Meeting for three years. They are eligible for re-election.

(1) Three of the members are elected from a double list of candidates submitted for each vacancy by :

(*a*) Representatives of the Council of Industry and Commerce (membres conseillers de groupe élus par les délégués de classe du Conseil supérieur de l'industrie et du commerce) and the members of the Council of Trades and Commerce (Conseil supérieur des métiers et négoces), each body submitting one candidate.

(*b*) The members representing industrial or other occupations on the Trade Council (Conseil supérieur du travail).

(*c*) The elected or co-opted members of the Council of Agriculture (Conseil supérieur de l'agriculture).

(2) The remaining members are elected directly, and must be leading personages in commerce, industry or banking.

Board of Censors

Arts. 55, 56. The Board of Censors consists of 10 members elected by the General Meeting for three years ; they are eligible for re-election. Three are elected from lists submitted as in Article 54.

Art. 57. No member of either Chamber may be a member of the Board of Directors, a Regent or on the Board of Censors.

Powers

Governor and Administrative Council

Art. 62. The Governor can suspend the execution of the decisions of the Administrative Council pending submission to an urgency meeting of the General Council.

He reports to the Government any decision which would be contrary to the laws, statutes or interests of the State.

Art. 63. The Administrative Council must meet once a week. It fixes the rate and conditions of discount and advances and the

amount of capital to be used as loans against State bonds or for their purchase, subject to the approval of the Board of Censors.

It deals with questions of Staff.

It verifies at least every six months the situation of the Discount Offices of the Bank.

Board of Directors

Art. 64. The Board of Directors takes charge of the daily business of the Bank. It accepts or refuses the applications for discounts and advances, and reports thereon to the Administrative Council.

In case of emergency it may decide on the rates of discount and advances, but must refer the matter to the next meeting of the Administrative Council.

Board of Censors

Art. 67. The Board of Censors has the right to supervise all operations of the Bank and to examine all the books.

It approves the balance sheet, and determines the budget and expenditure on the recommendation of the Administrative Council.

Art. 68. It meets at least once a month.

General Council

Art. 69. The Governor, Directors and members of the Administrative Council and Board of Censors form the General Council. It meets at least once a month to consider the general situation.

Discount Committees and Offices

Arts. 72, 73. The Discount Committee at the Head Office (Brussels) consists of two sections over each of which one of the Directors presides. Each section consists of at least three members nominated by the General Council.

It examines the securities offered and advises the administration thereon.

Art. 3. A discount office or a discount committee[1] is attached to each agency, wherever the Government after consultation with the Bank Administration considers it necessary.

[1] The discount committees attached to the Head Office and the branch at Antwerp are only consultative bodies. The discount offices at the other agencies are corporative bodies responsible for all discount operations transacted through them.

General Meeting

Art. 77. The General Meeting consists of all shareholders holding 30 shares.

Art. 80. Thirty shares give the right to one vote. No one person can exercise more than five votes as shareholder and five as proxy.

Art. 81. The General Meeting is held twice a year (last Monday of February and August). At the February meeting the report of the preceding financial year is submitted.

The General Meeting elects the Directors, Administrative Council and Board of Censors.

Art. 82. Special general meetings can be convened at the request of the Administrative Council, and must be convened at the request of the Board of Censors or at least 20 shareholders who are qualified to vote. A special meeting must be convened if there is only one Director, or if the numbers on the Administrative Council or Board of Censors are less than an absolute majority of the full number.

Art. 90. No change in statutes can be made except at a general meeting specially convened for the purpose. The consent of the Government is needed.

NOTE ISSUE

Art. 24. The amount of notes in circulation must be covered by easily realisable values.

Art. 25. The form of the notes and the amount of each value issued are determined by the Government in agreement with the Bank.

Art. 26. The notes are exchangeable on demand at the offices of the Bank at Brussels in accordance with the terms of the Royal Decree of October 1926 (*i.e.* against gold, silver at its gold value, claims payable in gold abroad at the option of the Bank). At branches and agencies payment may be delayed until the necessary funds have been received.

RESERVE

Art. 30. The Bank must hold gold or claims payable in gold abroad equivalent to 40 per cent of the amount of its sight obligations. At least 30 per cent must be in gold.

General Business

Art. 17. The Bank's functions are :

1. To discount, buy and sell bills of exchange and other paper arising out of commercial and agricultural operations and Treasury bonds, provided that the amount of latter in Bank's portfolio should not exceed 100 million francs, apart from these held in connection with the stabilisation of the Exchange according to the Royal Decree of 25th October 1926 (Art. 21). Maturity of bills and bonds not to exceed 100 days and bills to carry three good signatures. Two signatures may be taken subject to rules approved by Finance Minister. Security, in the form of warehouses, warrants, goods or public funds, covering total loan may replace one signature (Art. 19).
2. To rediscount abroad paper in its portfolio ; to pledge its paper as security ; to guarantee its discounts and advances ; to acquire assets and credits abroad.

3 and 4. To deal in gold and silver and make advances thereon.

5. To collect bills on behalf of third parties.
6. To open current and deposit accounts ; to take custody of securities, precious metals and coins.
7. To make advances on current account or for short term against State or State-guaranteed securities, or similar securities of Luxemburg, under regulations prescribed by Bank and Board of Censors. Maximum term of such advances to be four months, and securities to be taken at four-fifths market value. Only one renewal is allowed without special authority from the Administrative Council (Art. 22).

Art. 18. The Bank may not carry out any business other than that specified in its statutes.

It may not borrow except as laid down in 17 (2) or make advances on mortgages or industrial shares other than preference shares of the Belgian State railways. It may not make advances against or buy its own shares.

It may not take any part, direct or indirect, in industrial or commercial undertakings, or deal in any commodities other than gold and silver.

It may not acquire immovable property other than that essential for its own business.

Art. 23. On the authority of the Finance Minister, the Bank may hold public securities not exceeding amount of its capital and reserve.

Art. 31. The Bank may issue transfers, credits at sight or seven days, and cheques.

It may help in the formation and management of clearing houses.

Art. 33. The Bank acts for the General Savings Bank.

Art. 34. The Bank may take over, as security or by way of mortgage, real estate or other property to cover doubtful debts, provided that such property is got rid of within two years, unless an extension of time is allowed by Minister of Finance.

Art. 35. The Bank may perform certain banking services for recognised Mutual Societies.

Relations with the State

Art. 32. The Bank acts as bankers to the Treasury without charge.

Art. 91. In addition to any powers given under these Statutes the State has the right to oppose any measure which is considered contrary to the laws, statutes or interests of the State.

Government Commissioner

Art. 74. The Government Commissioner supervises all operations of the Bank. He may be assisted by experts for certain temporary purposes if the Minister of Finance deems it advisable.

Art. 75. He has the right at any time to be informed as to the position of the Bank, and to verify the books and cash.

Art. 76. He may attend the General Meetings, the Boards, Council or Committees when he deems it advisable.

See also :

Arts. 37 and 38 under Profits and Reserve Fund for State Share in Profits.

Art. 2 *re* opening of Branches.

Art. 44 under Management for State appointments.
Art. 25 under Note Issue *re* form of note.
Art. 23 under General Business *re* holding of public securities.
Art. 5 under Term of Charter and Liquidation.

Returns

Art. 41. The half-yearly balance sheets and profit and loss accounts to be published in the official Journal.

Art. 42. A weekly statement of the Bank's position to be sent to the Minister of Finance and to be published.

Term of Charter and Liquidation

Art. 4. Term of Charter till December 31, 1952.

Art. 5. If the losses of the Bank exceed half its capital, it must be liquidated. Otherwise the consent of the Government and of a three-quarters majority at a general meeting of shareholders, representing at least half the capital, is required for liquidation prior to the term fixed by law.

BULGARIA

NATIONAL BANK OF BULGARIA[1]

Purpose of the Bank

Art. 2. The chief purpose of the Bank is to maintain the gold value of the notes. For that purpose it is entrusted with the control of the monetary circulation. It will also facilitate payment by transfer.

Capital, Profits and Reserve Fund

Art. 4. Capital of 500 million leva. A reserve fund to be created to cover any eventual losses. In addition the Bank may create other funds for special purposes by charges on the net profits.

Art. 5. An annual charge of 25 per cent is to be made on the net profits of the Bank for the formation of the ordinary reserve fund until it equals the original capital in amount. Thereafter the charge may be reduced by decision of the Council.

[1] Numbers refer to articles of Act of November 1926, as amended up to March 1931. Original Act summarised from the publication of the League of Nations, C. 56, M. 33, 1929 ; II. 19th February 1926.

Art. 6. If the reserve fund is insufficient to meet the losses of the Bank, the balance of the deficit is made good from the original capital, the sum paid out from the capital to be refunded by the State out of public funds.

Art. 7. After the payment necessary to the ordinary reserve fund, 5 per cent of the net profits is set aside for the formation of a pension fund.

Art. 8. The balance after deductions for any special funds agreed upon by the Council to be paid into the Public Treasury.

Branches

Art. 1. The Bank may establish Branches and Agencies in any town in Bulgaria.

Management

Board of Directors

Art. 14. The administration of the Bank rests with a Board of Directors consisting of the Governor, the Deputy-Governors, four members nominated from the Managing Directors of the central administration of the Bank and four elected from outside the Bank. The latter or their substitutes shall be summoned to all plenary meetings of the Council.

The Governor and Deputy-Governors are nominated by royal decree on the recommendation of the Minister of Finance, the Governor for 7 years, the Deputy-Governors for 5 years. They are eligible for reappointment. They can be dismissed only by decision of the Sobranié on the motion of the Minister of Finance.

The members chosen from the Directors are nominated and dismissed by the executive committee.

Persons coming within the category of Art. 20 below are not eligible as Directors.

The four externally elected members and their substitutes must be Bulgarian subjects. They are elected for four years and are eligible for re-election. Two with their substitutes are elected, on the initiative of the Chamber of Commerce of Sofia, by the Permanent Committee of the Bulgarian Chambers of Commerce. The Administrative Council of the Sofia Bourse elects one member and substitute. The fourth member and substitute, who must have recognised agricultural qualifications, is elected by the presidents of the General Boards.

Art. 15. The Governor and Deputy-Governors shall give a solemn undertaking to the King to conform strictly to the law and statutes of the Bank, and faithfully to serve its interests. The other members shall give a similar undertaking to the Governor.

Art. 18. The Board of Directors administers the affairs of the Bank, and fixes the general principles of its policy. In particular it exercises the following functions :—

(1) fixes the rates of interest and discount ;
(2) determines the conditions of the various operations of the Bank, the sums that may be employed in the different types of operations and by the various branches and agencies ;
(3) determines the securities or commodities which may be accepted in pledge ;
(4) decides which public loans may be subscribed by the public through the intermediary of the Bank ;
(5) fixes the maximum credit facilities which may be granted to different clients ;
(6) decides on the use of its foreign credits and assets ;
(7) authorises the conclusion of judicial and extra-judicial transactions and the writing off of irrecoverable or doubtful debts ;
(8) makes all decisions in connection with the form and value of bank-notes, their issue and withdrawal ;
(9) appoints and dismisses the employees of the Bank, and fixes their salary. The remuneration of the Governor and Deputy-Governors can only be altered by a unanimous decision of the Board of Directors ;
(10) decides as to the opening and closing of branches and agencies ;
(11) chooses the members of the discount committees ;
(12) agrees the annual report and balance sheet ;
(13) has the right of advising on all laws and regulations which may affect the resources or operations of the Bank.

Central Administration

Art. 19. The Governor manages the affairs of the Bank and sees that the laws and statutes are complied with. The Deputy-Governors carry out the functions he delegates to them.

Art. 20. The Governor and Deputy-Governors form the executive committee, which is qualified to deal with all matters within the competence of the Board of Directors, provided that their decisions are submitted to the Board for ratification. In case of urgency it may alter the rate of discount.

Branches and Agencies

Art. 24. The management of the branches and agencies is entrusted to directors and agents.

Art. 26. In each branch and agency a Discount Committee shall be formed of which the members shall be chosen from a list submitted every two years by the Chambers of Commerce. These lists shall consist of 18 names for Sofia, 12 for all other branches and 9 for all agencies. The candidates must be on the registers of the Chambers of Commerce. They may not be :

(*a*) members of parliament ;
(*b*) bankers, money changers or lenders at interest ;
(*c*) bankrupts ;
(*d*) persons sentenced for breaches of public order or for dishonourable commercial dealings.
(*e*) persons associated in business, relations within the third degree or related by marriage within the second degree.

Art. 27. Two-thirds of the candidates on each list shall be chosen by the Board of Directors as permanent members of the Discount Committee, the remaining third as substitute members.

Art. 28. The branch director or agent acts as President of the Discount Committees.

Art. 29. The members of the Committees may receive a remuneration to be fixed by the Board of Directors.

Art. 30. The Discount Committees fix the total amount of credit which should be granted to the clients of the Bank.

Art. 33. The President of the Discount Committee has the right to veto any decision of the Discount Committee. In such cases the majority of the members of the Committee may demand a reference to the Board of Directors.

NOTE ISSUE

Art. 1. The Bank has the sole right of issue.

Art. 3. 1. To ensure the convertibility of its notes, the Bank must buy or sell on demand at the head office of the Bank in

Sofia, at the rates defined below, the legal-tender currency of such foreign gold standard country or countries as is convertible into exportable gold, and as may be notified in the official *Gazette*.

No person shall be entitled to demand or offer foreign currency of less value than 50,000 levas.

2 and 3. For the purpose of determining the rate applicable to the $\frac{\text{sale}}{\text{purchase}}$ of foreign currency under this article, the amount in levas which represents 1000 grammes of fine gold in accordance with the stabilisation rate shall be deemed to be equivalent to such sum in that foreign currency as is $\frac{\text{required to purchase}}{\text{realised by the sale of}}$ 1000 grammes of fine gold in that foreign country, at the rate at which the principal currency authority of that country is bound by law to $\frac{\text{sell}}{\text{purchase}}$ gold in exchange for currency, after $\frac{\text{deduction from}}{\text{addition to}}$ such sum of the normal cost per 1000 grammes of transferring gold bullion in bulk from $\frac{\text{Sofia to that foreign country}}{\text{that country to Sofia}}$, including interest and insurance.

Art. 13. In view of the irrevocable privilege accorded to the Bank, the State undertakes to renounce the right of issue of notes or other paper which could replace notes, except as in Art. 73 (see Relations with the State).

Reserves

Art. 9. The gold reserve against notes and other demand liabilities must not be below 33⅓ per cent.

Art. 10. The term " reserve " in the preceding article shall include only :

(*a*) Gold[1] coin or bullion in the unrestricted ownership of the Bank, and either in the custody of the Bank or deposited in another Central Bank, or the Bank for International Settlements, or in any Mint, or in transit ;

(*b*) Net foreign gold exchange in the unrestricted ownership of the Bank, provided that it be either :

[1] See Transitory Provision, Art. 80.

(*i.*) on a country the currency of which is convertible on demand at a fixed price into exportable gold; or

(*ii.*) on a country the currency of which is convertible on demand at a fixed price into foreign exchange as defined in (*i.*).

The term " net foreign gold exchange " shall be taken to consist of the following kinds of claims on the currency of a country as defined in the preceding paragraph (*b*), less all liabilities in foreign exchange :

(1) Balances standing to the credit of the Bank at the Central Bank of such foreign country or the Bank for International Settlements ; (2) Bills of exchange drawn on and payable in the currency of such a foreign country, maturing within three months and bearing at least two good signatures ; (3) Treasury Bills, Treasury Certificates of indebtedness or similar obligations of the Government of such a foreign country maturing within three months.

Art. 11. At the request of the Bank, the Government may suspend the operation of Article 9 subject to the payment by the Bank to the Government of a tax. Suspension may be granted for a period of not more than 30 days in the first instance, renewable for further periods not exceeding 15 days at a time. The tax shall be levied on the amount by which the note circulation and other demand liabilities of the Bank exceed the maximum admissible under Article 9.

The tax shall be calculated on the daily amount of the excess at the following rates above the published minimum current discount rate :

1½ per cent if the reserve is less than 33⅓ per cent, and not less than 30 per cent.

2 per cent per annum if the reserve is less than 30 per cent, and not less than 25 per cent.

3 per cent if the reserve is less than 25 per cent.

Art. 12. Whenever the reserve falls below the 33⅓ per cent the Bank shall add to its minimum current discount rate a percentage at least equal to the percentage of tax leviable in accordance with Article 11 above.

General Business

Art. 35. The business of the Bank shall be restricted to the following operations. The Bank may :

(1) Make and issue bank-notes.

(2) Issue demand drafts made payable at the Bank's head office or branches.

(3) Buy and sell gold coin or bullion.

(4) Deliver cheques, drafts and letters of credit and effect transfers.

(5) Accept money on current or deposit account.

(6) and (8) Discount, purchase or sell inland bills of exchange and promissory notes arising out of *bona-fide* commercial transactions bearing not less than two good signatures and maturing within three months, and agricultural bills and notes bearing not less than two good signatures and maturing within nine months, provided that this latter category does not exceed one-third of the Bank's portfolio of inland bills and notes.

(7) Discount State or State-guaranteed bonds and coupons of loans maturing within three months.

(9) Discount for the temporary requirements of the State for expenditure authorised in the Budget, Treasury Bills with a maturity of not more than three months, up to an amount of 400 million levas, to be repaid not later than at the end of the quarter following the close of the fiscal year concerned. The rate of discount to be 2 per cent below the current bank rate for the discount of three-months bills with a maximum of 7 per cent.

(10) Discount, purchase or sell Treasury Bills with a maturity of not more than three months endorsed by an approved bank, person or firm. The total amount of Treasury Bills acquired in accordance with this paragraph and (14) (*c*) below may not together at any time exceed 200 million levas.

(11) Undertake the issue and management of the State Debt and loans of a public utility character.

(12) Buy and sell at home and abroad foreign currencies stabilised on gold, telegraphic transfers, cheques, bills of exchange (including Treasury Bills) and drafts

drawn on a country whose currency is stabilised on gold, and maturing within three months, and keep balances with banks in such currencies.

Exceptionally the Bank may buy and sell for actual needs foreign currencies not in conformity with the above requirements on condition that all measures for avoiding eventual loss are simultaneously taken. Decisions as to such purchase and sale and for the protection of the Bank's interests to be taken by the Board of Directors or the Executive Committee in accordance with Art. 88.

(13) Act as agent or correspondent of any bank in Bulgaria or abroad.

(14) Grant advances for periods not exceeding three months against the following :

(*a*) Gold coin and bullion.

(*b*) State or State-guaranteed bonds quoted on the Sofia Stock Exchange, up to 80 per cent of their market value.

(*c*) Treasury Bills within the limitations specified in paragraph (10) above.

(*d*) Warehouse certificates expressed in Bulgarian currency bearing two good signatures, and payable in Bulgaria within three months, up to 60 per cent of the current value of the commodities in question.

(*e*) Bills of exchange payable in Bulgaria or abroad in the national currency or foreign gold exchange with not more than three months to run, and conforming to paragraphs (6) and (12) above, up to 80 per cent of their face value.

The rate of interest on all advances shall be not less than 1 per cent above the Bank's current official rate for three-months bills.

(15) Accept the custody and management of securities and other articles of value.

(16) Undertake on behalf of third parties the purchase and sale, collection and payment of securities, etc., at

home and abroad, and the purchase or sale of gold and silver.

To guarantee the regular payment of commercial bills purchased for the account of other Central Banks and the Bank for International Settlements, and to discount same should the occasion arise, the decision to rest with the Board of Directors and a commission to be fixed by them.

(17) Invest an amount not exceeding 20 per cent of the paid-up capital and reserves in State or State-guaranteed bonds quoted on the Sofia Stock Exchange.

(18) Deliver guarantee certificates for use with departments of public service against payment or against promissory notes signed by the debtor and by two solvent persons as guarantors.

(19) Do all such things as may be incidental to the transaction of the Bank's legitimate business, as defined in these Statutes.

To carry out with the Bank for International Settlements all transactions which it is empowered to execute with the object of encouraging co-operation among Central Banks, transactions which though not provided for in the present Act would be in conformity with the foreign exchange policy of the National Bank.

Art. 37. The Bank shall not :

(1) issue notes of a denomination less than 200 levas ; [1]

(2) make advances to or undertake any transactions for the State except as provided in Article 35 ;

(3) make advances to departments, municipalities or other similar bodies ;

(4) engage in trade or have a direct interest in any commercial or industrial undertaking, but can participate in the capital of the Bank for International Settlements ;

(5) make unsecured loans or advances ;

[1] Special provision is made to allow the issue of notes of less than 200 levas during a period of three years after this article comes into force.

(6) advance money on mortgage or engage in any similar transactions, or make advances for periods longer than those specified in Article 35 ;

(7) own immovable property except as is necessary for its own business and as provided in Article 40 ;

(8) purchase the shares of any bank or of any company ;

(9) pay interest on deposit or current accounts except as provided in Article 61 (see under Relations with the State), and except that interest at the rate of not more than 1 per cent per annum may be paid on the deposit or current accounts of other banks ;

(10) draw or accept bills payable otherwise than on demand ;

(11) discount for or accept as security further bills from any one party (other than the Government) whose total liabilities to the Bank already equal or exceed one-tenth of the paid-up capital of the Bank, except by special resolution of the Board of Directors ;

(12) allow the renewal of maturing bills.

Art. 38. The Bank's minimum current discount rate, which must be publicly displayed at the offices of the Bank and published in the official *Gazette*, shall be the same at all the establishments of the Bank.

Arts. 39-40. As additional security the Bank may accept a mortgage on real estate or shares of companies and private banks, and other approved securities. Real estate coming to the Bank is to be sold by auction and cannot be held by the Bank unless necessary for its business.

Relations with the State

Arts. 59 and 60. The Bank takes charge of the accounts of the State free of charge. All State receipts to be paid into the Bank, and all State accounts to be held by the Bank.

Art. 61. No interest shall be paid by the Bank on such accounts, except that the Bank may pay on funds held abroad interest at a rate lower by not less than one per cent per annum than the average rate earned by the Bank on all funds held abroad.

Art. 62. The Government shall entrust the Bank with all their exchange and banking transactions in Bulgaria and elsewhere.

Art. 65. The Bank shall not grant accommodation to the State, State undertakings or public authorities, directly or indirectly, otherwise than is provided in Article 35. The Bank shall not guarantee Treasury Bills or other obligations of the State, or any public authorities, nor effect payments for the State, or any public authorities, for which funds are not immediately available at the Bank, nor enter into contracts in the name of the Bank for their account.

Arts. 66 and 67. The weekly and annual statements and an annual report to be submitted to the Minister of Finance. The Minister of Finance may take the advice of a Committee constituted as in Art. 50 (see under Returns below), but only as regards any question as to whether the balance sheet and profit and loss account accord with the books of the Bank. In cases of disagreement the matter is taken to the High Court for decision.

Government Commissioner

Art. 68. The interests of the State *vis-à-vis* the Bank to be entrusted to a Government Commissioner, nominated by the Minister of Finance, with the right of attendance at all meetings of the Board of Directors, but without the right of voting.

Art. 70. The Commissioner has the right to protest against any decision which he considers violates these statutes. His protest acts as suspensive veto pending a decision by a Commission of three persons consisting of one nominee of the Government, one of the Bank, and a chairman to be chosen jointly, or failing agreement to be the President of the High Court of Administration.

Art. 71. Any question in dispute between the Government and the Bank, other than those leading to a suspensive veto of the Government Commissioner, shall be settled by arbitration as laid down in Article 70.

Art. 72. The Bank shall not be subject to any regulations made by the Government or its subordinate authorities except as provided in these statutes.

Art. 73. The Bulgarian Government binds itself not to issue money other than subsidiary coins of denominations not higher than 100 leva, and these only to the Bank and at its request.

Art. 77. The Bank shall be exempt from all taxes or duties levied by the State.

For State share in profits see Art. 8, under Capital, Profits and Reserve Fund.

For State appointments see Art 14, under Management.

For limitation of advances to the State see Art. 35 (9), under General Business.

Returns

Art. 50. The accounts of the Bank shall be verified annually by a committee appointed by the Minister of Finance and composed of a Counsellor of the High Court of Accounts, an Accountant nominated by the Sofia Chamber of Commerce and a Representative of the Ministry of Finance.

Art. 52. The Bank to publish in a prescribed form :

(1) statements of its liabilities and assets on the 7th, 15th, 23rd and last day of each month, within a week of the date ;

(2) the annual balance sheet and profit and loss account within the first four months of the following financial year.

Term of Charter

For an indefinite period.

Transitory Articles

Art. 80. Within a period not exceeding three years the Bank shall sell the silver in its possession ; but in the meantime such silver may be included in the Bank's reserve at its market value.

Appointment of an Adviser

Art. 82. An Adviser to the National Bank of Bulgaria shall be appointed by the Government on the nomination of the Council of the League of Nations.

Art. 84. The Adviser shall have the right to attend, in a consultative capacity, all meetings of the Board of Directors, etc. In the event of his being of the opinion that a decision taken by the Governor, the Executive Committee or other Bodies is contrary to these statutes, he may require that the question be submitted forthwith to a meeting of the Board of Directors.

Should he be of the opinion that a decision taken by the Board is contrary to these statutes, he shall exercise a suspensive veto, and no action shall be taken on the decision until either an agreement has been reached or the question has been decided by a third party to be mutually agreed upon, or, failing such agreement, by the President of the High Court of Administration.

Art. 85. Any alteration of this law shall require the specific approval of the Adviser during the period of his office.

CHILE

CENTRAL BANK OF CHILE

Capital

Art. 6.[1] Initial capital 150,000,000 pesos, which may be increased to 200,000,000 pesos by an affirmative vote of eight members of the Board of Directors and on approval of the President of the Republic. [Paid-up capital on 1st April 1930, 90,832,000 pesos.]

Art. 7. The capital is divided into shares of par value of 1000 pesos.

Art. 12. The shares are divided into Class A, Class B, Class C and Class D shares, holding the same rights as regards dividends and participation in the Bank's assets in case of liquidation.

Arts. 13, 15. Class A shares issued to a total of 20,000,000 pesos, to be subscribed entirely by the Nation and to be inalienable without express authority of Congress.

Arts. 17 and 18. Class B shares to be subscribed for exclusively by national banks which carry on a commercial banking business in Chile, a national bank being a bank chartered under the laws of Chile the majority of whose stock is owned by citizens of Chile.

Arts. 19 and 20. Every such national bank shall become a member of the Central Bank of Chile by holding Class B shares to a total par value equal to 10 per cent of its paid-up capital and reserve funds, the amount being adjusted annually by further purchases or by sale of shares.

Arts. 23 and 24. Class C shares to be held by foreign banks conducting a commercial banking business in Chile, a foreign

[1] Numbers refer to Articles of Act of August 1925 with modifications up to April 1932.

bank being a bank which receives its concession either from a foreign Government or the Government of Chile, but of which a majority of the capital stock is owned by persons who are not citizens of Chile, or by foreign corporations.

Arts. 25 and 26. Every such foreign bank operating in Chile shall become a member of the Central Bank by holding Class C shares to a total par value of 10 per cent of its paid-up capital and reserve funds, the amount being adjusted annually.

Art. 29. Any commercial bank, national or foreign, which fails to comply with the above requirements, shall have its concession to do business in Chile withdrawn.

Arts. 22 and 28. Increases in capital resulting from issue of B and C shares do not require sanction under procedure in Art. 6. (*See supra.*)

Art. 31. Class D shares may be held without restriction. Subscriptions for 10 shares or less were to be first accepted in order received. If these with the initial subscription for Classes A, B and C were for less than 150,000 shares (150,000,000 pesos), subscriptions from persons applying for more than 10 shares might be accepted.

Profits and Reserve Fund

Art. 99. The net profits to be distributed as follows :

(1) Twenty per cent to surplus fund until and unless this is equivalent to half of the Bank's paid-up capital, and thereafter 10 per cent; this amount of 10 per cent may be increased on the affirmative vote of seven Directors and with approval of President of Republic to 20 per cent or more in any year.

So long as the surplus fund equals the paid-up capital the Bank is under no obligation to assign any of its profits to surplus, but on approval of the President of the Republic it may continue to assign 10 per cent of the profits.

(2) Five per cent to a special employees' benefit fund.

(3) Out of the balance a dividend up to 8 per cent on the paid-up capital, which shall be cumulative.

(4) Out of the remaining balance one-half to dividends or to a fund for the maintenance of a uniform dividend policy, one-half to the Government as a franchise

tax for the Bank's exclusive privilege of note issue and other privileges, until this assignment of profits brings the annual dividend up to 12 per cent.

(5) If any profits remain, 75 per cent to be paid to the Government, the remaining 25 per cent to be allocated according to the decision of the Board of Directors to dividend, special dividend fund or surplus.

Branches

Arts. 3 and 4. Domicile—Santiago. The Bank may establish branches in other cities of the Republic and abroad. The establishment or discontinuance of any branch requires the affirmative vote of eight Directors. The approval of the President of the Republic is required for the establishment of any branch outside the Republic.

Art. 5. The Bank may establish agencies and appoint correspondents in other cities of Chile and abroad, as the Board of Directors deem advisable.

Management

Board of Directors

Art. 33. The Bank shall be controlled by a Board of Directors consisting of 10 members appointed as follows :

Arts. 34-39. By the Government (holders of A shares)	3 Directors
By holders of Class B shares (national banks)	2 Directors
By holders of Class C shares (foreign banks)	1 Director
By holders of Class D shares (other shareholders)	1
By the National Agricultural Society and Society for the Encouragement of Manufacturers, acting jointly	1
Association of Nitrate Producers and the Central Chamber of Commerce, acting jointly	1
Labour Unions	1

All directors are elected for three years, and are eligible for re-election.

Elections by holders of B, C and D shares are on the basis of one vote for each share.

Except in the case of the Directors elected by holders of B and C shares it is laid down that the Directors may not be members of Congress, or Directors or employees of member banks.

Art. 40. No banker member of the Board of Directors may vote on matters affecting the relationship of his bank with the Central Bank of Chile or be present at a meeting when such a vote is taken.

Art. 38. The stock of the Bank carries with it no right to intervene in the administration of the Bank, but only to elect members of the Board of Directors.

Art. 44. The Board of Directors elect their President, Vice-President and the General Manager of the Central Bank. An affirmative vote of at least seven Directors is necessary for the election of the President and General Manager.

Art. 45. The President and Vice-President are elected for one year, and are eligible for re-election. The General Manager's term of office is at the discretion of the Board of Directors.

Art. 46. The President and Vice-President may be chosen from among the members of the Board of Directors or from outside the Board. In the latter case they have no right to vote apart from the President's casting vote in case of a tie.

Art. 47. The President and Vice-President may not be members of Congress or hold a salaried position in the Government service, or be director, manager or employee of a member bank, nor may they or any executive head of any of the branches of the Central Bank own any stock in any member bank.

Branch Management

Arts. 50 and 51. Each branch of the Central Bank shall be under the management of a Branch Manager, who is *ex-officio* Chairman of a Branch Board of Directors, consisting of four members in addition to the Chairman. The appointments are made as follows:

two by the Board of Directors of the Central Bank; one shall be a banker and one a business man, farmer or professional man;

one by the President of the Republic;

one by the member banks on the basis of stock ownership within the geographic district of the branch.

Art. 52. The term of office of the Branch Directors (exclusive of the Branch Manager) shall be for two years.

Note Issue

Art. 65. The Central Bank of Chile has the exclusive right of note issue for 50 years.

Art. 67. The notes shall be of such denominations, not below 5 gold pesos, as the Board of Directors may determine on an affirmative vote of seven members, subject to the approval of the President of the Republic.

Art. 68. The notes are unlimited legal tender.

Art. 69.[1] The notes are payable to bearer on demand at Head Office in Santiago in the following forms at the option of the Bank:

(*a*) Chilean gold coins of the weights and fineness provided in the monetary law.

(*b*) Gold bars of approximately 100 per cent fineness, of weights not less than 500 grammes.

(*c*) Demand drafts or three days' sight drafts on London or New York, payable in gold and drawn on funds in banks of high standing. The premia charged by the Bank above the gold par of the Chilean gold peso not to exceed the cost of shipping.

Art. 70.[1] In other cities in Chile, where Bank has branches, notes are payable as in Art. 69 or at Bank's option, when sufficient coin is not available at branch, by drafts at par on Head Office.

Art. 71. To avoid appreciation of the monetary unit the Bank must pay out its own notes on demand in exchange:

(*a*) at par for gold coins of the Republic which have been coined after the passage of the Bank Act and not worn below the limit fixed by law, and at the rate of one peso in bank-notes for ·183057 grammes of fine gold for other gold coins of the Republic;

(*b*) for full weight foreign gold coin or its equivalent in paper money and deposit credits payable on demand at par in such coin at the rate of one peso per ·183057 grammes of fine gold paid to the account of the Central Bank's legal reserve account in

[1] Suspended by the Monetary Act of 19th April 1932.

London or New York. A premium equal to the cost of shipping gold from the foreign city to Santiago may be charged, including interest for time of transit.

Art. 72.[1] If the Bank fails to redeem its notes as provided, it shall be declared "bankrupt on account of suspension of payments" and liquidated.

Art. 73. The notes of the Bank shall be a first lien on all assets of the Bank.

Arts. 74-78 deal with the redemption and retirement of *billetes fiscales* and *vales de tesorería*.

Art. 79. The Government to cease issuing bonds or other obligations that carry the circulation privilege.

Reserve

Art. 83. Gold reserve to be 50 per cent of notes[2] outstanding and deposits combined and to consist of:

1. gold coin and bars in the vaults of the bank;
2. earmarked gold coin and bars in banks of high standing abroad;
3. deposits payable in gold on demand in banks of high standing in London and New York.

Art. 85. If the reserve falls below 50 per cent the Bank shall be taxed as follows upon the deficiency below 50 per cent:

Reserve between 45 and 50 per cent, tax 3 per cent per annum.
Reserve between 40 and 45 per cent, tax 6 per cent per annum.
Reserve between 35 and 40 per cent, tax 10 per cent per annum.
Reserve less than 35 per cent, tax 10 per cent on the deficiency below 50 per cent plus 1½ per cent per annum for each 1 per cent below 35 per cent.

Art. 86. No discount or rediscount rate may be less than 7 per cent when the Bank's reserve has fallen below 50 per cent continuously for one week or more.

[1] Suspended by the Monetary Act of 19th April 1932.

[2] From 1st September 1929 the Bank is released from liability for the small outstanding balance of Government notes, and the Government resumes the obligation for their payment.

Art. 87. Whenever deficiency tax is payable a percentage equal to at least one-half of the percentage rate of the tax shall be added to the discount and rediscount rates, in addition to any increase necessary to bring them up to 7 per cent.

(*Note.*—The provisions of this section were modified by Law of 25th September 1931, as follows:

" During a period of two years the minimum gold reserve is reduced from 50 to 35 per cent. During the same period the scale established in Clause 85 of the above-mentioned Decree-Law and relating to penalties shall be 35, 30, 25 and 20 per cent, respectively, of the gold reserve of the Bank.

" The Provisions of Article 86 of the Central Bank Law will be applicable only when the gold reserves of the Bank fall below 35 per cent above stipulated."

A further reduction in the gold reserve against notes in circulation and deposits was authorised by Law of 7th January 1932, whereby the Bank, when it holds Treasury Notes discounted in accordance with that Law, might reduce its gold reserve in the proportion corresponding to the amount of such discounts, but in no case was the limit to be below 25 per cent.

Moreover, during the same period (while the Bank holds discounted Notes), the scale established by Article 85 of the Central Bank Law covering the payment of fines shall be 25, 20, 15 and 10 per cent, respectively, of the gold reserves of the Bank.

General Business

Art. 1. The principal operations of the Bank shall be those of issue and rediscount.

Art. 54. Except as otherwise provided, loans and discounts made by the Bank are subject to the following restrictions:

(1) No floating credits or overdrafts allowed.

(2) Maturity of discounted bills, loans, etc., not to exceed 90 days, except in the case of paper fully secured by agricultural products or live stock, when the maturity may be up to six months, but the total of such paper may not exceed one-half of the Bank's capital and surplus.

(3) The Bank may not purchase or discount or make advances upon the following classes of paper:

(*a*) Paper bearing less than two signatures, except that documents giving the Bank control of actually existing products, the market value of which is at least 25 per cent greater than the loan, may be accepted as collateral security in the place of one signature. The Bank may, however, purchase from member banks single name paper in the form of drafts drawn by the member bank on foreign banks with maturities not exceeding 90 days, to such an amount as the Board of Directors may provide in the Bank's statutes.

(*b*) Paper, the proceeds of which have been or shall be used for the purchase of corporation stocks, bonds or for speculation purposes. The Bank may, however, rediscount for member banks on their endorsement paper of not more than 90 days' maturity carrying as collateral security high grade mortgage bank and corporation bonds of a market value not less than 25 per cent in excess of the par value of the bill or note discounted. The total amount of such paper rediscounted for any member bank may not exceed one-quarter of that bank's capital and surplus.

(*c*) Paper, the proceeds of which have been or shall be used for permanent investments or other capital purposes, such as purchase of land, buildings and equipment.

(*d*) Obligations of the Government of Chile, Municipalities, Government Railroads and of other Government enterprises, to an amount in excess of 20 per cent of the Bank's paid-up capital and surplus. The admission of the above securities requires the affirmative vote of not less than six Directors. On the affirmative vote of eight Directors the above limit of 20 per cent may be increased to 30 per cent for a period of not more than six months.

(*Note.*—The above section (*d*) was modified by the Law of 25th September 1931, which authorised the Bank to increase up to 80 per cent of its capital and reserves, and subject to the approval of at least eight of its Directors, the amount of the operations the Bank may effect with the Chilean Government, Municipalities, State Railways, and other Government Departments and Institutions mentioned in this section (*d*).)

(*e*) Its own shares or paper secured by its own bank-notes.

(*f*) The stocks and bonds of private corporations.

(*Note.*—The Law of 7th January 1932, which authorised the issue of 200,000,000 pesos of Treasury Notes, stated that the President of the Republic might discount the Notes directly with the Bank or through member banks, and, with respect to these operations, the restrictions or prohibitions established in the Law governing the Bank should not apply.

Art. 55. The Bank may make loans and discounts for member banks subject to the above restrictions, receive deposits from member banks without interest and carry on operations with them in the purchase and sale of exchange, the transfer of money, the collection of cheques and operations involving the purchase, sale and shipment of gold.

Art. 56. The Bank to act as a Clearing House for member banks in Santiago and other cities of the Republic in which it has branches.

Art. 57. The Bank may conduct the following business with general public:

(1) buy and sell cable and telegraphic transfers;

(2) buy and sell gold coin and bullion;

(3) buy and sell or discount bank drafts on foreign countries and foreign bills arising out of the import or export trade, of a maturity not exceeding 90 days, bearing at least two first-class names, or one name together with documents giving the Bank control of merchandise at least equal in value to the amount of the advance and being in process of being marketed;

(4) buy, sell or discount domestic bills of exchange and bank acceptances of member banks having maturities not exceeding 90 days' sight, and arising out of the production, transport or sale of merchandise, the current market value of which is at least equal to the amount of the advance.

Regulations with regard to signatures as in (3) above.

(5) receive deposits payable at sight without interest;

(6) buy, sell, or accept as collateral for paper which it is authorised to purchase subject to 3 (*d*) of Art. 54, the securities enumerated in that Article.

(*Note.*—By Law of 30th July 1931, authority is given to the Bank to contract either in or out of Chile, credits, loans or discounts subject to the approval of six Directors. Authority is also given for the holding, selling, rediscounting and pledging of documents negotiable in foreign currency which have been acquired by way of purchase, discount or rediscount. To hold such documents for more than 90 days the agreement of six Directors will be necessary.)

Art. 59. The Board of Directors shall fix from time to time rates of rediscount and discount. The rates may differ for different classes of paper, or according to the length of maturity, but shall be uniform throughout the Republic.

Art. 60. No member bank may rediscount paper with the Central Bank if it is charging its customers more than 2½ per cent above the rediscount rate charged by the Central Bank on the same kind of paper.

Art. 61. The Bank may only hold or purchase real estate which is :

(*a*) necessary for its business accommodation ;

(*b*) mortgaged to it as additional security for debts previously contracted ;

(*c*) conveyed to it in satisfaction of debts ;

(*d*) purchased at sales under judgments or at private sales to secure debts due to it.

Art. 62. In the case of (*b*), (*c*) and (*d*) the real estate may not be held for more than three years.

RELATIONS WITH THE STATE

Art. 63. The Bank shall be the chief depository of Government funds. No interest to be paid on Government deposits.

Art. 64. The Bank to act as the fiscal agent of the Government, and it may be appointed as fiscal agent for municipalities, other political divisions or Government enterprises. No charge to be made for transferring Government funds between the Bank's different offices within the Republic.

Art. 88. The following obligations of the nation to be included in the concession granted to the Bank :

(*a*) To allow the Bank free commerce in gold without restriction or taxation. In case of internal or external disturbances this may be suspended by agreement of the President of the Republic and the Bank.

(*b*) To coin gold for the Bank without restriction as to amount at the Mint; charges determined by law.

(*c*)[1] Not to issue any paper money except as temporarily required by existing contractual obligations for the issue of *vales de tesorería*.

(*d*) To respect the opinion of the Bank's Board of Directors as to future issues of fiduciary coins and not to increase this circulation when Board by seven affirmative votes requests it not to do so.

(*e*) To receive the Bank's notes in payment of all sums due to the Government as long as the Bank continues to redeem its notes.

(*f*) To include funds for the payment of Government share subscriptions in the Budget for the year in which they fall due.

Art. 100. Bank to be exempt from all taxes except franchise tax in Art. 99 (see under Profits and Reserve Fund), general real estate taxes on land and buildings, import and export taxes, and fee for mail or telegraph money orders.

Bank notes issued by the Bank, as also the paper on which they are printed, are free of all taxes.

[1] Suspended by Monetary Act of 19th April 1932.

This Art. does not exempt owners of Classes B, C or D shares from income tax on dividends.

Government holdings of Stock, see Articles 13 and 15, under Capital.

State and increase of capital, see Article 6.

Government appointment of Directors, see Articles 34 and 50, under Management.

Supervision—Returns

Arts. 89 and 90. The Central Bank must report to and submit to examination by the Superintendent of Banking as may be required by the Superintendent in accordance with General Banking Law, and shall be subject to the fees for examination and penalties imposed by the General Banking Law on the same basis as commercial banks.

Art. 91. An annual report must be submitted to the Superintendent of Banking containing such information as he may require in conformity with law for publication within three months of the end of the fiscal year.

Art. 92. Weekly balance sheets must be submitted to the Superintendent of Banking in the prescribed form.[1]

Art. 93. The weekly statements must show the percentage of gold reserve against notes and deposit liabilities combined and the discount rates on various kinds of paper.

Art. 94. The Bank may not make any discount or other loan charges other than those notified weekly to the Superintendent of Banking, who must be immediately informed of any changes.

Art. 95. If the Bank fails to comply with any of the requirements in Articles 91 to 94, or falsifies any data, it shall be subject to a fine not exceeding 20,000 pesos for the first offence and not exceeding 50,000 for subsequent offences.

Term of Charter

Art. 2. Fifty years.

Period may be extended by legislation on petition of the Bank.

[1] See p. 72.

COLOMBIA

BANK OF THE REPUBLIC OF COLOMBIA

Capital

Art. 4, § 1.[1] $11,735,800 (29th February 1932).

Shares in denominations of 100 gold pesos. They may not be sold to foreign Governments.

§ 5. Shares divided into Class A, B, C and D shares, carrying equal rights as regards dividends and participation in the Bank's assets in case of liquidation.

§ 6. *Class A shares.*—Amount: $5 million, to be subscribed by Government. They carry no voting power.

§ 7. They may not be alienated, pledged or taxed without authorisation of Congress.

§ 8. Should the Government sell or transfer title to any Class A shares they shall be converted into B, C or D shares.

§ 11. *Class B shares* to be subscribed by national banks which carry on a commercial banking business. A national bank is a bank chartered under the laws of Colombia, the majority of whose stock is owned by citizens of Colombia.

Every national commercial bank and every commercial department of a national hypothecary bank is authorised to purchase Class B shares to an amount equivalent to 15 per cent of its paid-up capital and surplus, but not more or less than this amount.

§ 16. *Class C shares* to be subscribed by foreign banks carrying on a commercial banking business in Colombia.

§ 17. A foreign bank is a bank chartered in Colombia, the majority of whose stock is owned by persons not citizens of Colombia.

Such banks are authorised to purchase Class C shares to an amount not more and not less than 15 per cent of the paid-up capital and surplus apportioned to its business in Colombia.

§§ 13, 18. The figures for Class B and Class C shares shall be adjusted annually.

§ 23 (as amended 1925). *Class D shares* to be subscribed by the general public. They shall only carry voting power so long as an amount equal at par to $100,000 is held by shareholders.

[1] Numbers refer to Articles of Act of 1923, as amended 1925, with modifications up to November 1931.

§ 30. Capital other than Class A shares may be increased by affirmative vote of eight Directors, subject to the approval of the National Executive.

Profits and Reserve Fund

Art. 25. The net profits of the Bank shall be distributed as follows :

(*a*) twenty per cent to the surplus fund until and unless this equals half of the Bank's authorised capital ; thereafter 10 per cent, provided that the Board of Directors by affirmative vote of at least seven members and with the approval of the Government may still allocate 20 per cent in any year ;

(*b*) five per cent to an employees' benefit and pension fund ;

(*c*) out of the balance a dividend up to 12 per cent ;

(*d*) out of the balance still remaining one-third shall be paid in dividends, and two-thirds to the National Government as a franchise tax for the Bank's privileges.

Branches

Art. 3. Branches may be established in the capital of any Department and in other cities of importance. The establishment or discontinuance of any branch requires the affirmative vote of seven Directors (or eight, if the number on the Board is ten).

Agencies must be established in the capital of each Department where there is no branch. Agencies may be established or correspondents appointed in other cities in Colombia or abroad on decision of the Directors.

Management

Appointment of Directors

Art. 4, § 6. The Government, by reason of its holding of stock and the quasi-public character of the Bank, is authorised to appoint three Directors.

§ 10. If the Government reduces its holdings of Class A shares below a par value of $4 million, but not below $2 million, its representation on the Board of Directors shall be reduced

to two. If its holdings are reduced below $2 million its representation shall be reduced to one. It shall always have at least one representative on the Board.

§ 15. Holders of Class B shares (national banks) shall elect four members of the Board of Directors on the basis of one vote per share.

Two of these shall be bankers and two business men, farmers or professional men.

§ 32. Holders of Class C shares (foreign banks) shall elect two members of the Board of Directors on the basis of one vote for each share. One of these shall be a banker, the other a business man, farmer or professional man.

§ 23, as amended 1925. Holders of Class D shares (general public) may elect on the basis of one vote per share one member of the Board, provided that shares equal at par $100,000 are outstanding.

§ 6 and § 29. Term of Office for directors elected by the State, three years. For all other directors, two years.

All directors are eligible for re-election.

Amendment 1925. — As regards business men, farmers or professional men elected by Class B or C shareholders, civil servants and managers, directors, employees, auditors and shareholders in other banks are ineligible for the Board. Exceptions may be made in the case of shareholders in other banks whose holdings are so small as not to give the owner importance in the bank.

Art. 5. A substitute director to be elected for each director, and in the same way.

Art. 7, § 2. The majority of the members of the Board of Directors shall be Colombian citizens.

Art. 8, § 3. Members of the Board of Directors must not be relatives of each other or of the Governor or Deputy-Governor within the fourth degree of consanguinity, or within the second degree of relationship by marriage, nor may they be partners of the same firm.

Appointment of Governor

Art. 8, § 1. The Governor to be elected by the Board of Directors by at least seven affirmative votes, and the Deputy-Governors by at least six affirmative votes. If there are

ten members on the Board, the affirmative votes required are eight and seven respectively.

§ 2. The Governor and Deputy-Governors may not hold a salaried position in the Government service, or be a manager, director or employee of another bank.

Powers of the Board of Directors and Shareholders

Art. 7. The control of the Bank shall be in the hands of the Board of Directors, and the stock of the Bank carries with it no voting power except the power to vote for members of the Board of Directors.

Administration of Branch Offices

Art. 9, § 1. Each branch of the Bank to be under a branch manager appointed by the Board of Directors.

He shall act as Chairman of a Branch Board of Directors, consisting of four members in addition to the Chairman. Of these, two are appointed by the Board of Directors at the Head Office, one of whom shall be a banker and one a business man, farmer or professional man; one is elected by the member banks within the Department and the other member is appointed by the National Executive.

Term of office, two years.

§ 2. A substitute director to be elected for each Branch Director, and in the same way.

§ 3. The Branch Managers and Boards of Directors shall only have such powers as are conferred on them by the Board of Directors of the Bank.

NOTE ISSUE

Art. 16, § 1. The Bank has the exclusive right of note issue for a term of twenty years. The notes shall be issued in terms of the gold peso of the weight and fineness fixed by law.

§ 2. In the case of bankruptcy the notes shall have a prior lien over the other liabilities of the Bank.

§ 3. Notes may be issued only for the following purposes:

(*a*) purchase of gold coin or bullion;

(*b*) purchase or discount of drafts and bills of exchange on foreign countries of maturities not exceeding 90 days, and bearing at least two responsible

signatures, or one name in addition to that of the bank obtaining the rediscount if the bill is secured by shipping documents giving the Bank control of merchandise in process of shipment, having a value equivalent to the amount of the bill. Further, the Bank may issue notes for the purchase from member banks of single-name paper in the form of drafts drawn by them on foreign banks with maturities not exceeding 90 days' sight, up to such an amount as the Board of Directors may provide in the Bank's statutes;

(*c*) for discount and rediscount of commercial or agricultural paper mentioned in Article 11, provided that in no case shall the Bank issue notes for the purchase of land, buildings or mortgages on real estate;

(*d*) for the purchase and retirement of *cedulas de tesoreria*.

Art. 17. The notes shall not have forced currency, but shall be considered as legal money for all penal purposes, and shall be receivable for all taxes and other dues, so long as the Bank shall redeem its notes in accordance with this law.

Art. 19, § 1. The notes shall be convertible at sight at the Head Office.[1] In the other cities where there is a branch or agency the notes shall be convertible in gold on sight up to the amount of funds available, and beyond that they shall be exchanged for cheques on the head office.

§ 2. If a branch fails to redeem notes the person presenting them has the option of (*a*) receiving cheques on the main office; (*b*) receiving gold after allowing time for transport from the head office; (*c*) receiving demand drafts on New York payable in gold, for which a premium may be charged as in § 5 below.

§ 3. If the Bank fail to comply with these obligations it shall be declared "bankrupt on account of suspension of payments", and the procedure shall be in accordance with the provisions of mercantile legislation.

§ 5. In time of emergency, upon the affirmative vote of six members of the Board of Directors, and with the approval of

[1] By decree of 25th September 1931 the exchange of notes is temporarily effected in sight drafts on New York, subject to the permit of the Exchange Control Commission.

the respective Minister, the Bank may substitute for domestic gold coin, in the redemption of its notes, sight or cable drafts on New York, payable in gold coin, and may charge a premium not in excess of the actual cost of shipment of gold in bulk between New York and the city in Colombia concerned.

Art. 24. Arrangements are made for retiring the various forms of Government paper money from circulation, the Bank to act as agent for the Government free of charge.

Art. 26. Profits accruing to Government from Bank (Article 25, under Profits and Reserve Fund) and deficiency tax (Article 18, under Reserve) to be used by Government for retiring Government paper with view to giving Bank monopoly of note issue " at the earliest practicable time ".

Reserve

Art. 18. Minimum gold reserve to be 60 per cent of outstanding notes and deposits.[1]

Up to two-fifths of this may be kept in the form of demand deposits, payable in gold in banks of high standing in foreign financial centres.

§ 3. If the reserve falls below 60 per cent the Bank shall be subject to the following penalties:

(*a*) taxes on the deficiency:

If the reserve is below 60 per cent and not below 56 per cent } a tax at rate of 4 per cent per annum.

[1] The law of 13th December 1930 reduced the minimum gold holding of the Bank against notes in circulation and deposits from 60 to 50 per cent. The legal reserve will be maintained in gold in the Bank itself, and on deposit, to order, in first-class banking establishments in foreign financial centres.

A further modification in the gold reserve of the Banco de la República was made by Decree dated 27th November 1931, in the following terms:—

Article 1. The cash reserves to be maintained by the Bank shall be 40 per cent of the notes in circulation and 25 per cent of the total deposits. The first-mentioned reserve shall be maintained in gold in the Bank and in deposits to order in first-class banking establishments in foreign financial centres; the second shall consist of gold or other specie, but silver or silver certificates shall only be computed up to 50 per cent of such reserve.

Article 2. During the present state of emergency and until further stipulation to the contrary, the gold holding of the Bank shall be reduced to 30 per cent of the total of the notes in circulation without the Bank being liable to any fine therefor.

If the reserve is below 56 per cent and not below 54 per cent } a tax at rate of 6 per cent per annum.
If the reserve is below 54 per cent and not below 52 per cent } a tax at rate of 8 per cent per annum.
If the reserve is below 52 per cent and not below 50 per cent } a tax at rate of 10 per cent per annum.

If it falls below 50 per cent an additional tax on the entire deficiency, increasing by 2 per cent for every 1 per cent by which the reserve percentage falls below 50 per cent.

(*b*) If the reserve percentage is below 60 per cent continuously for one week no discount or rediscount rate of the Bank shall be below 8 per cent.

Whenever a deficiency tax is imposed an amount equivalent to at least half the rate of the tax shall be added to the discount and rediscount rates.

§ 20. The reserves required of other banking concerns is defined as 50 per cent and 25 per cent in respect of demand and time deposits (*i.e.* payable on less or more than 30 days' notice respectively).

Member banks require reserves of only half the percentage laid down for non-member banks, and non-interest-bearing demand deposits in Bank of the Republic may be counted as legal reserve up to half the amount of the legal reserve requirements.

General Business

Art. 11, § 2. The Bank may not make any loans, discounts or investments in notes, bonds or bills exceeding 90 days' sight maturity from the date of loan, etc., except in the case of paper secured fully by agricultural products of live stock, when the maturity may be up to six months. Provided that paper with maturity in excess of 90 days shall not exceed one-third of the Bank's paid-up capital and surplus.

§ 3. The Bank may not grant floating credits or allow overdrafts.

§ 4. The Bank may not purchase, discount, advance upon or accept as security any of the paper enumerated in §§ 5 or 6 below, except as additional security to protect itself on loans previously made, in which case it may hold such paper for a period not exceeding one year.

§ 5. (*a*) Paper bearing less than two responsible signatures, including that of the rediscounting bank, except that for one of the non-bank signatures collateral may be accepted in the form of bills of lading, warehouse receipts or other paper giving the Bank control of merchandise, the current market value of which is at least 25 per cent greater than the amount of the loan.

§ 6. The Bank may, however, purchase single name paper from member banks in the form of drafts drawn by them on foreign banks of maturity not exceeding 90 days' sight up to such amount as the Board of Directors may provide in the statutes of the Bank.

(*b*) and (*c*) Paper, the proceeds of which have been or shall be used for speculation or for permanent investments, such as the purchase of lands or buildings or for other capital purposes.

(*d*) Notes or other obligations of the National Government, the Departments and Municipalities, to a total amount in excess of 30 per cent of Bank's paid-up capital and surplus.

By the Law of 13th December 1930, the Bank may, in addition, with the assent of seven members of the Board, make loans up to a further 15 per cent of its paid-up capital and reserves for periods not exceeding 90 days against Government bonds or bills of not more than 5 years' maturity and against notes of the National Treasury for a period not exceeding six months. It may also discount documents guaranteed against such bonds and notes if otherwise eligible for rediscount and purchase the same in the open market within the increased limit of 15 per cent and with the agreement of seven Directors.

§ 7. All loans and purchases made under (*d*) above require the approval of seven members of the Board of Directors.

(*e*) Its own shares or paper secured by its own shares or bank-notes.

(*f*) The stocks of corporations—transportation, mining, commercial, industrial or agricultural—or paper secured by such stocks.

Art. 12, § 1. The Board shall fix from time to time the rate of rediscount for eligible paper of member banks, and of discount for eligible paper offered by public. Its rates may differ for different classes of paper.

Relations with Member Banks

§ 2. No member bank shall be permitted to rediscount paper at the Bank of the Republic if it is charging its customers on paper of the same kind and maturity discount rates greater than the rediscount rate charged by the Bank of the Republic plus 3 per cent.

Art. 13. The Bank may:

make loans and discounts for member banks subject to limitations laid down in Article 11;

receive deposits from member banks;

carry on operations with them in bills of exchange of the kinds mentioned in Article 11, and operations involving the purchase or sale of gold coin and bullion.

It shall act as clearing house for member banks in Bogota and other cities in which it may have branches.

None of the above privileges shall be granted to banks that are not member banks, *i.e.* banks not qualified by ownership of shares of Classes B or C (*vide* Article 4).

Business with General Public

Art. 14. The Bank is authorised to conduct the following business with the general public:

(*a*) buy and sell cable transfers;

(*b*) buy and sell gold coin and bullion;

(*c*) buy and sell or discount bank drafts on foreign countries and foreign bills of exchange arising out of the import and export trade, such drafts and bills to have maturities not exceeding 90 days' sight, and to bear at least two signatures of high standing, or one name together with bills of lading or other documents giving the Bank control of merchandise

having a ready market and in process of being marketed;

(*d*) buy, sell or discount domestic bank acceptances, bills of exchange or promissory notes of maturities not exceeding 90 days' sight, arising out of the production, transportation or sale of merchandise, the current market value of which is at least equal to the amount of the advances, such paper to bear at least two signatures of high standing or one signature with bills of lading, etc., as defined in (*c*) above;

(*e*) receive deposits payable at sight;

(*f*) buy or sell or accept as collateral for loans, subject to the limitations imposed by law, obligations of the National Government, Departments or Municipalities.

Art. 15, § 1. The Bank may purchase, hold or convey only such real estate as is necessary for its accommodation in the transaction of its business, is mortgaged to it as additional security for debts or as it acquires in satisfaction of debts or to secure debts due to it.

§ 2. It may not hold real estate, or titles thereto, purchased to secure debts, for a longer period than two years, except that the Board of Directors may extend this period for two years by seven affirmative votes.

Relations with the State

Art. 21. The following obligations are incurred by the State:

(*a*) to allow the Bank free commerce in gold without any governmental charge or obstacle, provided in case of internal or external disturbances the Government and the Bank may agree to suspend temporarily the privilege of free commerce in gold;

(*b*) to coin gold for the Bank at the mint charges determined by law;

(*c*) not to issue any additional paper money, nor allow any other concern to issue any documents that may circulate as money during the period of the Bank's charter;

(*d*) to respect the opinion of the Bank's Board of Directors as to any future emissions of subsidiary coins;

(*e*) to receive the Bank's notes in total or partial payment of all taxes and dues to the National Government, so long as the Bank redeems its notes in accordance with the requirements of this Act.

Art. 22. The Bank shall be the chief depository of National Government funds.

Art. 23, § 1. The Bank shall be the fiscal agent of the National Government.

§ 2. It may act as depository and fiscal agent of the departmental and municipal Governments.

Art. 28. The Bank shall be required to make such reports to the Superintendent of Banking and to submit itself to such examinations by the Superintendent of Banking as he may require (see also under Returns).

See also Government holding of shares, Art. 4, § 6-8, under Capital.

Share in profits, Art. 25, under Profits and Reserve Fund.

Appointment of Directors, Art. 4, § 6, under Management.

Consent of Government necessary for an increase in capital, Art. 4, § 30.

Returns

Art. 28, § 2. The Bank shall submit weekly to the Superintendent of Banking a balance sheet in the form he may prescribe.

§ 3. The balance sheet shall be accompanied by a statement of the percentage of the gold reserve in the vaults and on deposit abroad which the Bank is carrying against its notes and deposit liabilities combined, and a statement of its discount rates on various kinds of paper.

§ 4. It shall be unlawful for the Bank to make any discount or loan charges other than those announced weekly as above, and the Bank must immediately notify the Superintendent of Banking of any change it may make.

§ 5. Failure to comply with the requirements of the preceding paragraph, or deliberate falsification of any of the data required, renders the Bank liable to a fine.

§ 6. The weekly reports shall be published within three days of the date they cover in the *Diario Oficial* and such other papers as the Superintendent of Banking may require.

Art. 29 (2). The auditors of the Bank shall be provided for by the statutes. They may assist the Superintendent of Banking in the examination of banks, and shall so assist when required by the respective Minister.

Term of Charter

Art. 2. Twenty years.

CZECHOSLOVAKIA

NATIONAL BANK OF CZECHOSLOVAKIA

Capital

§ 58.[1] Original capital, 12 million United States dollars,[2] in shares of $100 inscribed stock. The capital may be increased to $15 million on resolution of the General Meeting. Manner of issue of new stock or withdrawal of old stock is subject to approval of Ministry of Finance.

§ 44. One-third of the capital held by the State.

§ 45. If the whole capital is not subscribed, the Bank shall retain the remaining shares and is free to sell them, but not below their nominal value. The proceeds above the nominal value accrue to the reserve fund.

The Bank may not exercise any rights arising from these shares at the General Meeting, nor can unsold shares participate in the profits of the company.

Profits and Reserve Fund

§ 132. The net profits are divided as follows:

(*a*) a dividend of 6 per cent to shareholders. If the profits are not sufficient for this purpose, the General

[1] Numbers refer to clauses of Act of April 1920 as amended April 1925.

[2] Under the Currency Reform Act (November 1929) the capital is converted into 405,000,000 crowns in shares of a nominal value of 3375 crowns. The Board is authorised to increase the capital to 607,500,000 crowns.

Meeting is authorised to raise the dividend to 6 per cent out of the reserve fund (Art. 134);

(*b*) of the balance 10 per cent to the reserve fund until this reaches one-half of the joint-stock capital. Thereafter all allotments cease (Art. 135).

(*c*) Of the sum remaining one-half to the State and one-half to the shareholders, provided the total dividend is not in excess of 8 per cent;

(*d*) in case the portion due to the shareholders increases the dividend above 8 per cent, one-quarter of the surplus is paid to the shareholders and three-quarters to the State.

§ 135. One-half of the reserve fund must be invested in State bonds of the Republic.

The reserve fund is used:

to cover any losses;

to raise the dividend to 6 per cent if the net profits are insufficient.

In case of liquidation, one half of the reserve fund belongs to the shareholders and the other half invested in State bonds to the State.

Management

§ 71. The Bank is managed by:

(*a*) Bank Board, consisting of the Governor and nine or ten members.

(*b*) An Audit Committee of five members.

(*c*) The General Meeting of Shareholders.

§ 72. The Governor.—Appointed by the President of the Republic for a term of five years. Eligible for re-election. He can be suspended or dismissed by the President on the motion of the Government. He must not hold any other paid post or occupy any official position, and must forego any other income or pension due to him from the State.

§ 73. The Bank Board consists of six directors elected by the shareholders for a term of six years, and three directors appointed by the Government for six years. Directors are eligible for re-election or reappointment. Nominated directors may be recalled or suspended by the President on the motion of the Government

The Board can elect a tenth member who need not be a native-born citizen of the Republic of Czechoslovakia.

§ 74. The Vice-Governor is appointed from among the six elected members by the President of the Republic.

§ 75. The Audit Committee consists of five members elected by the General Meeting for a term of five years. They are eligible for re-election. The Chairman is nominated by the Governor from among the members.

§ 79. The Governor and members of the Board must be native-born citizens of the Republic of Czechoslovakia (except as specified in § 73 above).

§ 81. Members of Board or Audit Committee must not be members of the legislature, or directors of, or employed by, a profit-making financial institution.

§ 83. The Governor has to make an affirmation to the President of the Republic that he will perform his duties faithfully. The Directors and members of the Audit Committee make a similar affirmation to the Governor.

§ 91. Governor and three members of Board form an Executive Committee.

§ 93. The Audit Committee examines the condition of the Bank's business and investigates the assets of the Bank from time to time.

Examines the annual balance sheet and the profit and loss account and reports thereon to the General Meeting.

The Audit Committee may offer objections to any resolution passed by the Board, and in case of disagreement can appeal to a specially convoked General Meeting.

§ 95. Censors.—The Bank Board appoints Censors to examine bills submitted for discount at the Head Office and branches.

The Censors act in an honorary capacity. They must be persons acquainted with local industrial, agricultural and economic conditions. It is the duty of the Board to ask the Chambers of Commerce, Agricultural Boards and other bodies for expert opinion on the candidates. The Censors may not be leading functionaries or officials of profit-making financial institutions.

General Meeting

§ 104. The ordinary general meeting is held annually, not later than February.

A special meeting may be held whenever necessary. It must be convoked:

(*a*) if the elected members of the Bank Board fall below four, or the number of the Audit Committee below three;

(*b*) if the Audit Committee demand it;

(*c*) if at least 50 shareholders entitled to participate in the meeting demand it.

§§ 106, 110. The General Meeting is attended by shareholders owning at least 10 shares, who are citizens of the Republic of Czechoslovakia.

§ 109. Every participant has one vote only. This applies also to the voting in respect of the capital held by the State. Voting by proxy is not allowed.

§ 115. The General Meeting:

1. receives the report of the Board and Audit Committee for the previous financial year and decides on the absolutorium to the Bank Board.
2. elects the members of the Bank Board;
3. elects the members of the Audit Committee;
4. deals with proposals to amend the statutes;
5. deals with proposals to vote an increase or reduction of the capital;
6. deals with other proposals of the Board;
7. deals with proposals of the shareholders.

Request for prolongation of Charter must be entered on agenda in time for arrangements in § 11 (see under Term of Charter and Liquidation) to be kept.

Bank Board and Executive Committee

§§ 84, 85. The Governor presides over the meetings of the Bank Board. He sees to the due observation of the laws relating to the Bank, to the keeping of the statutes and the internal regulations. He superintends in the name of the Board the administration of the property and business of the Bank.

§ 87. The Bank Board is charged with the administration of the property, the management of and supervision of the entire business of the Bank. In particular:

It fixes the detailed conditions of the different branches

of the business, the rate of discount and interest, the limit of credit granted to customers and the details of loans.

It authorises banking institutions to act as agencies of the Bank.

It fixes and changes the internal regulations within the limit of the law.

It deals with questions of staff.

It submits the reports and accounts to the General Meeting.

It is authorised to acquaint the Government with its views and submit proposals on all questions of currency and State credit.

§ 88. The Board meets monthly.

§ 90. The Board is divided into three departments:

Currency Department.

Credit Department.

Administrative Department.

The distribution of the Directors amongst these departments is determined by the Governor, who appoints from their number a President for each department.

§ 91. The Governor and Presidents of the three departments form an executive committee which is entrusted with the execution of the resolutions of the Board.

It can also act independently in cases of emergency. In such cases it may alter the rate of discount, but must submit its decision for subsequent approval to the Board.

The Executive Committee meets weekly.

Note Issue

§ 9. The Bank has the exclusive right of issue. The State renounces for the whole duration of the Bank's privilege all right of issuing State notes.

§ 13. The notes are legal tender.

§ 2.[1] The Bank must maintain the exchange value of its notes at the legal rate (*i.e.* 1 crown = 44·58 mg. pure gold).

§ 3.[1] The Bank shall be bound to purchase gold at its Head Office and such branches as it may designate at the above rate in amounts of not less than 12 kg.

[1] From the Currency Law, 7th November 1929.

The Bank shall be bound to redeem its notes at its option in gold or gold foreign exchange, but only in amounts equal to at least 12 kg. of fine gold. Should the bank fail to carry out this obligation within 24 hours except in case of *force majeure*, its Charter shall be cancelled. The date at which the obligations in the section shall come into force to be settled by special decree by the Government in agreement with the Bank.

§ 16. The notes will be issued as a rule for denominations divisible by 10, but the Government may permit the issue of 5-crown notes.

§ 27. The claims of owners of bank-notes and creditors holding bank securities payable at sight have precedence before all other claims other than those of the Bank's employees.

Reserve

§ 6. The Bank must maintain a metallic cover for its note circulation plus sight liabilities of 25 per cent at the end of 1929, 30 per cent at the end of 1930, and 35 per cent at the end of 1935. For the relation of the reserve to the notes in circulation the average rate of exchange of the gold foreign exchanges in each fiscal quarter as it appears in the last two weeks of the preceding three months shall be decisive.

At least half the metallic cover must consist of gold bullion or coin ; the balance may consist of foreign bank-notes convertible into gold (valuta), foreign legal tender coins and bills, *i.e.* drafts on the principal banking centres in Europe and America signed by sound banking institutions and otherwise complying with the rules of a bank draft, or short term claims on banks of unquestioned standing in the principal banking centres of Europe and America.

Foreign valutas, *i.e.* bank-notes, coins and bills, if in excess of the metallic reserve, are to be included in the commercial reserve.

§ 29. The commercial reserve consists of values easily convertible into cash acquired by means of such operations as the Bank is allowed to transact under the Statutes.

§ 30. 1. In case the reserve falls below the prescribed amount, the Bank is taxed on the difference between the actual and permissible bank-note circulation.

The rate of tax equals the rate of discount plus :

(*a*) 1 per cent if the difference between the actual and prescribed reserve does not exceed 2 per cent;

(*b*) a further 1½ per cent for each succeeding impairment of 2 per cent or part thereof.

2. The rate of the tax must not be less than 5 per cent.

General Business

§ 5. The Bank is to have charge of the money circulation, and its due operation in the State, of the granting of credit to commerce, industry and agriculture, of the establishing of clearing houses, of the organisation and centralisation of State revenues and funds.

§ 32. The Bank takes charge of the coinage in circulation, that is, puts the coins received from the State into circulation, exchanges and withdraws them, and is responsible for the parity of the circulation.

§ 33. It is the duty of the Bank, in the interest of orderly banking, to ascertain the amount of commercial credits throughout the State and control them in order to prevent their misuse. For this purpose the Bank is authorised to demand reports and proofs from any person wherever necessary.

§ 41. So long as trading in transactions in foreign bills and currencies is controlled, the Bank shall be entrusted either wholly or partially with the charge of this business.

§ 42. 1. Until a special enactment is passed charging the Bank with the exchange of notes against specie,[1] the Bank must maintain the relation of the Czechoslovak crown to undepreciated foreign gold currencies at the level of the last two years.

2. For this purpose the Bank must establish a special reserve fund from the profits gained by dealings in foreign bills and precious metals. The contributions to this fund are to be regarded as working expenses.

§§ 121-123. The Bank is authorised:

1. To discount (*a*) bills originating in commercial transactions and payable in Czechoslovakia within 92 days, having minimum of two, but, as a rule, three good signatures, and (*b*) securities and coupons payable within three months and eligible as collateral for advances.

[1] See first paragrah, p. 240.

2. To make advances against collateral for term not exceeding three months, total of advances ordinarily not to exceed total of discounts. If they should exceed this the interest rate to be raised at least 1½ per cent above discount rate. Eligible collaterals are: gold or silver, warrants or securities quoted on home Stock Exchange as laid down by Board, six months' bills, domestic or foreign, and otherwise satisfying the conditions of eligibility for discount, or bank deposit books for the State valuta loan.
3. To open current accounts.
4. To issue drafts and letters of credit.
5. To cash drafts, cheques, etc.
6. To pay matured coupons of securities admitted as collateral.
7. To act as agents for State and other loans.
8. To buy and sell securities or specie on commission.
9. To deal in foreign exchange (bills and currencies).
10. To buy and sell gold or silver coin or bullion.

The Bank rate of discount, which is the same for all banking centres, is fixed by the Board and published in the *Official Gazette*. The rate of interest on advances can be raised or reduced independently of the rate of discount, but it must be at least ½ per cent higher than the rate of discount.

§ 130. The Bank is prohibited from transacting any business other than that stipulated in the Act. In particular it may not:

(*a*) accept bills or other paper for other parties;

(*b*) acquire real estate except such as is needed for its own business;

(*c*) acquire State bonds for its own account, excepting as specified above, and for the Reserve Fund (*vide* § 135, under Profits and Reserve Fund);

(*d*) acquire its own shares or accept them as collateral;

(*e*) engage in commercial and industrial enterprises.

Relations with the State

§ 36. The Bank acts as banker to Government, but the State may place funds with other banks, subject to an understanding with the Bank.

§ 37. The Bank must submit four statements in prescribed form every month to the Ministry of Finance, inform the Ministry of the results of its annual accounts immediately they are closed and send a report of the proceedings of the General Meeting.

An annual report must be submitted to legislative bodies.

§ 44. The State holds one-third of the capital. The right to vote at the General Meeting on account of the State interest is exercised by one plenipotentiary authorised by the Minister of Finance.

§ 63. The Bank is exempt from all taxes, excepting on real estate and dividends to shareholders.

§ 128. The Bank is not allowed to grant directly or indirectly any credit to the State, except as specified in § 135 (see under Reserve Fund).

§ 8.[1] When the State Note Debt has been reduced to 1,000,000,000 Cz. crowns the Bank shall be authorised to discount Government Bills up to a total of 200,000,000 Cz. crowns to cover temporary debts in budgetary expenditure. Such credit to be repaid not later than the end of March in the following year.

§ 129. With the consent of the Board the Bank may discount custom and tax bills and bills for certified tobacco, salt and mineral products presented by the State Administration.

State Supervision

§ 97. The State exercises supervision over the Bank through a Government Commissioner, who is an official of the Ministry of Finance. He can take part with an advisory vote in any meeting of any of the governing bodies. He can demand to be furnished with reports and vouchers, and must be present when bank-notes withdrawn from circulation are destroyed.

It is his duty to oppose any resolution of the general meeting or other organs of the Bank if they conflict with the laws or statutes or State interests.

§ 98. If he opposes a resolution passed by the Audit Committee or Executive Committee, the matter is submitted to the Bank Board. In case of a resolution passed by the Bank Board or General Meeting, the matter is submitted to the Government. Failing agreement between the Bank and the Government, an

[1] Currency Law, 7th November 1929.

arbitration court is formed, two members of which are nominated by the Government and two by the Bank. The four nominated elect a fifth member to act as President.

§ 99. Private disputes between the Government and the Bank not covered by the preceding paragraph are decided by the Supreme Provincial Court at Prague.

For State share in profits, see Art. 132, under Profits and Reserve Fund.

State appointments, see Arts. 72, 73 and 74, under Management.

State and Liquidation, see Art. 38, under Term of Charter and Liquidation, and Art. 135, under Profits and Reserve Fund.

Returns

§ 131. The annual statement of accounts must be published in the *Official Gazette* at least eight days before the General Meeting. The final accounts must be laid before the Supreme Audit Control Board.

§ 139. The Bank must prepare four statements a month, showing its assets, liabilities and reserves, in prescribed form, to be published in the *Official Gazette*.

Term of Charter and Liquidation

§ 11. Charter granted for 15 years.

§ 12. The privileges cease:

(*a*) After expiration of the above term, unless the Bank applies for renewal at least two years before it expires.

(*b*) If the Bank has not fulfilled its obligations with regard to payment of notes in coin without being able to give as a cause *force majeure*.

(*c*) If the Bank has lost more than one-third of its joint-stock capital and if this is not restored within one year.

(*d*) By revocation owing to any gross violation of provisions prescribed by law.

(*e*) If the Bank itself requires a cessation of its privileges by a resolution of the General Meeting subsequently approved by the Government.

§ 38. If Charter expires State has right to take over entire assets with liabilities or only a part of them. If it intends to take

over entire business it shall (assuming it is not a case arising under 12 (*b*), (*c*) or (*d*)) inform Bank at least two years before expiry of Charter. In this case there is no liquidation. The State will pay shareholders nominal value of shares plus 10 per cent, and they will also receive half of reserve fund. If State does not intend to take over entire business, it must give Bank a year's notice before expiry of Charter. State in this case will proceed with liquidation with help of Bank staff.

See also § 135, under Profits and Reserve Fund.

§ 141. If the Bank is liquidated without being entirely taken over by the State, the General Meeting shall elect a Liquidation Committee of six members.

FREE CITY OF DANZIG

THE BANK OF DANZIG

Object of the Bank

Art. 2.[1] The object of the Bank is to regulate the circulation of money in the Free City of Danzig, to facilitate the clearance of payments in Danzig and transactions in foreign exchange, and to carry on other bank business in accordance with its charter.

Capital

Art. 7. Capital of the Bank to be 7,500,000 gulden in shares of 100 gulden fully paid.

See also Art. 44 under Term of Charter for increases or decreases in capital.

Profits and Reserve Fund

Art. 40. The General Meeting on the proposal of the Council of Control determines the amount to be written off. Thereafter the net profits to be divided as follows :

(*a*) one-fourth to the Reserve Fund until this equals the paid-up capital ;

(*b*) an ordinary dividend up to 5 per cent of the capital ;

(*c*) of the remainder one-fourth may be used for an additional dividend or paid into a fund for the provision of such dividend ; at least three-fourths to be paid to the reserve fund until this equals the paid-

[1] Numbers in this and the following sections refer to the statutes of the Bank, 1924, amended by the Acts of 25th September 1930 and 21st September 1931.

up capital. When this requirement is satisfied, this three-fourths of the remainder to be paid to the State.

Any premium on the shares to go to the reserve fund. The allocations for writing-off cannot be fixed at a lower level or the dividend at a higher level than the Board of Control may propose.

Art. 41. The Reserve Fund to be used for the internal strengthening of the Bank, and to cover any losses. No other use may be made of the reserve fund without the agreement of the Senate.

BRANCHES

Art. 3. Seat of the Bank, Danzig. Branches or agencies may be established throughout the Free State, or outside the State with the consent of the Senate.

MANAGEMENT

Art. 5. The control of the Bank is vested in a Board of Direction, a Bank Committee, a Council of Control and the General Meeting.

(*a*) *Direction*

Art. 13. The Direction manages the Bank and represents it in legal or other businesses. It is independent in its management, excepting in so far as other bodies are designated to co-operate with it under the statutes.

Art. 14. The Direction can consist of one or more members. The members are nominated by the Bank Committee, and can be removed by that body at any time, though they can still claim compensation in accordance with their contracts.

Art. 16. The appointment of the members of the Direction and of the holders of powers of attorney to be effected by a Protocol, for the issue of which the Bank Commissioner has authority.

Art. 17. The Direction appoints and dismisses the Bank officials. For the nomination of deputies and the heads of branches and agencies the approval of the Committee is necessary.

(5) *The Bank Committee*

Art. 18. Besides its special functions, the Bank Committee is responsible for the general maintenance and supervision of all

departments of the Bank's business, and must be kept fully informed of the Bank's situation. It determines:

(*a*) The appointment and pay of members of the Direction;

(*b*) the confirmation of the nomination of holders of powers of attorney and heads of branches and agencies;

(*c*) the agreements with, the powers of, and dismissal of the aforesaid officials;

(*d*) the business regulations for the Direction;

(*e*) the decision as to the selection of correspondents and the closing of contracts entered into in accordance with standing rights and obligations.

The Committee to take part, in an advisory capacity, in all meetings of the Direction and all revisions of the Bank.

Art. 19. The Committee has to report to the Council of Control on its supervision, and is to be invited to attend all meetings of the Direction or its subsidiary committees.

Art. 20. The Committee consists of three representatives of the shareholders, nominated by the Council of Control; the Chairman of the Council must be included in this number. Further, it includes two representatives of bank-note holders and borrowers nominated by the Senate. These latter may not be on the Direction of a bank with its chief office or a branch in Danzig, or owner of a private bank.

Members of the Committee may be members of the Council of Control. Members of the Committee may be nominated by that body to act for a predetermined period as substitute members of the Direction, but during that period they may not act as members of the Committee or Council of Control.

Members are appointed for three years.

The Committee nominates a Chairman and Deputy Chairman from amongst its members.

(*c*) *Council of Control*

Art. 23. The Council of Control is the standing representative body of the shareholders. It determines:

(*a*) the principles in accordance with the law on which the Bank shall act with regard to the note issue, and other business, and the formation and employment of the reserve fund;

(*b*) the formation of branches and agencies ;
(*c*) the principles for the drawing up of the balance sheet, and its presentation to the General Meeting, and proposals for the employment and division of profits ;
(*d*) other matters to be brought before the General Meeting ;
(*e*) the acquisition, charging and alienation of real estate.

Art. 24. The Council can at any time demand information from the Direction as to the position of the Bank's business. Regular information to be submitted to it with regard to the Bank's bill and loan operations, note circulation, cash position, deposits, the sale and purchase of gold, foreign balances and bills of exchange and the division of its resources amongst the branches.

Art. 25. The Council consists of at least nine, and not more than nineteen members, who must be shareholders. A fifth retire annually. They are elected for five years by the General Meeting, and are eligible for re-election. Their election to be confirmed by a protocol which is promulgated by the Bank Commissioner.

Art. 26. The Council of Control selects its own President and his substitute. It is summoned by the President as often as the business position requires, but at least twice a year. It must be summoned if a request in writing to that effect is made by more than three members of the Council, the Direction or of the Bank Committee.

Art. 28. The Direction and Committee must be represented at the meetings of the Board.

(*d*) *General Meeting*

Art. 30. The General Meeting represents the shareholders. Its decisions and elections are binding on all members.

Art. 31. The ordinary General Meeting must be held annually not later than the end of April. Extraordinary meetings to be held as required, especially :

(*a*) when determined by the ordinary meetings ;
(*b*) on demand of shareholders representing a quarter of the capital, after a written application to the Direction the subject of which is within the competence of the General Meeting ;
(*c*) on the decision of the Direction ;
(*d*) concerning the extension of the Bank Charter ;

(*e*) to consider any question dealing with the liquidation of the Bank or its amalgamation with another bank or alteration of legal form.

Art. 32. Each share of 100 gulden gives the holder one vote ; no shareholder can cast more than 2500 votes.

Art. 35. The chairman of the Council of Control or his deputy or the oldest member of the Council takes the chair at the General Meeting.

Art. 36. The ordinary general meeting considers the report of the Direction and the comments of the Committee and Council of Control. It deals with the discharge of these organs. It can nominate a sub-Committee to verify the balance sheet.

Art. 37. The General Meeting decides as to alterations in the statutes of the Bank, especially as to proposals for altering the amount of capital. Any alterations in the statutes require the approval of the Senate. Decisions regarding change of capital, liquidation of Bank, amalgamation with another bank, alteration of legal form, require two-thirds majority of votes represented. In other cases simple majority suffices.

(*e*) *General*

Art. 48. Persons against whom bankruptcy proceedings have been initiated, or who have lost their civil rights as a result of legal proceedings, cannot be members of the Direction, Committee, Board of Control or General Meeting.

Members of the Senate or of the " Volkstag " cannot serve on the Direction, Committee or Board of Control, or be officials of the Bank. No member of the executive or of the Board or owner or official of a bank with its head office or a branch in Danzig can belong to the Direction of the Bank of Danzig or act as official of the Bank.

Note Issue and Reserve

Art. 1.[1] The Free City of Danzig hands over its right for the issue of notes from 31st December 1923 to the Bank of

[1] Of the Bank of Issue Act, 20th November 1923. The remaining numbers in this section refer to the Note Issuing Privilege attached to the Act of 20th November 1923.

Danzig. The issue of notes or paper with the character of currency is prohibited for the Free City and its local authorities, and for public and private organisations during the currency of the new charter.

Art. 2. The Bank's Note Issuing Privilege can only be altered, cancelled or lengthened by law and with the consent of the Bank.

Art. 8. The Bank may issue notes according to the needs of its business in denominations of 10, 25 and 100 gulden or multiples thereof. The maximum circulation of notes not to exceed 100 gulden per head of population, except as in Art. 10 below.

Art. 9. 40 per cent of the note issue and current liabilities to be covered by gold or " Devisen ".

By gold is meant bars or coined gold at the rate of 3414·1880 gulden per kilogram of fine gold in the coffers of the Bank or held at their order by a foreign Central Bank.

By " Devisen " is meant bank-notes, cheques and claims on a bank of known solvency in a foreign financial centre, and with a maturity of 30 days at most, and further bills of exchange of not more than three months' maturity, all such Devisen to be payable in a foreign gold currency and to be reckoned at the current rate of exchange.

Cover for the remainder to consist of discounted commercial bills which fulfil the requirements of 5 (*c*). (See under General Business.)

Art. 10. If the gold cover falls below the prescribed percentage for a longer period than that covered by a bank statement (see under Returns below), the Bank must raise its discount and Lombard rate by at least 1 per cent and pay an annual tax of 5 per cent on the amount by which the cover falls below 40 per cent.

For purposes of calculating the amount of the tax the Bank must notify the Bank Commissioner on the day of the bank statement of the total amount of notes and current liabilities, and of the amount of each of the different items included in the cover.

Art. 11. The Bank is bound to exchange its notes against bar gold at the rate of 3414·1880 gulden per kilogram of fine gold, but it may charge the costs of refining and assaying.

Art. 12. The Bank must cash notes at its Head Office at Danzig on demand. It may cash them at its option :

(1) In Danzig gold coins of legal weight at par ;

(2) in gold bars at the recognised commercial weight (approx.: 12·5 kilogs.) per unit of currency (*i.e.* 3414·1880 gulden per kilog. fine gold);

(3) in cheques or foreign values payable in gold at the par rate of exchange. The Bank may charge a commission not exceeding the cost of transporting gold in bulk to the foreign banking centre concerned, together with interest.

The Bank must accept its own notes and coins for payment at their full nominal value at all its branches, but only provided the total amount of silver coinage in circulation with silver content as set out in the Currency Law does not exceed 30 gulden per head of population, and the combined total of nickel and copper coinage in circulation does not exceed 3 gulden per head.

Art. 19. The Senate has the right to restrict partially or annul these arrangements for the issue of notes during the currency of the charter. Restriction or annulment is carried out by a declaration presented to the Direction of the Bank, and enters into force one year from its date. Unless at the same time as the declaration of the Senate an offer is made to the shareholders and accepted by two-thirds majority, the Bank must receive compensation on the following basis:

If the right of issue is completely annulled, there must be paid in the event of termination of the privilege in 1925, 50 per cent of the nominal capital. This amount is diminished annually by 2 per cent until 1946, and subsequently by 1 per cent per annum. In the event of the partial restriction of the right of issue the above-mentioned amounts to be reduced in the relation that the partial limitation bears to complete annulment of the right of issue.

Art. 20. The right of issue is extinguished in the event of bankruptcy by the opening of proceedings against the Bank.

The right of issue can be declared by the Senate to be forfeit:

(*a*) if the prescriptions as to the cover of the circulation are seriously violated;

(*b*) if the Bank engages in business that is not allowed by its charter;

(*c*) if the capital of the Bank is diminished owing to losses by more than half.

General Business

5.[1] The Bank may only carry on the following business :

(*a*) Buy and sell gold and silver in bars or coin.

(*b*) Buy and sell drafts on foreign centres and foreign notes provided the stability of the foreign currency is recognised by the Bank Committee. Drafts must bear the signatures of two persons of recognised solvency.

(*c*) Buy and sell bills of exchange drawn against goods in gulden, of a maturity not exceeding three months. Bills in foreign currencies are only admissible provided that the stability of the currency is recognised by the Bank Committee. Bills must bear the signatures of two persons of recognised solvency.

(*d*) Make advances for a period not exceeding three months against paper conforming to (*c*) above, or against goods with a recognised market value warehoused in the country up to 50 per cent of their value.

(*e*) Arrange for collections on customers' account, and make payments against cover and issue drafts or make transfers on its branches, agencies and correspondents.

(*f*) Buy on customers' account, against cover received, securities of all kinds and precious metals, and sell the same after their receipt.

(*g*) Accept on deposit or current accounts monies at interest or not.

(*h*) Take custody of or administer valuables.

6. The Bank may not :

(*a*) buy on its own account, discount or lend on bonds of the Free City of Danzig or its local authorities ;

(*b*) accept bills ;

(*c*) buy or sell for future delivery on its own or for customers' account, goods or marketable securities, or take over guarantee for the completion of such dealings.

[1] Numbers in this section refer to the Note Issuing Privilege attached to the Act of 20th November 1923.

Relations with the State

3.[1] State supervision of the Bank is vested in the Senate, which appoints a Bank Commissioner, and, if necessary, a substitute, for the purpose.

The Commissioner may attend all meetings of the Bank Committee, Council of Control and General Meeting, may demand information from the Direction as to the position of the Bank and examine the books and papers of the Bank. In special circumstances he may call an extraordinary meeting of the General Assembly.

4. It is the duty of the State Supervisory body (*i.e.* Senate and Commissioner) to ensure that the business of the Bank is carried on in accordance with the laws and statutes.

See also Art. 3 under " Branches ", Arts. 20 and 37 under " Management ", and Arts. 42, 43 and 44 under " Term of Charter ".

7. The Bank to make and receive payments for the Free State without charge.

Art. 4.[2] The Bank to be free of income tax and business taxes of the Free City and local authorities, and fees of a similar nature. The Senate to determine which taxes shall be included under the latter head.

Returns

Art. 16. Fortnightly returns to be published in a prescribed form in a paper named by the Senate, at the Bank's expense.

Art. 17. Annual balance sheets and profit and loss account to be published in prescribed forms, not later than the end of April.

Art. 39.[3] The business year of the Bank is the calendar year. The Direction must submit a balance sheet each year for the 31st December. This statement, with a profit and loss account, has to be placed before the Bank Committee for approval. The Council of Control lays it, with its observations, before the General Assembly.

[1] The numbers in the section refer to the Note Issuing Privilege attached to the law of 20th November 1923.

[2] Of the Bank Act, 20th November 1923.

[3] Number refers to statutes of Bank.

Term of Charter and Liquidation

Art. 4.[1] Duration of the Bank till 31st December 1953. This can be extended by law on the request of the Bank.

The activities of the Bank as a bank of issue shall cease wholly or partially if the privilege of note issue should be partially limited, or if at the end of the concession it should be entirely abrogated.

Art. 42. Any decision of the General Meeting with regard to liquidation requires the assent of the Senate. This cannot be withheld if the capital of the Bank has been reduced by losses more than half.

If liquidation has been decided upon, the Senate may declare within a month that it will take over the shares at their nominal value on behalf of the State. In this case one-quarter of the reserve fund will be paid to the shareholders.

Art. 43. The Senate may, without and in opposition to the decision of the General Assembly, liquidate the Bank as a bank of issue, in so far as this is permissible in accordance with the terms of the note charter. In this case the shareholders must receive compensation (see also Arts. 19 and 20 under "Note Issue").

Art. 44. In the case of amalgamation with another bank or decrease of capital, Arts. 42 and 43 apply. In the case of any increase of capital or change in the legal form of the Bank, the agreement of the Senate is necessary.

Art. 45. If in the case of liquidation the amount paid on each share exceeds the nominal value, the excess to be divided between the shareholders and the State in proportion of 1 to 3.

DENMARK

NATIONAL BANK OF COPENHAGEN

Capital

Art. 7.[2] Share capital 27 million kroner, divided into shares of 2000 kroner (10 shares), 1000 kroner (5 shares), 200 kroner (1 share).

[1] References are to the statutes.

[2] Numbers refer to articles of the codified regulations of the National Bank of Copenhagen, 1908, with subsequent modifications.

On the resolution of the management of the Bank, and with the approval of the King, the capital may be increased, not, however, beyond 50 million kroner.

Amendment, 1919.—By confirmation of the King the capital may be increased by 3 million kroner, to be taken over by the State at par.

Profits and Reserve Fund

Art. 70. Out of the annual profit of the Bank a preferential tax of 750,000 kroner shall be paid to the exchequer. Of the remainder the first 5 per cent shall be allocated to the reserve fund until this equals 30 per cent of the stock capital. When this is reached no further allocations to reserve shall be made from profits except to make good any reductions below this amount.

Thereafter the shareholders shall receive a dividend up to 6 per cent. Any residual surplus shall be distributed as follows :

25 per cent to the Exchequer, 75 per cent to the shareholders.

The management of the Bank can decide that the three-quarters of the aforesaid residual profits due to the shareholders shall be transferred entirely or partly to a dividend equalisation fund, which may be used entirely or partly on the resolution of the management for increasing the dividend during later years.

Art. 71. The reserve fund may be used in writing off :

1. Losses on the Bank's outstanding loans, not, however, including any decline in the value of the securities of the Bank.
2. The purchase price of and the amount spent for extraordinary work on the Bank buildings, provided it is not found expedient to enter or increase their book value with the amount used.
3. Other extraordinary administrative costs.
4. The payments dealt with in the following provision under 2.

As extraordinary transfers to the reserve fund the following may be used :

1. Premium, if any, on shares in case of increases of the share capital.

2. Half-part of what might appear as profits from calling in of circulating bank-notes, provided, however, that the Bank shall be entitled to write off against the reserve fund half-part of what it may deem expedient to pay against called notes after the expiration of the length of notice.
3. What may be received towards claims previously written off against the reserve fund.

Branches

Art. 6. The management is permitted to establish branches. For the discontinuance of an existing branch the consent of the Royal Bank Commissioner is required.

Management

Art. 39. The Bank shall be managed by 17 directors and four or five managers, according to the determination of the directors and managers.

Art. 40. The directors and managers shall take an oath that they will administer their offices with faithfulness and zeal in strict accordance with the regulations.

Directors

Art. 41. The directors shall be elected by the general meeting of the shareholders from amongst the shareholders entitled to vote.

The three directors who have been longest in office shall resign every year and shall be eligible for re-election.

By an amendment of 1919, on the resolution of the management the board of directors is increased by two members to be appointed for five years by the Minister of Trade.

Art. 42. Two at least of the directors must be resident in Jutland and two at least in other parts of the country outside Copenhagen.

Art. 44. The directors shall elect a chairman from their number who must resign after one year, but is eligible for re-election. Directors must meet at least once every three months or otherwise as necessary and if demanded by Royal Bank Commissioner or Managers.

Art. 46. The directors shall receive statements of accounts and reports every three months, and are responsible for checking

these statements with the books, and shall arrange for the daily audit by the proper officials.

Art. 47. The directors shall approve the accounts for the fiscal year submitted by the managers, and at the proposal of the managers determine the dividend to be paid to the shareholders.

If a director is related to a manager he cannot take part in the approval of accounts.

If the managers are dissatisfied with a decision of the directors they may take the matter to the Supreme Court, whose judgment shall be decisive.

Managers

Art. 49. The King shall appoint two of the managers, one of whom shall be versed in agriculture, and the others shall be appointed by the directors.

The appointments shall be for an indefinite period, subject to dismissal by the King and directors respectively. In the latter case a two-thirds majority is necessary.

Art. 51. The managers must not be partners—active or dormant—in commercial or industrial firms, nor hold office in any other financial corporation.

Art. 52. No bill of exchange may be discounted or other bond accepted by which any of the managers would become indebted to the Bank.

Art. 55. The managers are responsible for transacting the daily and current business of the Bank, according to the Charter, including decisions on discounting, loans, purchase and sale of foreign exchange, bullion and securities, fixing the rates of discount and interest and general organisation In important cases, concerning which no legal provision exists, they shall consult, if time warrants, the Board of Directors.

The Royal Bank Commissioner

See under Relations with the State.

General Meeting

Art. 64. A general meeting shall take place once a year, at which the annual report and accounts shall be submitted and the election of directors take place. Also any proposals shall be discussed which have been duly submitted by any section of

the management or shareholders representing at least one-tenth of the share capital.

Art. 65. If the management wish to apply to the Government for amendment in the charter, their petition must be endorsed by the general meeting.

Art. 66. The managers, six directors or shareholders, representing one-tenth of the capital stock, can demand an extraordinary general meeting.

Art. 67. Danish citizens whose shares have been registered in name for at least six months are entitled to vote.

Each share of 200 kroner shall entitle to one vote; no one, either on his own behalf or as proxy or in both capacities, shall cast more than 50 votes.

Questions regarding limits of the authority of the general meeting shall be determined by the Royal Bank Commissioner, with appeal to the Supreme Court.

Note Issue and Reserve

Art. 11. The Bank has the monopoly of note issue for 30 years (until 1938). The notes are legal tender, as long as Bank fulfils its liability regarding redemption.

Art. 12. Alterations in the denomination of the notes may be determined by the King on the representation of the management of the Bank, provided that notes may not be issued for amounts less than 5 kroner.

Art. 13. The Bank is bound to exchange on demand at the Head Office its own notes at face value for legal tender gold coin—as regards 5 kroner notes, however, only provided that they constitute an amount equal to legal tender gold coin. [This obligation was suspended from 2nd August 1914 until the end of 1926. From 1st January 1927 Denmark adopted the gold bullion standard, and the obligation was imposed on the Bank of redeeming its notes in gold bar, subject to a minimum of kr. 28,000. The obligation to redeem its notes in gold was suspended on the 29th of September 1931 till the end of February 1932.]

Arts. 14 and 15:

1. The Bank shall be entitled to issue as many notes as the turnover may require, provided the metallic reserves equal 50 per cent of the face value of the notes in circulation and

assets in prescribed form are held against the remainder. [By Royal ordinance of the 13th of October 1931 ruling till the 31st of July 1932 the minimum of the metallic reserves has been reduced to 33⅓ per cent provided the stock of gold in coins and ingots shall not be less than 30 per cent of the notes in circulation.]

2. The metallic reserves may consist of:

(*a*) legal tender gold coins at face value;

(*b*) gold in ingots and foreign gold coin valued at 2480 kroner per kilogram pure gold;

(*c*) the Bank's non-interest-bearing demand balances with the Bank of Norway and the Swedish Riksbank, less the debt on the same conditions to the two said Banks;

(*d*) the Bank's non-interest-bearing demand balance on giro account with the German Reichsbank.

The stock of legal tender coin shall not amount to less than one-quarter of the compulsory metallic reserve, and (*a*) and (*b*) above shall not jointly amount to less than three-fifths thereof.

Art. 16. The assets which can serve as security for notes other than those covered by the metallic reserve include:

bonds for loans against collateral security; domestic and foreign bills of exchange; credit balances, payable on demand, with foreign correspondents; public bonds at rates officially quoted, mortgages for loans on real estate for an amount of not more than 6 million kroner.

Art. 17. The Bank reports monthly to the Royal Bank Commissioner and to the Chairman of the Board on the proportion between the circulation and the assets and metal serving as security.

Art. 18. If any deviation from the proportion of security for the Bank's notes fixed above is shown, the managers are bound to prove to the Royal Bank Commissioner not later than at the end of the following month that the regular proportion has been restored.

Art. 19. Under special circumstances, modifications regarding the rules of cover for the notes may be granted for a period up to two years by royal proclamation provided that a special tax on the excess existing at the end of each month shall be paid to

the Exchequer and commuted monthly at the rate of 5 per cent per annum.

Art. 21. Of the amount realised as profit in calling in circulating bank-notes, one-half to be paid to the Exchequer. If redemption of notes is eventually made after time of notice, Bank may obtain refund from Exchequer of half amount required for the purpose.

General Business

Arts. 3 and 4. The main object of the Bank is to establish and maintain sound finances in the country, and through loans and discounts to improve the circulation of money for the facilitation of production, trade and exchange, and by receiving deposits to keep funds entrusted to it in safe custody so that those concerned can at any time exercise entire control.

Art. 22. The Bank carries on the following business in addition to the issue of notes :

1. Accepting of money on current and deposit account.
2. Accepting of deposits for safe custody.
3. Issue of bank promissory notes.
4. Purchase and sale of pure metal in coins or ingots.
5. Discounting of domestic bills of exchange.
6. Purchase and sale of foreign bills of exchange.
7. Deposit of money on interest-yielding accounts with correspondents and issuance of bills and cheques on domestic and foreign places.
8. Granting loans against security.
9. Purchase and sale of securities.

Art. 23. Interest on current accounts as well as on deposit accounts is fixed by the managers.

Art. 31. The Bank may issue bank promissory notes to persons mentioned by name, payable eight days after date of issue for amounts not less than 1000 kroner.

Art. 32. The Bank is bound to buy from anyone who may desire it pure gold ingots at the price of 2480 kroner per kilogram pure gold, less ¼ per cent seignorage. Assay expenses are for seller's account.

Art. 33. The rates of discount and interest as well as the conditions on which the Bank buys and sells foreign bills of exchange are fixed by the managers.

When they wish to make any change in the rates of interest or discount, the Minister of Finance must be notified, and has the right to participate in the negotiations without being entitled to a vote.

Art. 35. Loans on real estate are granted on conditions fixed by the managers.

Art. 36. Other loans are granted for periods of one to six months against such security as is considered safe for the full repayment of the loan at the time fixed, in case the Bank shall not be willing to renew it.

The managers shall decide what securities shall be acceptable as collateral, and what percentage of their value shall be granted as a loan.

Relations with the State

Art. 2. The Bank is a private company whose management shall be separated from the finances of the State. No order from the Government shall ever directly or indirectly interfere with the Bank's management, nor shall any encroachments on the means or money held by the Bank be permitted.

Royal Bank Commissioner

Art. 61. On behalf of the State supervision of the business of the Bank shall be made by the Royal Bank Commissioner, whose duties are attached to one of the Ministers, according to the decision of the King.

He shall see that the Bank fulfils the duties imposed upon it regarding the State and the national finances, and particularly that the metallic reserve is kept in the prescribed proportion to the circulation.

Art. 62. The Royal Bank Commissioner shall take the chair at all meetings of the directors, without the right to vote, and shall have access to the meetings of the managers and to the Bank's books and documents. On the other hand, he shall not take any part in the daily administration of the Bank.

If he is of opinion that the managers are acting in violation of the Bank charter, he shall deliberate with the directors and, failing agreement with them, he shall be entitled to take the matter to the Supreme Court.

Art. 63. If the Bank wish to make representations to the King they shall do so through the Commissioner.

Art. 72. Beyond the taxes on note issue (see Articles 19, 21) and the preferential tax (see Article 70 in section on Profits and Reserve Fund) no taxes shall be levied on the capital of the Bank.

For consent of the Crown required for increase of capital see Art. 7, under Capital.

For State's share in profits see Article 70, under Profits and Reserve Fund.

For Government appointments see amendment to Arts. 41 and 49, under Management.

For change in rate of discount see Art. 33, under General Business.

Returns

Art. 69. Accounts for year when completed and audited shall be submitted to ordinary General Meeting in October. When approved they shall be published.

Term of Charter

Arts. 76-77. Charter expires 31st July 1938.

Art. 77. A bill regarding the arrangement of the note issue is to be submitted to the Rigsdag before end of 1935.

Continuance of the Bank's privilege requires a two-thirds majority at the General Meeting.

ENGLAND

BANK OF ENGLAND

Capital

56 Geo. III. cap. 96. Amount of Bank Stock increased to £14,553,000.

Management

Under the charter of 1694 a Governor, Deputy-Governor and 24 Directors are to be appointed, of whom at least 13, including the Governor or Deputy-Governor, shall form a Court of Directors for managing the affairs of the Corporation. (A Court is held at least once a week.)

The election of Governor, Deputy-Governor and Directors takes place at General Courts. These are held at least twice

yearly, and holders of Bank Stock of amount not less than £500 present at the meeting, may give one vote and no more. Term of office of Directors, including Governor and Deputy-Governor, one year. They are eligible for re-election. Members of Court must be natural-born or naturalised British subjects.

Note Issue

Bank Act of 1844

Clause

1. Bank of England to establish a separate Department for the issue of Notes, distinct from the Banking Department.

4. The Bank to be under obligation to buy gold in exchange for notes at the rate of £3 : 17 : 9 per ounce standard.[1] Melting and assay charges to be for seller's account.

27. Privileges of Bank to be continued subject to termination by twelve months' notice after 1st August 1855 and on repayment to Bank of £11,015,100, being debt of public to the Bank, and any other claims on State with arrears of interest.[2]

Gold Standard Act of 1925 [3]

I. 1 (*a*) Bank of England not to be bound to pay its notes in gold coin, and notwithstanding notes to remain legal tender.

Currency and Bank Notes Act, 1928 [4]

1. (In addition to higher value notes previously authorised) Bank may issue notes for £1 and for 10 shillings.

2. The Bank to issue notes up to the amount representing the gold coin and gold bullion in Issue Department plus notes amounting to £260 millions in excess of above-mentioned gold holding.

[1] For obligation on Bank of England with regard to sale of gold bullion see Clause I. (2) of Gold Standard Act, 1925 (Appendix II.).

[2] By the National Debt Act, 1870 (Act 33 & 34 Vict. c. 71, clause 72), it was laid down that " the Bank of England shall continue a corporation for the purposes of this Act until all stock is duly redeemed by Parliament ".

[3] For the text of the Gold Standard (Amendment) Act 1931, see Appendix II.

[4] For full text of Act see Appendix II.

Treasury may, at request of Bank, direct that amount of fiduciary issue shall be reduced by such amount and for such period as may be determined after consultation with Bank.

8. If Bank represent to Treasury that it is expedient for fiduciary issue to be increased to some specified figure above £260 millions, Treasury may authorise issue of bank notes to such amount and for such period not exceeding six months as Treasury think proper. Any authority so given may be renewed or varied from time to time on Bank's representation provided that no such authority shall be renewed so as to remain in force (whether with or without variation) after expiration of two years from date on which it was originally given unless Parliament otherwise determines. Treasury minute authorising increase of fiduciary note issue to be laid forthwith before both Houses of Parliament.

3. In addition to gold coin and bullion in Issue Department, Bank to appropriate to and hold in Issue Department securities of amount in value sufficient to cover fiduciary note issue for time being. Such securities may include silver coin not exceeding £5½ millions. Bank to inform Treasury as required regarding securities held in Issue Department.

11. With a view to concentration of gold reserves and securing economy in use of gold following to apply so long as sub-section (1) of section 1 of Gold Standard Act, 1925, remains in force.

Any person in United Kingdom owning gold coin or bullion exceeding £10 thousand shall, if required by Bank, sell to Bank whole or any part of such gold other than any part *bona fide* held for immediate export or required for industrial purposes on payment by Bank of nominal value in case of coin and in case of bullion at rate fixed under section 4 of the Bank Charter Act, 1844 (see above).

General Business

Extract from 5 & 6 W. & M. cap. 20, 1694.

XXVI. And to the intent that their Majesties' subjects may not be oppressed by the said Corporation . . . be it further declared

. . . that the said Corporation . . . shall not at any time during the continuance thereof deal or trade, or permit or suffer any person or persons whatsoever, either in trust or for the benefit of the same, to deal or trade with any of the Stock, monies or effects of or anyways belonging to the said Corporation in the buying or selling of any goods, wares or merchandises whatsoever.

XXVII. Provided that nothing herein contained shall anyways be construed to hinder the said Corporation from dealing in bills of exchange, or in buying or selling bullion, gold or silver, or in selling any goods, wares or merchandise whatsoever which shall really and *bona fide* be left or deposited with the said Corporation for money lent and advanced thereon and which shall not be redeemed at the time agreed on or within three months after, or from selling such goods as shall or may be the produce of lands purchased by the said Corporation.

Relations with the State

59 Geo. III. cap. 76. The Bank may not make advances to Government without the express authority of Parliament. But nothing in the Act was to prevent the Bank from purchasing Exchequer bills, or Treasury bills or other Government securities which by law it was authorised to purchase.

An annual return has to be laid before Parliament of the amount of Exchequer bills, Treasury bills, etc., purchased by the Bank, or upon which any sums have been advanced for the public service.

Act of 1844

Clause

7. Bank of England to be exempt from Stamp Duty on their notes.

Currency and Bank Notes Act, 1928

6. Bank to pay Treasury profits arising in respect of each year in Issue Department.

Bank Act of 1892

1, 3, 4. The Bank receives fixed remuneration for the management of the National Debt on its books.

5. Interest on public debt to Bank, then £11,015,100, to be at $2\frac{3}{4}$ per cent until 1903 and thereafter at $2\frac{1}{2}$ per cent.

War Loan Acts

Under various War Loan Acts (cp. War Loan Act, 1915) the remuneration for the management of more recently created debt is settled by agreement between the Treasury and the Bank.

RETURNS

Act of 1844

Clause.

6. Accounts of Issue and Banking Departments to be published weekly in form prescribed. (By clause 10 of Currency and Bank Notes Act, 1928, prescribed form may be modified to such extent as Treasury with concurrence of Bank consider necessary, having regard to provisions of that Act.)

ESTONIA

BANK OF ESTONIA

PURPOSE OF THE BANK.

Art. 2.[1] The first duty of the Bank is to ensure that the gold value of its notes remain stable. To this end it must exercise control, within the limits of its statutes, over monetary circulation and credit.

CAPITAL

Art. 8. Capital, 5 million krones in shares of 50 krones each.

[It was contemplated that in the first instance the capital would have to be taken up by the Government, which undertook to endeavour to dispose of its shares by public issue or otherwise within two years of the coming into force of these statutes. An offer of sale was made in October 1929 and 30,950 out of 100,000 shares were transferred to the public.

Art. 9. The capital may be increased by the Board of Directors, subject to the approval of the Government, the issue price of the new shares also being determined by the Board of Directors with the approval of the Government.

[1] Numbers refer to Articles of Statutes, 1927.

Profits and Reserve Fund

Art. 50. The net profits to be divided as follows:

(1) Not less than 10 per cent to the Reserve Fund. This appropriation may be suspended if the Reserve Fund equals or exceeds the paid-up capital (Art. 12).

(2) A dividend not exceeding 8 per cent.

(3) Of the remainder:

½ to the Reserve Fund.

¼ to the Government or ¾ if payments to the Reserve Fund have been suspended.

¼ to be available for additional dividend or other purposes at the discretion of the General Meeting.

Branches

Art. 4. Branches and agencies may be established by the Bank anywhere in Estonia. The Government may require the establishment of Branches or Agencies in municipal towns.

Management

General Meeting of Shareholders

Art. 13. The ordinary meeting to be held annually in May.

Art. 14. Extraordinary general meetings may be convened by the Board of Directors, or at the request of shareholders representing at least one-quarter of the capital.

Art. 15. Every shareholder who has been registered for not less than six months and who owns at least 10 shares has the right to vote. Each share confers one vote, except that no shareholder is entitled to more than a thousand votes in his own name. As proxy he may cast further votes up to a thousand.

Art. 21. The business of the General Meeting includes the following:

(*a*) Approval of Annual Report.

(*b*) Appropriations to Reserve and other special funds.

(*c*) Declaration of annual dividends.

(*d*) Elections of members of Board of Directors and Auditors and the fixing of their fees.

(*e*) Proposals to amend this Law to be submitted to Parliament through the Government, except those dealing with increase of capital (see Art. 9).

Board of Directors

Art. 25. The general conduct of the affairs of the Bank to be entrusted to a Board of Directors responsible to the General Meeting and consisting of the President, two members of the Management nominated by the President and seven other members elected for three years by the General Meeting and eligible for re-election.

The elected members to represent the following interests: Industry, Commerce, Agriculture, Co-operative and Organised Workers. The candidates are proposed through the Board of Directors by bodies representing these interests.

Art. 27. Each body to nominate two candidates from among the shareholders of the Bank.

Art. 26. The following are ineligible:

(1) Officials of the Government, municipalities or other public bodies.
(2) Members of Parliament.
(3) Foreigners.

Art. 33. Office of elected Directors is honorary.

Art. 36. The Board of Directors is empowered to deal with the following:

(*a*) Rates of discount and interest.
(*b*) General conditions and dimensions of authorised classes of business.
(*c*) Eligibility of parties for accommodation and fixing the limits of the same.
(*d*) Acceptance and renewal of bills of exchange for discount or rediscount.
(*e*) Continuance of advances for fixed periods and periodical review of advances on current account.
(*f*) Appointment of Managers and the higher Bank employees, on proposal of the President, and the internal organisation.
(*g*) Appointment of members of the Discount Committees and fixing their travelling expenses and fees.
(*h*) Issue of instructions for the Clearing-house conducted by the Bank.
(*i*) Arrangements for the general supervision and control of the Bank's business.

(*j*) Questions connected with the acquisition of immovable property.

(*k*) Writing down the Bank's assets.

(*l*) Appointment of foreign correspondents and fixing limit of funds to be held by them and of facilities to be granted them.

(*m*) Questions concerning the form, text and denomination of the bank-notes, their supply and cancellation. The denomination and text to be fixed in agreement with Minister of Finance.

(*n*) Questions regarding the liquidation of bankrupt enterprises and individuals indebted to the Bank.

(*o*) Questions regarding the opening and closing of Branches and Agencies.

(*p*) Approval of Bank's annual budget.

(*q*) All matters to be laid before the General Meeting.

Board of Management

Art. 37. The Board of Management consists of the President, his deputy and of such number of managers as may be required.

The President to be appointed by the Government of the Republic for a period of 5 years, and is eligible for reappointment.

Managers appointed and dismissed by Board of Directors.

Art. 38. The Board of Management to control the daily operation of the Bank in conformity with the general instructions of the Board of Directors, and to meet at least once a week.

Art. 39. The Board of Management to report monthly to the Board of Directors regarding the transactions and position of the Bank.

Discount Committees

Art. 41. Appointed by the Board of Directors for the Head Offices and Branches carrying on independent loan operations. To consist of persons familiar with commercial, industrial and agricultural conditions of the locality.

Appointed for 2 years. Members are not eligible for re-appointment for the following year. Office honorary.

Art. 42. The Chairman of the Discount Committee at the Head Office to be Manager of the Discount Department; in branches, the Branch Manager.

The Board of Management is not bound to discount bills accepted by the Discount Committee. In exceptional cases bills rejected by the Discount Committee may be discounted if unanimously approved by the Board of Directors.

Auditors (see also Temporary Provisions, Art. 80)

Art. 43. Five qualified shareholders to be elected by the General Meeting as Auditors to examine and report on the Balance Sheet.

NOTE ISSUE

Art. 1. Exclusive privilege for 25 years. The Bank may ask for an extension of its note-issuing privilege not less than 3 years before the expiration of the existing privilege.

Art. 3. To ensure the convertibility of the Notes, the Bank, on the requisition of any person at the Head Office at Tallinn, shall be bound to sell to, or to purchase from, such person in exchange for legal tender currency of Estonia at the rates below, respectively, the legal tender currency of such foreign gold standard country or countries as may be notified in the *State Advertiser*, for immediate delivery in such foreign country or countries.

Provided that no person shall be entitled to demand or offer an amount of foreign currency of less value than 5000 krones of legal tender money of Estonia.

For the purpose of determining the rate applicable to the $\frac{\text{sale}}{\text{purchase}}$ of foreign currency under this article, 2480 krones shall be deemed to be equivalent to such sum in that foreign currency as is $\frac{\text{required to purchase}}{\text{realised by the sale of}}$ 1000 grammes of fine gold in that foreign country, at the rate of which the principal currency authority of that country is bound by law to $\frac{\text{sell}}{\text{purchase}}$ gold in exchange for currency, after $\frac{\text{deduction from}}{\text{addition to}}$ such sum of an amount, to be fixed by the Bank, representing the normal cost per 1000 grammes of transferring gold bullion in bulk from $\frac{\text{Tallinn to that foreign country}}{\text{that foreign country to Tallinn}}$, including interest and insurance on its value during transit.

On the date on which the provisions of this Law become operative, the Bank shall notify in the *State Advertiser* at least one foreign gold standard country for the purposes set forth in this Article. The Bank shall similarly notify any additions or changes of the foreign gold standard countries to which this Article is to apply. The Bank shall also from time to time determine the equivalent rates in accordance with the above provisions, and shall notify in the *State Advertiser* the rates so determined.

Art. 52 (1). Notes of a denomination less than 5 krones may not be issued.

Art. 66. If the Bank should fail in its obligation under Art. 3, the privileges of note issue may be terminated by the Government.

RESERVE

Art. 58. Reserve of not less than 40 per cent to be maintained against notes in circulation and demand liabilities.

Art. 59. The reserve includes only :

(*a*) Gold coin and bullion owned by the Bank either in the custody of the Bank or deposited in other Central Banks and earmarked for its account, or in any mint or in transit to or from the Bank.

(*b*) Foreign exchange in the unrestricted ownership of the Bank and freely convertible on demand into exportable gold.

Foreign exchange includes :

(1) Net balances standing to the credit of the Bank at the Central Note-issuing Bank or other bank of a foreign country.

(2) Bills of exchange payable in foreign currency of a maturity not exceeding 3 months with at least two good signatures.

(3) Treasury bills or similar obligations of a foreign Government not exceeding 6 months' maturity less any liabilities in such foreign exchange.

Art. 60. At the request of the Bank the Government may suspend the operations of Art. 58, subject to payment by the Bank of a progressive tax paid daily of the following percentages above the published minimum current discount rate for 3 months' bills :

1½ per cent if the Reserve is less than 40 per cent, but not less than 35 per cent.

2 per cent if the Reserve is less than 35 per cent, but not less than 30 per cent.

3 per cent if the Reserve is less than 30 per cent.

The suspension may be granted for not more than 30 days in the first instance and may be renewed for further periods not exceeding 15 days at a time.

Art. 61. Before applying for the suspension of Art. 58 the Board of Directors must raise the rates for discount and advances by not less than 1 per cent.

General Business

Art. 51. The Bank may:

(1) Make and issue bank-notes.
(2) Buy and sell gold and silver.
(3) Accept money on deposit or current account.
(4) Discount and negotiate internal bills of exchange and other paper arising out of *bona fide* commercial transactions, bearing 2 or more good signatures and having a maturity not exceeding 3 months, agricultural bills not exceeding 6 months and timber bills not exceeding 9 months, the two latter categories not to exceed in the aggregate 40 per cent of the total bill holding.
(5) Buy and sell at home and abroad telegraphic transfers, cheques and bills of exchange, drafts and Treasury bills of maturities not exceeding 3 months, payable abroad in a currency stabilised on gold.
(6) Open accounts abroad.
(7) Open accounts for foreign banks.
(8) Grant advances for fixed periods, not exceeding 6 months, and advances on current account against the following security, subject to the limitation of Art. 52:
    (*a*) Gold coin and bullion.
    (*b*) Stocks, bonds and bills of, or guaranteed by, the Estonian Government up to 80 per cent of their current market value.

(*c*) Commercial paper in Estonian or stable foreign currencies with 2 or more good signatures of a maturity not exceeding 3 months.

(*d*) Agricultural and timber bills, as in (4) above, provided that the amount advanced on them does not exceed 40 per cent of the total advances.

(*e*) One name promissory notes secured by warehouse receipts against staple commodities fully insured having broad and active markets to an amount not exceeding 60 per cent of the market value.

The rate of interest on all advances, except that under 11 below, not to be less than 1½ per cent above the current discount rate for 3 months' bills.

(9) Accept the custody and management of moneys and articles of value.

(10) Undertake on behalf of third parties the purchase and sale, collection and payment of securities, currencies and credit instruments at home and abroad.

(11) Make temporary advances to the Government for expenditure authorised in the annual budget, provided that the whole of the advances outstanding at any time does not exceed one-sixth of the estimated revenue for the year and are repaid not later than the end of the quarter following the close of the fiscal year in which the advances were made. The rate of interest to be agreed between the Bank and the Government.

(12) Invest an amount not exceeding the paid-up capital of the Bank in securities of, or guaranteed by, the Estonian Government, having a maturity not exceeding 5 years.

(13) Do all such things as may be incidental to the transaction of its legitimate business.

Art. 52. The Bank may not:

(1) Issue notes of a denomination less than 5 krones.

(2) Have a direct interest in any commercial, industrial or other undertaking.

(3) Become the possessor of fixed property other than the business property of the Bank, except as provided in Art. 53.

(4) Purchase its own shares on its own account.

(5) Pay interest on deposit or current accounts, except on foreign balances held by the Government (see Art. 44 under Relations with the State).

(6) Allow the renewal of maturing bills, discounted or rediscounted by the Bank, except in special circumstances, and after a resolution passed by the Board of Directors, in which case one renewal may be permitted for a period not exceeding 3 months.

(7) Directly or indirectly make advances to the Government, except as provided in Art 51 (11).

(8) Directly or indirectly make any advances to local authorities or other public bodies.

(9) Make unsecured loans or advances.

(10) Make advances against mortgages on fixed property, except as provided in Art. 53.

(11) Make advances against agricultural produce, timber or merchandise, except as provided for in Art. 51 (8) (*d*) and (*e*).

(12) Accept bills payable otherwise than on demand.

(13) Discount or accept as security from one person, other than the Government, under Art. 51 (11), bills exceeding one-fifth of the paid-up capital of the Bank without a special resolution unanimously adopted by the Board, but excluding advances under Art. 51 (8) (*a*), (*b*) and (*e*), the limits of which will be fixed by the Board.

Art. 53. The Bank may accept a mortgage on the immovable property of a debtor as an additional security for a doubtful debt or if the value of the securities held against it has diminished. In such cases shares of good companies and private banks or other security approved by the Board of Directors may be accepted.

Advances for which such additional security has been given must be converted into fixed term loans if they are not so already and may not be renewed on maturity.

Real property acquired by the Bank under this article to be realised as speedily as possible, unless its retention is absolutely necessary for the business of the Bank.

Art. 55. The Head Office is authorised to issue sight drafts payable at Branches and Agencies or *vice versa*. If sanctioned by the Board of Directors one branch may issue sight drafts payable at another. No drafts drawn by the Bank on itself shall be made payable to bearer.

Art. 57. The minimum rate of discount or rediscount to be made public.

Relations with the State

For the position of the State before shares are disposed of, see Transitory Provisions, Art. 76 *et seq.*

Art. 44. The Bank to keep the accounts of the State and State institutions. No interest to be paid, except that the Bank may pay on foreign balances, held for account of the State, interest at least 1 per cent below the average rate earned by the Bank on such balances. The Bank to act as Government cashier without remuneration. It is also entrusted with the issue and management of all internal State Debt.

Art. 45. The Minister of Finance may nominate a Government Commissioner with the right to attend all meetings of the Board of Directors but not to vote.

The Government Commissioner has the right to protest against any decision of the Board of Directors which he considers to be contrary to the laws. Any such objection has the force of a suspensive veto until the question has been decided by a commission of three persons, to report within seven days, consisting of one nominee of the Government, one nominee of the Board of Directors, and a chairman chosen by agreement between the Government and the Bank, or who, failing such agreement, shall be the Chief Justice.

Art. 46. Representatives of the Government may not have access to the books of the Bank, except that for the purposes of the preceding paragraph the Government Commissioner may require the Management to furnish any necessary evidence.

The Bank may not be subjected (for the duration of its privilege of note issue) to any special regulation of the Government other than provided in this Act.

Art. 68. The Bank is exempt from all taxes other than the tax provided in Art. 60 (see under Reserve).

For:

Government share in Profits, see Art. 50, under Profits and Reserve Fund.

Temporary loans to the Government, see Art. 51 (11) and 52 (7), General Business.

Government nomination of President of the Bank, see Art. 37, under Management.

The agreement of the Government needed for:

Increase of capital and price of new issue (Art. 9), under Capital.

Suspension of reserve requirements (Art. 60), under Reserve.

Government powers with regard to establishment of branches, see Art. 4, under Branches.

State and Liquidation, see Art. 70, under Term of Charter and Liquidation.

Returns

Art. 48. A return of assets and liabilities on the 7th, 15th, 22nd and last day of each month to be published in prescribed form[1] within a week of these dates.

Art. 49. The annual balance sheet and profit and loss account to be published in the *State Advertiser* not later than one month before the annual meeting.

Term of Charter and Liquidation

Art. 1. Term of privilege, 25 years.

Art. 70. In the event of the expiration of the note-issuing privilege of the Bank or the loss of privilege (see Art. 66, under Note Issue) the Government, with the sanction of Parliament, may take over the whole of the Bank's business.

In this event the assets and liabilities shall be valued by three experts, one appointed by the Government, one by the Board of Directors and one mutually agreed upon.

[1] See p. 71.

The nominal value of the shares shall be paid to the Shareholders; three-quarters of any net excess of assets to be paid to the Government and one-quarter to the shareholders.

Art. 71. Should the State not take over the Bank's business, on decision of an Extraordinary General Meeting the Bank may be maintained for carrying on banking business exclusive of its note-issuing privilege.

Transitory Provisions

Art. 76. As long as the Government is owner of all shares of the Bank, the functions of the General Meeting shall be exercised by the Government, but not longer than 2 years after the Law comes into force.

Art. 78. The first managers appointed under Art. 37 to be subject to the approval of the Government.

Art. 79. As long as the Government owns all the shares persons who are not shareholders may be elected as Directors.

For the first three years the Board of Directors will be elected from candidates nominated as follows:

Three from nominees of the Chamber of Commerce and Industry.

One from nominees of the Estonian Central Agricultural Society.

One from nominees of the Settlers' League.

One from nominees of the Estonian Co-operative League.

One from representatives of the Workers, proposed by the Minister of Finance.

Each of the bodies mentioned, as well as the Minister of Finance, to nominate three times as many candidates as have to be elected members of the Board of Directors.

Art. 80. During the time the shares are wholly owned by the Government the function of auditors to be exercised by the State control.

Temporary Adviser

Art. 72. An adviser to the Bank nominated by the Council of the League of Nations to be appointed by the Government for three years.

Art. 74. He shall have the right to attend all meetings of the Management and Directors and the General Meetings in a

consultative capacity, and to exercise a suspensive veto in the event of any decisions being in his opinion contrary to the law. No action shall be taken in such a case until agreement has been come to between the Adviser and the Board of Directors, or has been decided by a third party to be mutually agreed upon, or failing such agreement, by the Chief Justice.

Art. 75. Any alteration of this Law proposed at a General Meeting requires the specific approval of the Adviser.

FINLAND

BANK OF FINLAND

Purpose of the Bank

Art. 1.[1] The object of the Bank is to maintain stability and security in the monetary system of Finland, and to assist and facilitate the circulation of money.

Capital

Art. 4. The funds of the Bank consist of its capital, to be maintained at 1000 million marks, and the reserve fund as specified below, which may not include the real estate or furniture of the Bank, nor shares belonging to the Bank.

Profits and Reserve Fund

Art. 30. Of the annual profit of the Bank, at least one-half to be used to increase the capital and reserve of the Bank until these equal severally 1000 million marks.

Thereafter at least one-third of the annual profit shall be transferred to the reserve fund. Such part of the profit as is not utilised for increasing the funds of the bank may according to the decision of the Diet be employed for public purposes.

Any loss shall be covered by undisposed profits or, if these are insufficient, out of the reserve fund. If latter is reduced in this way, profits of next year shall be used in first instance to restore it to former amount.

[1] Numbers refer to Articles of Act of 1925, with amendments of 1925 and 1931.

Branches

Art. 5. The Bank carries on its business at a Head Office and Branch Offices, as well as through agencies when necessary.

Management

Art. 15. The management and working of the Bank are supervised by the Bank Supervisors of the Diet in accordance with the prescribed regulations and the instructions issued by the Diet.

Art. 16. The management and working of the Bank are entrusted to the Board of Management, except for such duties as are reserved for the Bank Supervisors.

The Board of Management consists of a chairman and not more than four members, of whom one shall be versed in law.

The Board shall act in all its dealings in such a way that the currency shall maintain its value established by law.

Art. 17. The duties of the Bank Supervisors are :

(1) to fix the discount rate, rates of interest and commissions ;
(2) to decide the principles for balancing the books of the Bank ;
(3) to decide as to granting clemency to the Bank's debtors, compounding debts and writing doubtful claims off the books ;
(4) to deal with questions concerning the purchase, erection and disposal of Bank premises, and important questions connected with production of notes ;
(5) to decide the taking up of foreign credit, and to fix the amount and terms ;
(6) to decide as to the payment of interest in special cases (see Article 13, General Business) ;
(7) to decide as to the appointment of correspondents abroad ;
(8) to control the checking of the Bank's cash, reserves, documents, mortgages and deposits ;
(9) to inquire into the Bank's granting of credits and investments and foreign currency transactions ;
(10) to decide on suggestions to the Diet or Government ;

(11) to submit an annual report to the Bank Committee of the Diet ;
(12) to distribute work between the members of the Board of Management ;
(13) to decide as to the discharge from responsibility of the Board of Managers on the report of the Auditors ;
(14) to decide as to the opening of branches and by agreement with the Government on closing the same ;
(15) to decide as to the opening and closing, duties and management of agencies ;
(16) to appoint managers for branch offices ;
(17) to appoint discount controllers ;
(18) to decide questions of salary of the managers and officials ;
(19) to decide questions relating to disciplinary measures affecting members of the Board of Management or managers of branch offices.

Members of the Board of Management shall be present at meeting of Supervisors with right to express their opinion.

Art. 18. Branch offices are managed by a manager. All questions concerning credits to be dealt with by a discount committee consisting of the manager as chairman and two controllers, appointed for one year.

Art. 23. The chairman and members of the Board of Management are appointed by the President of the Republic. When such a post falls vacant, the Bank Supervisors shall propose to Government the appointment of a suitable person.

Art. 27. An audit shall be carried out annually by auditors elected according to the Diet Act with the observance of the instructions drawn up for them by the Diet.

Note Issue and Reserve

Art. 3. The Bank has the sole right of issue.

Art. 6. The notes in circulation may not be more than 1200 million marks in excess of the aggregate gold reserve and the undisputed balance with foreign correspondents.

The excess shall be covered by :

bills payable abroad in foreign currency ;

foreign bonds quoted on foreign Stock Exchanges ;

interest coupons in foreign currency which have fallen due for payment ;

foreign bank-notes ;

inland bills falling due not later than within three months for which at least two trustworthy firms or persons are responsible.

The assets of the Bank in foreign currency and bonds may not be reckoned at more than the rates of exchange quoted on foreign money markets and Stock Exchanges, converted into Finnish marks at gold parity, but bonds must not be reckoned at more than their nominal value.

The drafts of the Bank in Finnish currency and other liabilities payable on demand, as well as undrawn balances of advances on cash credit and overdrafts, shall be considered as notes in circulation.

Art. 7. The gold reserve shall be considered as consisting of the gold coin and bullion of the Bank, situated in Finland or on deposit abroad or in transit therefrom for account of the Bank.

Art. 8. The Bank must redeem its notes on demand at its own option either in :

Finnish gold coin.

Gold ingots.

Cheques made out in foreign gold currency payable at sight at the current rate of exchange, but not exceeding parity by more than 1 per cent.

In case it should be necessary on account of war or an international financial crisis, the Bank may be empowered by ordinance, on the proposal of the Bank Supervisors based on a motion of the Board of Management, to depart, for a stated period, from the provisions of clause 1 of this paragraph. Such ordinance shall, however, be repealed, should the Diet so decide.

(Monetary Law, 1925.—Art. 12. The notes of the Bank are legal tender.)

General Business

Art. 11. The Bank is entitled :

(1) to carry on the exchange of money ;

(2) to buy and sell gold coin and bullion ;

(3) to buy and sell foreign currency;

(4) to discount bills;

(5) to grant other credit than that on bills, provided that such credit shall only be granted against gold, bonds or mortgages, and that the aggregate amount shall not exceed one-half of the Bank's own assets;

(6) to carry on other business appropriate to ordinary banking operations.

Art. 12. The assets of the Bank may be invested in shares only to such extent as is necessary for supplying the requisites for note production and the printing of notes.

Art. 13. The Bank is entitled to pay interest on the balances on current account of its foreign correspondents.

Interest may not be paid on other deposits except in special circumstances.

(Monetary Law, 1925.—Art. 10. The Bank is bound to buy gold brought to it for coining, if not less than 40 grammes, charging $\frac{1}{5}$ per cent for cost.)

Relations with the State

Art. 2. The Bank carries on its business under the guarantee and supervision of the Diet.

For the duties of Bank Supervisors of the Diet see Article 17. under Management.

For appointments by the State see Articles 23 and 27, under Management.

State share of profits, see under Profits and Reserve Fund, Article 30.

The capital of the Bank is owned by the State.

Returns

Art. 26. The closing of the books is carried out at the end of each calendar year.

A balance sheet shall be published four times a month in the official *Gazettes*.

An annual report shall be submitted by 15th February, and shall be printed and published.

FRANCE

BANK OF FRANCE [1]

Capital

Fcs. 182,500,000 in shares of Fcs. 1000 registered. L. 9th June 1857, 2.

Reserve Funds

In the course of development reserve funds have been built up in various ways, of which the following may be noted :

(1) Of the profits arising from raising discount rate above 5 per cent one-quarter is credited to the Reserve Fund (the balance is paid to the State); L. 17th Nov. 1897, 12.

(2) All profits arising from raising the rate of advances above 6 per cent.

(3) Reserve accumulated from past profits fixed by law of 17th May 1834 at Fcs. 10,000,000. L. 9th June 1857, 8.

(4) Special funds arising out of amalgamation with Departmental Banks and increase of Bank of France's capital in 1857 L. 9th June 1857, 8.

(5) Real estate surplus.

(6) Special reserve.

A sum representing more than half of Bank's capital in legal reserve must be invested in French Rentes. Royal Ordinance, 29th March 1841.

Branches

The Bank is empowered to establish branches throughout the country. L. 16th Jan. 1808, 10.

Management

Governor and two Deputy-Governors appointed by President on proposal of Finance Minister. No specified term of office is laid down. The Governor directs all the Bank's business, and the importance of his position is emphasised by the law. L. 22nd Apr. 1806, 10-16, 19.

[1] The particulars regarding the Bank of France are derived from the legislation of 25th June 1928, the volume entitled *Lois et statuts qui régissent la Banque de France*, *Notenbanken der Welt* (Dierschke and Müller) and *Interviews on the Banking and Currency Systems of England, Scotland, etc.*, Washington Government Printing Office, 1910. (In the marginal references L. followed by a date and a number refers to a law of the date given, the number indicating the section. I. followed by a number refers to the page in the volume of Interviews.)

L. 17th Nov. 1897, 3. The above officials may not be members of Parliament.

Statutes, 10th Jan. 1808, 34. General Council consist of Governor and Deputy-Governors, together with fifteen Regents and three Auditors (Censeurs) elected by the General Assembly.

L. 22nd Apr. 1806, 8. Three of the Regents must be chosen from the Treasury disbursing agents, five of the Regents and the three Auditors from the commercial and industrial members among stockholders, and one Regent from the agricultural members.

Dierschke & Müller, vol. i. p. 151.

L. 14th Apr. 1803, 16, 19. Term of office of Regents, 5 years.

Term of office of Auditors, 3 years. Regents and Auditors are eligible for re-election.

Statutes, 16th Jan. 1808, 35-40. The General Council are responsible for the administration of the Bank and the conduct of business.

L. 14th Apr. 1803, 18. Discount Council consists of 12 shareholders, elected by the Auditors, and acting in advisory capacity.

L. 14th Apr. 1803, 11-14. General Assembly consists of the 200 largest shareholders, but only French citizens are eligible for membership. Meets regularly once a year at the end of January, but may be summoned specially. Each member has one vote.

Main duties:

(1) To elect Regents and Censors.

(2) To receive annual report of General Council.

(3) To receive Censors' report on balance sheet.

Note Issue

Bank has monopoly of note issue.

Denomination of notes fixed by law. (Cf. Law of 29th December 1871, authorising 10 and 5 franc notes.)

L. 25th June 1928. Art. 3. The Bank of France is obliged to ensure the gold convertibility of its notes. It has the option of cashing them either in legal tender gold coin or in gold bullion at the rate of 65.5 milligrammes of gold $\frac{9}{10}$ths fine per franc. Encashments are only obligatory at the Head Office, and for a minimum amount fixed in agreement between the Minister of Finance and the Bank. (The minimum amount at present fixed is 215,000 francs.) The Bank is under an obligation to buy gold at its Head Office and selected branches at the rate of 1 franc per 65.5 milligrammes of gold $\frac{9}{10}$ths fine. It may debit seller with the expenses of mintage and charge assay charges to the account of seller.

Reserve

Notes are issued against cash or discounts or loans. I. 214, Article 4.

The Bank is obliged to maintain a minimum reserve in gold bullion or gold coin of 35 per cent of the total of its notes plus current accounts. L. 25th June 1928.

The former legal provisions fixing a maximum to the total of the Bank's note circulation are abolished.

General Business

1. Discounts, for those having accounts with discount facilities, internal bills, commercial and agricultural warrants, and bills to order with currency not exceeding 3 months. Three signatures are ordinarily required except in cases of warrants, and in case of bills if approved collateral is given, when two suffice. L. 14th Apr. 1803, 5. Statutes, 16th Jan. 1808, 9-20. Décret, 26th March 1848. Décret, 13th Jan. 1869.

2. Discounts bills payable abroad for the promotion of French export trade, centred in France. Conditions as to signatures and maturity as in 1. L. 17th Nov. 1897, 2. L. 30th Apr. 1896, 2.

3. Receives for customers short term bills for collection. Convention, 11th Nov. 1911.

4. Receives without interest money on current or deposit account.

5. Makes payments to order of customers against balances in hand.

6. Makes advances against deposit of French Government, colonial, municipal and other specified securities for 90 days, period being open to extension.

7. Deals in gold bar or foreign gold coin and makes loans against them.

8. Undertakes safe custody of securities, etc.

9. Negotiates sales of French and foreign securities for customers.

10. Issues letters of credit and circular cheques.

11. Pays or discounts coupons of French Government securities.

12. Acts as bankers to Government and issues Treasury bills and rentes for Government without charge.

13. Maintains various forms of accounts, *e.g.* discount accounts, advance accounts, deposit accounts.

With the approval of the Government the Bank may acquire real estate required for its own business. L. 16th Jan. 1808, 17.

Article 9. Convention between Bank and Govt. dated 23rd June 1928.

The Bank of France is empowered to buy bills and short term securities for the account of foreign Banks of Issue holding current accounts with it. The Bank may rediscount such bills and securities, and is authorised to give its guarantee for the due honouring of the same.

Relations with the State

1. On occasions of the extension of its privilege and on other occasions the Bank has entered into arrangements with the Government, approved by law, by which it has made large advances to the State, either free of interest or at beneficial rates of interest.

I. 203.

2. The Bank is liable to the ordinary taxes.

3. In return for the privilege of note issue the Bank makes various payments to the State, of which the following are noteworthy :

Convention, 26th Oct. 1917.

(*a*) Prescribed royalties calculated with reference to the rate of discount and the productive circulation. The productive circulation consists of notes issued in respect of discounts, advances against securities or precious metals and drafts to order.

L. of 17th Nov. 1897, 12. Convention, 26th July 1918.

(*b*) Three-quarters share of profits resulting from discount rate above 5 per cent.

(*c*) If dividend exceeds Fcs. 240 per share in any year, equivalent of excess is payable to State.

Article 7. Convention between Bank and Govt. dated 23rd June 1928.

Without prejudice to the provisions of Agreements dated 10th June 1859, 29th March 1878, 21st October 1896, and 11th November 1911, the Bank will grant the State a loan of 3000 million francs free of interest against a Treasury Bond maturing on 31st December 1945.

For Appointments by the State see under Management, paragraph 1.

Returns and Audit

I. 206.

Bank under obligation to publish a quarterly return, but it actually publishes a weekly return.

There is no regular system of examination by State, but Minister of Finance has right to ask for information whenever he chooses.

Term of Charter

L. 20th Dec. 1918, Art. 1.

Till 31st December 1945.

GERMANY

THE REICHSBANK

Purpose of Bank

1.[1] The Reichsbank is a Bank independent of Government control, and having the character of a corporate body whose task is to regulate the circulation of money in the whole area of the Reich, to facilitate the clearance of payments and to provide for the utilisation of available capital.

Capital

5. Capital may be raised to Reichsmark 400 million, but not to be less than RM. 300 million.

Each share to be for 100 RM.—certificates to be issued in shareholders' names.

Profits and Reserve Fund

37. Ten per cent of net profits to be carried to reserve so long as reserve is less than the amount of the paid-in capital.

Then 8 per cent to shareholders—of balance, 50 per cent of first RM. 50 million to Reich and 50 per cent to shareholders, 90 per cent of next RM. 20 million to Reich and 10 per cent to shareholders; of remainder, 95 per cent to Reich and 5 per cent to shareholders. (Amounts assigned to shareholders are available either for dividend or dividend equalisation reserve.)

If dividend in any year is less than 8 per cent, deficiency is to be first charge on net profit of following years after deduction of amount legally required for reserve, unless deficiency is made up out of existing dividend reserve.

Any premia on new issue of shares to be placed to reserve.

Branches

Branches may be established throughout the Reich.

Management

Managing Board

6. Managing Board to administer Bank and to direct currency, discount and credit policy.

[1] References are to the Bank Law, 1924, as amended 1926 and 1930.

President and members must be Germans.

President to be elected by General Council, election requiring majority of seven votes and the confirmation of the Reichspresident, who signs the deed of appointment.

The members of the Board (number unspecified) having been approved by General Council (the same majority being required as for President) are appointed by the President—terms of appointment 12 years, but retirement at 65.

President holds office for 4 years.

President and members are eligible for reappointment.

On important grounds President or member of Managing Board may be dismissed—former by General Council, subject to majority vote as above, and latter under same condition, but not without President's consent.

General Council

14-15. The General Council is composed of 10 members; these members must be Germans. The President of the Bank is one of the members, and is Chairman of the General Council.

Term of office of members of Council, three years, with exception of President. (See No. 6.)

16. Members, with exception of President, are elected by means of co-option by those members of the General Council who are in office at the time, subject to confirmation of the part of such of the shareholders as are German nationals. Before the election the Chairman of the General Council or his deputy shall consult the Government of the Reich concerning the election.

17. Following classes are ineligible for General Council:

(*a*) Officials of Reich or any German State unless permanently retired;

(*b*) Persons who receive any payment from Reich or a German State other than payment for previous services.

18. Resolutions of General Council require a simple majority; if the votes are equally divided the Chairman has a casting vote. This provision does not apply to the election of the President, neither does it apply to the assent to be given to the appointment of the members of the Managing Board.

At each meeting, at least once in three months, General Council shall examine reports and decide on proposals submitted by President.

20. In order to maintain permanent contact as to currency matters and financial policy, Reichsbank Managing Board is obliged to report at regular intervals to the Government or at any time on the request of the Government in regard to these matters.

General Meeting of Shareholders

11. The general meeting represents the shareholders. (According to Statutes it must be held at least once a year, not later than May.)

Each share gives one vote, but no one to have more than 300 votes.[1]

12. A report on administration is printed annually. General meeting decides as to balance sheet and distribution of profits according to law.

Central Committee of Shareholders

13. Central Committee of Shareholders shall be formed, whose advice Managing Board may obtain if desired. Members to be elected by General Meeting on proposal of Managing Board from German shareholders representing banking, industry, commerce, agriculture, manual trade and labour.[2]

NOTE ISSUE

2. Reichsbank has exclusive right to issue bank-notes in Germany for fifty years, subject to existing rights of issue in cases of Bayerische Notenbank, Württembergische Notenbank, Sächsische Bank and Badische Bank remaining unaffected. Maximum issue of above four banks may not in aggregate exceed RM. 194 million.

3. Bank-notes of less than RM. 10 may only be issued with consent of Government for purpose of satisfying transitory trade need.

Bank-notes of Reichsbank, in addition to German gold coin, are legal tender for unlimited amount.

[1] In the Statutes of the Bank it is provided that " not more than one shareholder shall be represented by the same proxy ".

[2] The Statutes lay down that the Committee shall consist of 21 members and 21 substitutes. They must all be Germans and must hold at least 30 shares and at least 12 must be domiciled in Berlin or neighbourhood.

27. The preparation and completion, the issue, the withdrawal and the destruction of bank-notes shall be effected under the control of the President of the " Rechnungshof of the German Reich " as Commissioner. Daily statistics of notes and cover to be submitted to him.

31. Notes payable (*a*) at head office, Berlin, on presentation, and (*b*) at branches so far as cash allows.

Payment to be *at Bank's option* in German gold coin, gold bar or gold exchange,[1] in which case Bank may charge a commission not exceeding the charges of transporting gold in bulk from Germany to the foreign exchange centre concerned, including interest.[2]

RESERVE

28. Cover to be 40 per cent gold or " devisen ",[3] of which not less than three-quarters shall be gold.[4]

Balance to be discounts or cheques complying with conditions in 21.

29. By resolution of General Council, requiring unanimity except as to one vote, the cover (under 28) may be reduced. In that case, if reduction extends over more than one bank-return week, there is imposed a note tax on deficiency which,

if ratio is 37-40 per cent, is 3 per cent per annum;
,, 35-37 per cent, is 5 per cent per annum;
,, 33⅓-35 per cent, is 8 per cent per annum.

If ratio is less than 33⅓ per cent, 8 per cent plus 1 per cent for each 1 per cent by which gold cover is below 33⅓ per cent.

Minimum bank rate in deficiency period, 5 per cent, and whenever tax payable, discount rate to be raised by at least one-third of the percentage of tax payable.

35. In addition to note cover under 28, not less than 40 per

[1] *i.e.* cheques or orders to pay in foreign currency equivalent in value to the market value of the currency concerned as expressed in gold.

[2] This section came into force 17th May 1930.

[3] "Devisen" are defined as bank-notes, or bills of exchange having not more than 14 days to run, cheques and claims due from day to day payable in foreign currency by a bank of known solvency in foreign financial centres.

[4] Gold—bar gold, or German or foreign coin (RM. 1392 per 1 pound fine)—either held by Reichsbank or earmarked for it at foreign Central Banks.

cent of Bank's deposit liabilities are to be at all times represented by demand deposits in Germany or abroad, cheques on other banks, bills not exceeding 30 days' currency or loans against collateral (Lombarddarlehen) payable from day to day.

General Business

21. The Reichsbank may:

1. Buy and sell gold, silver and "devisen".[1]
2. Discount, buy and sell (*a*) bills of exchange relating to *bona fide* commercial transactions or goods with currency not exceeding three months, carrying three good signatures, and (*b*) cheques with three good signatures. Third signature may be dispensed with when special security is provided by collateral or otherwise, subject to total of bills in this class not exceeding 33 per cent of portfolio of discounted bills.

2A. Discount, buy and sell Treasury Bills issued by Reich, with a currency of not more than three months, and in respect of which another obligee of known solvency besides the Reich is responsible.

The holdings of such Treasury Bills of the Reich acquired in accordance with this stipulation either by way of discount or purchase, and of such Bills taken as collateral under 3 (*g*), must in all not exceed RM. 400 million at any given time. The amount is to be shown in the weekly returns (see 36, Returns), and is not to be considered as cover for notes within the meaning of 28 (see Notes).

3. Make loans at interest for period not exceeding three months on security of movable property, *i.e.*:

(*a*) gold or silver;

(*b*) fully paid shares or preference shares of German Railway Companies, debentures of German land credit banks under State supervision or of German mortgage banking companies (amount lent on such debentures not to exceed 75 per cent of market value). (Following

[1] See footnote on preceding page.

securities are also available in same way: bearer bonds of German public Land Credit Institutes, and of previously mentioned concerns issued against loans granted to a German Communal Corporation or in consideration of a guarantee by such Corporation);

(*c*) on security of interest-bearing bonds to bearer or bearer bonds maturing within one year of Reich, a German State or Municipality, or bonds guaranteed by Reich or a German State—such loans only to be up to three-quarters of market value of securities;

(*d*) on security of interest-bearing bonds to bearer of foreign States or foreign railway debentures guaranteed by a foreign State up to not more than 50 per cent market value;

(*e*) on security of bills of exchange of which obligees are of recognised solvency, subject to deduction of at least 5 per cent of market value;

(*f*) on security of merchandise stored in Germany, subject to two-thirds limit of value;

(*g*) on the security of Treasury Bills issued by the Reich, with a currency of not more than three months, subject to a deduction of at least 5 per cent of their market value and within the limits fixed by 2A above.

4. Buy and sell bonds of type set forth in 3 (*c*), so far as may be necessary for maintenance of business relations with customers.

5. Act as collecting and paying agency for customers.

6. Buy investments or precious metals for account of others after having in advance received cover, and sell same after previous delivery to Bank.

7. Receive money free of interest on deposit or current account (Giroverkehr).

8. Take custody of articles of value.

22. The Reichsbank is bound to receive bar gold in exchange for its notes at the fixed rate of RM. 1392 for one pound fine.

23. Managing Board to publish rate for discounts and advances.

24. Subject to 21, 3 (*b*), Bank may not accept bills, grant loans on security of land or mines, oilfields or shares except by way of collateral, and it may not buy or sell land, shares or goods except so far as necessary for carrying on business of Bank or for realisation of existing assets.

The Bank is entitled to acquire or to sell shares of the Bank for International Settlements and to guarantee their subscription.

Relations with the State

25. (*a*) Reichsbank to undertake receipts and payments and internal remittances for Reich.

(*b*) Without prejudice to (*d*) Bank is allowed to give credit to Reich up to three months and not exceeding R.M. 100 million. On the 15th July of each year Reich must not be indebted to Bank in any way.

(*c*) Reich will entrust Bank with general banking business. Freedom is reserved to Reich as regards channels for issue of loans, but they are to be placed mainly through Reichsbank.

(*d*) Credits also allowed to Reich Post and Railway Services up to aggregate of RM. 200 million.

(*e*) Bank to make no charge for acting as State Banker and managing debt. Reich to pay usual charges, but Bank is authorised to arrange special terms. Except as laid down, Bank shall not grant any credits, directly or indirectly, to Reich, States, Communes or foreign Governments.

26. Special account to be kept for Reparations payments.

45. Bank to be free of all corporation taxes, income taxes and trade taxes within the Reich.

For State Share in Profits see Art. 37, under Profits and Reserve Fund.

For Reichspresident and election of President see Art. 6, under Management.

For State and Liquidation see 38, under Liquidation.

Returns

36. Bank to publish weekly statements of assets and liabilities in prescribed form.

Bank also to publish in *Official Gazette* annual profit and loss account and balance sheet.[1]

Term of Charter and Liquidation

2. Term of privilege, 50 years from 1924.

38. After lapse of note-issuing privilege, Government is entitled, subject to one year's notice, to dissolve Bank and take over premises on conditions prescribed.

Before going into liquidation, Bank shall give Government notice in good time.

GREECE

BANK OF GREECE

Purpose of the Bank

Art. 4.[2] The first duty of the Bank shall be to ensure that the gold value of its notes remains stable. To this end it shall exercise control within the limits of its statutes over currency and credit in Greece.

Capital

Art. 8. Capital—400 million drachmas in 80,000 shares of 5000 drachmas fully paid.

The State and State undertakings shall not directly or indirectly hold shares amounting to more than one-tenth of the nominal issued capital.

Art. 9. The capital may be increased by the Board of Directors, subject to the approval of the Government.

By Art. 2 of the agreement between the Hellenic Government and the National Bank of Greece the National Bank undertakes to subscribe the whole of the capital of the Bank of Greece by the transfer of such bills, advances and other liquid assets as may be agreed, and to offer the whole of it at par for public subscription at specified dates covering

[1] Statutes provide that balance sheet is to be made up as for 31st December each year. Stock Exchange securities not to be taken at market value higher than as on that date. Only expenses of any year that may be distributed are those arising from the cost of production of notes.

[2] Numbers refer to Articles of the Statutes of the Bank of Greece as prepared by the Financial Committee of the League of Nations, September 1927, and amended on 19th March 1930, and 14th February 1931.

a period of two years and two months from the date on which the Bank of Greece commences business. A preferential right of subscription to one-half of each issue shall be reserved to shareholders of the National Bank of Greece.

Profits and Reserve Fund

Arts. 10 and 71. After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such contingencies as are usually provided for by bankers, and after payment of a cumulative dividend of 8 per cent per annum on the capital, one-half of the surplus to be allocated to the General Reserve Fund until it equals the capital, and the remaining half to the Government.

Appropriations to the General Reserve Fund may be suspended whenever it amounts to or exceeds the paid-up capital of the Bank. Thereafter one quarter of the surplus, or 4 per cent on the capital, whichever is less, to be paid to the shareholders, and the balance to the Government. Special reserve funds may be created.

Branches

Art. 6. The Bank may establish branches or agencies or appoint agents anywhere in Greece, and may open agencies or appoint agents abroad in any of the notified gold-standard countries referred to in Art. 5 (see under Note Issue).

Management

General Meeting of Shareholders

Art. 11. The General Meeting of shareholders is the supreme authority of the Bank and represents the whole body of shareholders.

Art. 12. An annual General Meeting to be held not later than April.

Extraordinary General Meetings may be convened as often as may be required by the Board of Directors and must be called upon request of duly qualified shareholders representing at least one-quarter of the share capital.

Art. 13. Five shares confer one vote. No one shareholder is entitled to more than 50 votes in his own name. As proxy he may have the right to cast further votes not exceeding 50.

Art. 14. Voting is limited to Greek subjects.

Bankrupts, persons who have not fulfilled their obligations to the Bank, or who are under civil or political disabilities as the result of a conviction for a criminal offence, may not vote.

Art. 19. The General Meeting shall alone be competent to deal with the following :

(*a*) Approval of the annual report.

(*b*) Approval of the balance sheet upon the report of the Auditors.

(*c*) Appropriations to reserve and other special funds ; the declaration of dividends and other disposal of profits.

(*d*) The election and removal of members of the Board of Directors and of Auditors.

(*e*) The discharge from all personal responsibility of members of the Board of Directors and of Auditors.

(*f*) Proposal to amend these statutes, except in regard to increase of capital (Art. 9) ; such proposals to be submitted to Parliament through the Government.

Board of Directors

Art. 20. The general conduct of the affairs of the Bank to be entrusted to a Board of Directors responsible to the General Meeting and entitled to exercise all powers within the limits of the statutes which are not specially reserved to the General Meeting.

Art. 21. The Board to consist of the Governor, Deputy-Governor and nine Directors. At least three of the Directors to be actively engaged in industrial or commercial matters, and three experienced in agriculture. The Directors to be elected by the General Meeting for three years. The first Board to be appointed by the Government in agreement with the National Bank of Greece.

Directors are eligible for re-election.

Art. 22. All shareholders of the Bank are eligible as Directors excepting :

(*a*) Members of the Government or officials of the Government, State Institutions and Undertakings.

(*b*) Members of Parliament.

(*c*) Directors, officers or employees of other Banks.

(*d*) Any person whose status comes within Art. 14 (see above).

The Governor and Deputy-Governor shall take oath of fidelity before the President of the Republic, and the Directors shall similarly take oath before the Governor.

The Governor and Deputy Governor shall be eligible as Directors of the Bank for International Settlements.

Art. 24. If the Governor, Deputy-Governor or a Director be guilty of a breach of these Statutes, divulge secrets regarding the Bank's affairs or abuse his position for private or business purposes, a General Meeting of shareholders shall have the right to remove him from office.

Art. 25. Office of Directors shall be honorary. Fees and travelling expenses to be sanctioned by General Meeting.

Art. 27. The following are reserved to the decision of the Board of Directors.

(*a*) Rates of discount and interest.
(*b*) General conditions of authorised classes of business.
(*c*) Eligibility of applicants for accommodation and the sanctioning of credit limits proposed by the Governor.
(*d*) Renewal of bills and advances and the periodical review, not less than once every six months, of all credits.
(*e*) The discount of bills as in Art. 43 (see under Discount Committees).
(*f*) The appointment of Managers and of members of the Discount Committees and the general internal organisation of the Bank.
(*g*) Regulations for the clearing house.
(*h*) Questions connected with the sale and purchase of immovable property.
(*i*) Writing down of the Bank's assets.
(*k*) The appointment of foreign correspondents and questions connected with transactions with them.
(*l*) Questions concerning the supply, denominations and production of bank-notes and their cancellation. The design, text and denominations to be fixed in agreement with the Minister of Finance.
(*m*) The opening and closing of branches and agencies.

(*n*) The approval of the annual report and balance sheet to be submitted to the Annual General Meeting and certain other specified matters.

Art. 28. If a decision on any of the above matters becomes urgent it may be taken by an Executive Committee consisting of the Governor, Deputy-Governor and two other members of the Board, to be submitted to the next meeting of the Board.

Governor

Art. 29. The Governor and Deputy-Governor to be elected by the General Meeting for a period of five years and to be eligible for re-election. Their salary to be determined by the Board of Directors, but they may not be remunerated by any form of commission or share in profits.

The election of the Governor must receive the approval of the Government.

The first Governor and Deputy-Governor to be appointed irrevocably for a period of five years by the Government in agreement with the National Bank of Greece.

Art. 31. The Governor to be in permanent control of the administration taking decisions in all matters not reserved to the Board of Directors.

Art. 35. The Governor and Deputy-Governor may not engage in any business on their own account. No bills signed by them shall be discounted or accepted as security by the Bank.

Discount Committees

Art. 40. Discount Committees to be created for the purpose of scrutinising all bills presented for discount or as security for advances.

Art. 41. They shall be appointed by the Board of Directors for the Head Office and branches authorised to carry on independent discount operations, and the members shall be familiar with the commercial, industrial and agricultural conditions in the areas concerned.

Art. 43. The Bank shall not be bound to discount bills accepted as suitable by the Discount Committee. Bills rejected by the Discount Committee may none the less be discounted provided they are approved by a three-quarter majority of the Board of Directors.

Auditors

Art. 44. Three Auditors and two substitutes to be elected at each Annual General Meeting to examine and report upon the balance sheet to be presented at the next General Meeting.

NOTE ISSUE

Art. 2. The Bank to have the exclusive right of note issue, the Government binding itself not to issue money of any type whatever other than subsidiary coins of not more than 20 drachmas, and these only to the Bank and its request.

Art. 65. On and from the date upon which the Bank of Greece commences business, the National Bank of Greece shall cease to issue any kind of paper money.

Art. 66. The bank-notes of the Bank of Greece to be legal tender.

Art. 69. The Bank shall exchange its notes at all its offices for notes of other denominations or subsidiary coin.

Art. 5. To ensure the convertibility of its notes the Bank is bound on demand at its Head Office to sell or purchase for immediate delivery, in exchange for the legal tender currency of Greece, the legal tender currency of such gold standard countries (*i.e.* those whose currency is convertible into exportable gold) as may be notified in the official *Gazette*.[1]

For the $\frac{\text{sale}}{\text{purchase}}$ of foreign currency the amount in drachmas, which represent 1000 grammes of fine gold in accordance with the stabilisation rate, shall be deemed equivalent to such sum in that foreign currency as is $\frac{\text{required to purchase}}{\text{realised by the sale of}}$ 1000 grammes of fine gold in that country, at the rate at which the principal currency authority is legally bound to $\frac{\text{sell}}{\text{purchase}}$ gold for currency after $\frac{\text{deduction from}}{\text{addition to}}$ such sum of the normal cost of transport of gold in bulk, including interest and insurance, $\frac{\text{from Athens to the country concerned}}{\text{from the country concerned to Athens}}$.

[1] By the Law of 28th September 1931 for the protection of the National Currency the Bank is released from the obligation to supply foreign exchange.

On the coming into force of the law the Bank to notify at least one foreign country for the purpose of this article.[1]

The amount of foreign currency demanded or offered not to be less value than 10,000 drachmas of legal tender currency.

Reserve

Art. 61. The Bank to maintain a Reserve of not less than 40 per cent of the notes in circulation and other demand liabilities.

Art. 62. The Reserve to include only:

(*a*) Gold coin and bullion in the unrestricted ownership of the Bank, and either in the custody of the Bank or deposited in another Central Bank, or at the Bank for International Settlements, or in any Mint, or in transit;

(*b*) Net foreign gold exchange in the unrestricted ownership of the Bank, provided that it be either:

(*i.*) on a country the currency of which is convertible on demand at a fixed price into exportable gold, or

(*ii.*) on a country the currency of which is convertible on demand at a fixed price into foreign exchange as defined in (*i.*).

" Net foreign gold exchange " shall be taken to mean:

(1) Balances standing to the credit of the Bank at the Central Bank of a foreign country, or at the Bank for International Settlements.

(2) Bills of exchange payable in a foreign currency maturing within three months and bearing at least two good signatures.

(3) Treasury bills or similar obligations of a foreign Government maturing within three months:

Less any liabilities in foreign exchange.

If the liabilities in foreign exchange exceed the assets as

[1] The Bank of Greece started operations in May 1928. By decree of 12th May 1928 the value of the drachma was fixed at $\frac{100,000}{5,121,287}$ grammes of fine gold, equivalent to 375 drachmas to the pound sterling. The Bank was under the obligation of buying and selling pounds sterling at the rate of 372½ and 377½ drachmas per £ respectively.

enumerated above, the excess shall be deducted from the other assets of the Reserve.

Art. 63. At the request of the Bank, the Government may suspend the operation of Art. 61, subject to the payment by the Bank to the Government of a tax.

Suspension may be granted for a period not exceeding 30 days in the first instance and may be renewed for further periods not exceeding 15 days at a time.

The tax to be calculated on the excess by which the note circulation and other demand liabilities exceed the maximum admissible under Art. 61 at the following rates :

$1\frac{1}{2}$ per cent per annum above the published minimum current discount rate of the Bank for three-months bills, if the Reserve is less than 40 per cent and not less than 35 per cent.

2 per cent per annum above the minimum discount rate, if the Reserve is less than 35 per cent and not less than 30 per cent.

3 per cent above the minimum discount rate, if the Reserve is less than 30 per cent.

Art. 64. Before applying to the Government for the suspension of Art. 61 the Board of Directors to raise the discount rate by not less than 1 per cent per annum.

By Art. 3 of the agreement between the Hellenic Government and the National Bank of Greece, the latter on the date of the commencement of business by the Bank of Greece to transfer certain specific assets and liabilities to the Bank of Greece, and it is provided that the total liabilities so transferred shall be such that the Reserve of the Bank of Greece, as defined in Art. 62, shall not be less than 50 per cent of the notes in circulation and other demand liabilities transferred.

General Business

Art. 55. The Bank may :

1. Make and issue bank-notes.
2. Issue demand drafts and bank post bills payable at the Bank's Head Office or branches. They may not, however, be made payable to bearer.

3. Buy and sell gold coin or bullion.
4. Accept money on current or deposit account.
5. Discount, purchase or sell inland bills of exchange and promissory notes arising out of *bona fide* commercial transactions, bearing not less than two good signatures and maturing within three months; maturity may be for nine months in the case of inland agricultural bills, provided that the total of such bills discounted is not more than 25 per cent of the total amount of the Bank's portfolio of inland bills and notes. During the first three years of the Bank's existence the discount rate for such inland agricultural bills may be not more than 1 per cent below the Bank's official minimum discount rate, but this shall cease to be operative on the first occasion on which the official minimum rate shall be reduced to 7 per cent.

The Bank may also discount coupons, maturing within three months, of Bonds issued or guaranteed by the Hellenic Government, and bonds drawn either at par or at a premium which have been issued or guaranteed by the Greek State. It may buy and discount drafts maturing within a period not exceeding three months accompanied by shipping documents for goods of common use duly insured; the amount advanced not to exceed 80 per cent of the value of the goods.

6. Discount, purchase and sell Treasury bills, maturing within three months, which are endorsed by some bank, person or firm whose name has been approved by the Directors. The total amount so acquired or accepted as collateral (see 10 (*c*) below) may not together, at any time, exceed 400 million drachmas. The aggregate of such discounts, collateral security and advances to the State made under Art. 55 (11) (see under Relations with the State) may not exceed one-tenth of the estimated receipts of the ordinary Budget for the current financial year as voted by the Legislature.
7. Undertake the issue and management of the State debt and loans of other public bodies, and operations for the State as provided in Art. 45 (see under Relations with the State).
8. Buy and sell at home and abroad, foreign currencies

stabilised on gold, telegraphic transfers, bills of exchange, including Treasury bills, and drafts drawn in or on any country whose currency is stabilised on gold, and maturing within three months, and keep balances with banks in such currencies.

9. Act as agent for or correspondent of any other bank in Greece or abroad.

10. Grant advances for fixed periods not exceeding six months against the following :

(*a*) Gold coin or bullion.

(*b*) Bonds of or guaranteed by the Government and other Greek bonds and shares quoted on the Stock Exchange of Athens ; foreign Government bonds quoted in the Stock Exchange of any principal financial centre, the capital and interest of which are payable in the currency of a country stabilised on gold. Provided that no advance shall exceed 80 per cent of the market value of such bonds and 70 per cent of the shares, and that the eligible bonds and shares shall be chosen by a three-quarter majority of the Board of Directors.

(*c*) Treasury bills of the Hellenic Government within the limitations specified in (6) of this Art.

(*d*) Inland bills of exchange and promissory notes arising out of *bona fide* commercial transactions bearing not less than two good signatures and maturing within three months, and foreign bills as defined in (8) of this Art.

(*e*) *Bona fide* agricultural bills bearing not less than two good signatures and maturing within nine months, provided that the amount advanced on them does not exceed 25 per cent of the total advances. For advances to a Co-operative Association one good signature may be accepted for bills referred to in this subsection and under (*d*).

(*f*) Warehouse warrants for staple commodities duly insured bearing at least one good signature, but no advance may exceed 80 per cent of the current value of the commodities.

The rate of interest on all advances, except those made under (11), may not be less than 1 per cent above the Bank's current official discount rate for three months bills.

11. See under Relations with the State.
12. Accept the custody of monies, securities and other articles of value.
13. Undertake on behalf of third parties the purchase and sale, collection and payment of securities, currencies and credit instruments at home and abroad and the purchase and sale of gold and silver. Guarantee bills bought for account of other Central Banks, of the Bank for International Settlements and of legal entities of Public Utility and to rediscount same on the previous decision of the Board of Directors at a commission specified by it.
14. Invest an amount not exceeding the paid-up capital and reserve funds of the Bank in bonds of the Hellenic Government or other bonds quoted on the Stock Exchange of Athens or other important financial centres, the capital and interest of which shall be payable in the currency of a country stabilised on gold. Securities to be selected by a three-quarter majority of the Board of Directors.

The Bank may also subscribe for its own account to the capital of the Bank for International Settlements and hold amongst its assets shares of this Bank.

15. Promote the establishment of a clearing house and give facilities for the conduct of its business in premises belonging to the Bank.
16. Do all such things as may be incidental to the transaction of its legitimate business as defined in the Statutes.
17. To transact with the Bank for International Settlements all operations which the latter is authorised to undertake with a view to encouraging co-operation between Central Banks and which, although not provided for in the present Statutes, would be in conformity with the monetary policy for the Bank of Greece.

Art. 56. The Bank may not :

1. Issue notes of a denomination of 20 drachmas and less.
2. Engage in trade or have a direct interest in any commercial, industrial or other undertaking.

3. Become the possessor of immovable property, except so far as is necessary for its own business and as provided in Art. 58 below.
4. Purchase its own shares or the shares of any other bank or company, except the shares of the Bank for International Settlements.
5. Pay interest on deposit or current accounts except as provided in Art. 45 (see under Relations with the State), and that interest not exceeding 1 per cent per annum may be paid on the deposit or current accounts of other banks.
6. Allow the renewal of maturing bills of exchange save in exceptional circumstances and on a resolution of the Board of Directors, when one renewal may be made for a period not exceeding three months.
7. Directly or indirectly make advances to the Government, except as provided in Art. 55 (11) (see under Relations with the State).
8. Grant overdrafts or unsecured advances, or advances secured otherwise than as laid down in Art. 55 (10).
9. Draw or accept bills payable otherwise than on demand.
10. Discount or accept from any one party (unless from the Government under Art. 55 (11)) as security without a special resolution adopted by a three-quarter majority vote of the Board of Directors, bills exceeding one-tenth of Bank's paid-up capital, taking into account the liabilities of the party to the Bank as bill acceptor, drawer or endorser, but excluding advances made under Art. 55 (10) above.

Art. 58. If the value of the security held against any advance diminishes, or the debt is regarded as doubtful, the Bank may accept as additional security a mortgage on immovable property or any other security approved by the Board of Directors.

Any immovable property coming into the possession of the Bank as a result of failure to pay a debt shall be realised as speedily as possible.

Art. 60. The Bank to publish its minimum rate of discount.

Relations with the State

Art. 3. The Government binds itself not to issue or reissue money of any type other than subsidiary coins of denominations not higher than 10 drachmas and these only to the Bank at its request.

Art. 45. All banking accounts and balances of the State and State undertakings to be kept at the Bank.

No interest to be paid on such accounts, except that the Bank may pay on funds held abroad interest at a rate lower by not less than 1 per cent than the average rate earned by the Bank on such funds.

The Bank to be entrusted with the issue and management of all internal State debt.

Art. 46. The Bank shall not grant accommodation to the State or State undertakings, directly or indirectly, otherwise than as in Art. 55 (11) below. Neither shall the Bank guarantee Treasury bills or other obligations of the State or State undertakings.

Art. 55 (11). The Bank may make advances in drachmas to the Government for expenditure authorised in the annual State Budget, provided that the whole of the advances outstanding shall not exceed 400 million drachmas, and that all advances shall be repaid not later than at the end of the quarter following the close of the fiscal year in respect of which they were made, and subject to the provision that the aggregate of Treasury bills discounted and accepted as collateral and direct advances to the State shall not exceed one-tenth of the estimated receipts of the ordinary Budget for the current financial year as voted by the Legislature (see Art. 55 (6) under General Business).

> By Art. VIII. of the Protocol for signature by the Hellenic Government (League of Nations Publications, *Economic and Financial*, 1927, ii. 56), the Government undertakes not to seek short-term advances or to issue Treasury bills or other short-term obligations in excess of 800 million drachmas.

Art. 47. The Minister of Finance may nominate a Government Commissioner who shall have the right to attend all General Meetings and meetings of the Board of Directors, but not to vote. The salary to be paid by the State.

He shall have the right to protest against any decision of the General Meeting or Board of Directors which he considers contrary to these statutes or other laws of the State. Any such protest, if concurred in by the Minister of Finance within two days, shall have the force of a suspensive veto until the question

has been decided by a Commission of three persons, to be named within seven days on a request from either the Bank or the Government Commissioner and to report within seven days of nomination. The Commission shall consist of one nominee of the Government, one nominee of the Bank and a Chairman chosen jointly by the Government and the Bank, or who, failing an agreement, shall be the President of the Cour de Cassation.

Art. 48. No representative of the Government shall have access to the books of the Bank, except that for the purposes of the preceding article the Government Commissioner may require to be furnished with any necessary evidence.

Art. 49. Any question of dispute between the Government and the Bank other than those leading to a suspensive veto of the Government Commissioner shall be settled by arbitration in the same manner as laid down in Art. 47.

Art. 50. The Bank shall not be subjected to any special regulations of the Government during the period of its sole privilege of note issue with the exception of those provided by these statutes.

Art. 73. The Bank to be exempt from all taxes or duties levied by the State except as provided in Art. 63 (see under Reserve).

See also :

Art. 9 under Capital *re* increase of Capital.
Art. 71 under Profits and Reserve Fund for State share in profits.
Art. 27 (*l*) under Management *re* Design, etc., of notes.
Art. 29 under Management *re* Appointment of Governor.
Art. 63 under Reserve *re* Suspension of Reserve requirements.
Art. 54 under Returns.
Art. 74 under Term of Charter and Liquidation.

Returns

Art. 51. At the end of the financial year (31st December) the accounts to be submitted for audit to the Auditors elected by the General Meeting.

Art. 52. A Return of assets and liabilities as on the 7th, 15th, 23rd and last day of each month to be drawn up in a prescribed form and to be published not later than a week after these dates.

Art. 53. The balance sheet and profit and loss account to be as on 31st December of the previous year, to be published not later than one month before the date of the Annual General Meeting.

Art. 54. The Bank to publish its returns, balance sheet, profit and loss account in the official *Gazette*. A copy of all accounts and notifications and of the annual report to be sent to the Minister of Finance.

Term of Charter and Liquidation

Art. 1. The duration of the Bank to extend to 31st December 1970, but may be prolonged by a decision of the General Meeting confirmed by a Decree.

Art. 2. The exclusive privilege of note issue to extend till 31st December 1960, and remain in force thereafter unless withdrawn by law, provided that such withdrawal shall not take effect before the expiration of three years from the passing of such an Act; but the privilege may be revoked at any time if the Bank fails to ensure that the gold value of its notes remains stable.

Art. 74. In the event of the withdrawal of the note-issuing privilege the Bank shall be wound up, the assets and liabilities being valued by three persons, one of these to be appointed by the Government, one by the Board of Directors, and the third to be a person agreed upon by the Government and the Board of Directors, or failing agreement appointed by the President of the Cour de Cassation.

The nominal value of the shares shall be paid to the shareholders and any net excess in the value of the assets above the liabilities shall be divided equally between the Government and the shareholders.

HUNGARY

NATIONAL BANK OF HUNGARY

Purpose of the Bank

1.[1] To regulate circulation of money, to facilitate compensation of payments and to take measures for utilisation of available capital subject to provisions of the Statutes.

[1] Numbers refer to Articles of Statutes of National Bank of Hungary, 1924, as amended.

Main function to prepare the way for the introduction of specie payments by forming a reserve of gold bullion and of claims payable in stable currencies, and to ensure continuance of specie payments when once introduced.

Bank to provide by all the means at its disposal for maintaining stability of value of notes in terms of gold exchange, pending introduction of specie payments.

Capital

5. Thirty million gold crowns in shares of 100 cr. each, fully paid. Increase or decrease of capital is subject to approval of Legislature.

7-8. Shares are bearer, inscribable upon application.

Profits and Reserve Fund

99. Of net receipts 5 per cent to staff pension fund, to which special appropriations may also be made with a view to accumulating adequate capital fund as actuarially determined.

Then 10 per cent to reserve fund—to be reduced to 5 per cent when reserve equals 20 per cent of capital.
Then 8 per cent to shareholders.
Of remainder, one-third to shareholders, up to 10 per cent dividend, two-thirds to State.
Of residue, one-quarter to shareholders, three-quarters to State.
(State profits to go to liquidating State debt to Bank.)

100. Appropriations from net profits to reserve fund to cease when it equals 50 per cent of capital, so long as it remains at this amount.

Appropriations to pensions fund to cease when that fund is considered by actuaries sufficient security for any claims that may be made.

102-110. Special arrangements *re* liquidation are on same lines as in case of National Bank of Austria (*vide supra*).

Branches

The Bank may establish Branches in Hungary.

Management

Board of Directors

24. Board of Directors control administration and have free discretionary right to fix the uniform rate of interest, both for discounts and loans. Internal arrangements of Bank to be decided by Board.

25. Board consists of Governor plus thirteen members and four supernumerary members. Directors elected by General Assembly.

26-30. Governor, whose office expires on day of fifth annual general meeting after appointment, is nominated by Finance Minister, and appointed by Head of State. Two Deputy-Governors are elected by Board from its own members, subject to confirmation by Head of State. Salaries of Governor and Deputies fixed by Board. Directors elected for five years. All above are eligible for reappointment.

31. Solemn undertaking of fidelity and secrecy is given by Governor, Deputy-Governors and Directors.

33. Board meets as a rule once a month, but must be summoned to meet on request of four members, General Manager or State Commissioner. State Commissioner to be invited to all meetings of the Board.

Executive Committee

36A. Executive Committee, consisting of Governor, two Deputy-Governors and three Directors, may take urgent decisions in matters reserved for Directors, subject to report to Board at next meeting.

Board of Management

37-41. Board of Management consists of General Manager and three to five Managers.

General Manager takes part in advisory capacity with Board of Directors and Executive Committee. He shall be in supreme control of all business departments.

Board of Management is executive organ of Board of Directors; it fixes limits of credit available for customers; establishes agencies; submits reports and proposals to Board of

Directors. Board of Management meets as required, but at least once a month, under Chairmanship of Governor. State Commissioner to be invited.

Auditors

44. Five Auditors, elected by General Assembly from shareholders, shall examine annual balance sheet and report to General Assembly. They are entitled to inspect books and demand information.

General Assembly

10-11. General Assembly, representing whole body of shareholders, to meet for ordinary annual meeting not later than April, and for extraordinary meetings as required.

14. Twenty-five shares gives right to one vote, but no one shareholder to have more than 100 votes, either on his own account or as proxy.

20. Agenda include :

(*a*) Receipt of Directors' report.
(*b*) Approval of balance sheet and vote of confidence in Board after hearing Auditors' report.
(*c*) Allocation of surplus and fixing of dividend.
(*d*) Election of Directors and Auditors and supernumerary members.
(*e*) Amendments of Statutes or proposals for increase or decrease of capital (subject to approval of Legislature).
(*f*) Petition for extension of charter or matters concerning liquidation of company.

22. At election of Directors provision must be made that persons elected shall include representatives of agriculture, industry, commerce and banking institutions. Not more than four members of Board shall be members of Boards of other banking institutions.

NOTE ISSUE

80. Exclusive right of issue for Bank for duration of Charter.

82. Notes are legal tender. The general obligation of acceptance shall lapse with introduction of specie payments.

83. Bank to accumulate gold reserve with view to resuming specie payments. When Government and Bank agree that time has arrived, matter must be submitted to Legislature. Meanwhile, Bank is not obliged to redeem its notes in specie.

84. If, after specie payments are resumed, Bank fails to redeem notes presented at Head Office in metal within twenty-four hours, privilege of charter to be forfeited, unless failure is due to *force majeure* recognised as such by Government.

Reserve

85. Until introduction of specie payments, total notes in circulation plus immediate liabilities less sum represented by State debt to be covered by metal reserve (including foreign currencies and drafts) : [1]

For first 5 years	to extent of	20	per cent.
For next ,,	,,	24	,,
For next ,,	,,	28	,,
Thereafter	,,	33⅓	,,

Pending resumption of specie payments, a minimum of 25 million gold crowns must be held in foreign credits, as defined, in leading money centres. This sum may not be decreased except by decision of Board of Directors, approved by not less than eight members and the Governor.

86. Total notes in circulation and all immediate liabilities, after deduction of the State debt, must be covered by :

1. bullion and coin ;
2. bills and warehouse warrants discounted ;
3. foreign securities (bills, claims or cash deposits), or foreign currencies not included in metal reserve under 85 ;
4. bills payable in Hungary and expressed in foreign currency, otherwise complying with conditions of eligibility for discount.

[1] Foreign currencies mean foreign notes which are not subject to extraordinary fluctuations of exchange ; foreign drafts mean bills expressed in such currencies and carrying the liability of a bank of unquestionable solvency, and payable in one of the leading world markets, and otherwise complying with conditions of eligibility for discount. Credit balances and cash deposits, available at any time and held on similar conditions, may be treated in the same way as foreign drafts.

For first five years, but not later than date of resumption of specie payments, loans against movable property may be used as cover for notes.

No assets other than those enumerated may serve as cover.

87. After resumption of specie payments, not less than one-third of notes in circulation and of immediate liabilities is to be secured by reserve as under 85—remainder by assets enumerated in 86, and by balance of State debt.

88. Note Tax.—If prior to resumption of specie payments ratio specified in 85 is not maintained, tax is to be paid equal to discount rate (*a*) plus 1 per cent if ratio is less than 20, 24, 28 or 33⅓ per cent, but more than 18, 22, 25½ or 30 per cent in the respective periods, and (*b*) plus 1½ per cent for every 2 per cent or fraction thereof by which ratio falls below 18, 22, 25½ or 30 per cent in respective periods.

Minimum tax to be 5 per cent.

89. After resumption of specie payments, tax to be paid as soon as reserve prescribed in 87 (including foreign currencies and drafts) falls below 40 per cent at discount rate plus :

(*a*) 1 per cent if ratio is between 40 per cent and 33⅓ per cent;

(*b*) 1½ per cent for every further 3 per cent or fraction thereof by which ratio falls below 33⅓ per cent.

Minimum tax to be 5 per cent.

92. After legal ratio of currency has been established, Bank to be obliged to buy gold at prescribed parity against notes, charges on account of assay, etc., to be for account of seller.

93. Bank to be obliged to exchange notes for notes of other values.

General Business

57-79. The Hungarian National Bank is entitled :

1. (*a*) To discount and negotiate bills of exchange, securities, coupons and public warehouse warrants.

Bills must originate from commercial transactions and be expressed as payable in Hungarian currency, and be of not more than three months' maturity. Normally three, but in any case two, good signatures must be on bill. Two good signatures are required in case of warrants. Subject to compliance with

above, Bank may discount (i.) bills originating from customs or taxation liabilities, presented by Departments concerned, or (ii.) bills drawn by commercial undertakings of State or local bodies, if they are managed as independent enterprises not connected directly with public administration. In the case of agricultural bills period of maturity may be up to six months, provided one of the sureties is an agriculturist.

Committees of Scrutiny, composed of persons familiar with local business and agricultural conditions, to examine bills.

(*b*) To discount securities admissible as basis of loan and coupons attached, provided that maturity does not exceed three months.

2. To grant loans on movable security for not more than three months, provided that if such loans exceed amount of bills, interest shall be raised to one and a half times discount rate. Following may be accepted as collateral:
   (*a*) gold or silver, minted and unminted;
   (*b*) securities (excluding shares) quoted on Budapest Exchange;
   (*c*) bills in local or foreign currency, payable within six months, and otherwise eligible for discount;
   (*d*) foreign drafts and currencies.

   Directors shall decide what securities may be accepted as collateral by Bank, and to what extent of quoted value, and up to what total value.
3. To carry on deposit and current account business. No interest may be paid in respect of current accounts.

   The Bank may take charge of securities, money, precious metals and deeds, and may administer securities.
4. To issue drafts on its own branches.
5. To undertake commission business for third parties, buying after receiving cover and selling after having received delivery.

6. To buy and sell gold and silver, minted and unminted.
7. To buy and sell bills of exchange and cheques drawn on foreign banks, and to undertake foreign exchange business generally, to effect payments for third parties, to keep in foreign countries requisite credit balances and to execute any transactions necessary to secure a lucrative investment thereof.

Relations with the State

45. Government Commissioner and Deputy-Commissioner to be appointed by Head of State on nomination of Minister of Finance to ensure that Bank proceeds in conformity with laws and statutes. (Bank may be required to pay cost.)

46. Commissioner is entitled to attend meetings of Board of Directors, Management Board and General Meetings and Executive Committee in deliberative capacity. He is to be given facilities for investigation, and may protest against decisions that he may consider contrary to law or statutes.

47. Protest has effect of suspending action and involves negotiation between Bank and Government. If no agreement is reached, arbitration follows—Court consists of President of Supreme Court of Justice and four members, two appointed by Government and two by Bank.

50. Neither State nor local bodies can avail themselves, either directly or indirectly, of Bank's resources, except against value given in form of notes, gold or foreign credits.

State not to issue paper money, and in general to take no measures calculated to impede Bank's discharge of its primary obligations to maintain value of currency (*vide* Art. 1, last sub-paragraph, p. 309).

If either of above undertakings are infringed, Bank may lodge complaint before Royal Hungarian Supreme Administrative Court. Bank may also demand that, pending decision, measure complained of should be suspended. President of Court is to give decision within twenty-four hours regarding such application.

51. Bank may execute commission transactions for State, provided that such transactions do not result in debit balance for State. Bank shall act as State's bankers free of charge (except as regards out-of-pocket expenses).

The State shall, as far as possible, concentrate its money transactions with Bank.

Bank not to enter into other business relations with State which involve granting of loans or credit by the Bank.

113. Assets and receipts of Bank and dividends to be exempt from taxes and such measures as might involve burdens on Bank in favour of State or other public authorities. Bank is liable to house or land taxes on immovable property.

114. Books and records of Bank and documents issued by it are exempt from dues.

For State share in Profits see Art. 99, under Profits and Reserve Fund.

For State Appointments see Art. 26, under Management.

For Increase of Capital, subject to Government approval, see Art. 5, under Capital.

For State and Liquidation see Arts. 103 and 104 below.

Returns

96. Balance sheet to be drawn as on 31st December. Securities shall be shown at market rate on 31st December, or purchase price, whichever is lower. Only administrative expenses which may be spread over several years are those involved by issue of new form of notes.

101. Four returns of assets and liabilities in prescribed form, as on 7th, 15th, 23rd and last day of month, to be published not later than on seventh working day thereafter.

Balance sheet and annual profit and loss statement to be published not later than eight days before annual meeting.

Term of Charter and Liquidation

Art. 102. To 31st December 1943.

Three years before the expiry of the Charter the General Assembly shall decide whether to apply for renewal. If it does apply, notice must be given to the Government two years before the expiration of the Charter.

Art. 103. The Bank Company may also be liquidated before the expiration of the Charter with the approval of the Legislature. Such approval is not required if the Government infringes its obligations to the Bank laid down in the Act relating to the Bank's Charter or in these statutes.

A two-thirds majority of a General Assembly specially convened is required for a decision to wind up the Bank.

Art. 104. The Government shall be entitled, with the approval of the Legislature, to take over the whole banking business at its actual value in the event of the expiration of the Charter, or of forfeiture of the Bank's privilege or liquidation before the expiry of the Charter.

ITALY

BANCA D' ITALIA

Capital

Art. 5.[1] The capital consists of 500 million lire in 500,000 shares of 1000 lire nominal value, of which 600 lire is paid up.

Profits

Art. 68. The State to participate in the earnings of the Banca d' Italia if the net profits exceed 5 per cent on the paid up capital invested, to the extent of one-third of the excess if the net profits do not exceed 6 per cent, and one-half of the net profits exceeding 6 per cent.

According to the law of 27th September 1923 and the Royal decree-laws of December 1930 and December 1931, for the period of 1923–40 the share of the State in the Bank's profit is fixed at the amount payable in respect of the balance sheet of the Bank for 1922, as well as the dividend to shareholders, any surplus being applied to the reduction of the credit of the Bank with the " Istituto di Liquidazioni " (formerly Independent Section of Syndicate for advances against industrial securities).

Branches

Art. 2. The Board of Directors determines :

(*a*) The opening and closing of chief offices (*Sedi*) subject to the approval of the General Meeting and the Government.

(*b*) Opening and closing of branches (*Succursali* and *Agenzie*).

[1] Numbers in this and following sections refer to articles of the Statutes of the Banca d' Italia as revised June 1928, except where otherwise stated.

Art. 66. The Bank has branches in the Italian Colonies administered by special regulation.

Art. 3. Branches may be opened outside the Kingdom of Italy by decision of the Board with special authorisation of the Government.

MANAGEMENT

Art. 26. The administration of the Bank rests with :

(*a*) The General Meeting of shareholders.
(*b*) The Board of Directors and Executive Committee.
(*c*) The Governor, General Manager, and Deputy General Manager.
(*d*) The Councils of Chief Offices, Discount Councils and Managers of Chief Offices and Branches.

General Meeting

Art. 27. The General Meeting of shareholders must be held annually, not later than 31st March.

Art. 28. The ordinary general meeting approves the balance sheet, appoints its due proportion of directors (see Art. 38 below), the auditors and their substitutes, and deals with any resolutions submitted to the Board by one or more shareholders, who have held at least 5000 shares for at least three months.

Art. 29. Shareholders have one vote for every 20 shares up to 500 shares held for at least three months, and one vote for every 50 shares in excess of 500. Proxies are allowed ; but no one, either as proxy or on his own account, can have more than fifty votes in all.

Board of Directors (*Consiglio Superiore*)

Art. 38. The Board of Directors consists of :

(*a*) Two members elected annually by each of the Councils of the Chief Offices from their own number.
(*b*) Five members elected by the shareholders from amongst the remaining members of the Councils of the Chief Offices.
(*c*) The Governor.

The General Manager is present in a consultative capacity only, except when acting as deputy for the Governor.

All members of the Board, the General Manager and his deputy must be Italian subjects.

Art. 39. The Board elects annually its own officers.

Art. 40. The Board elects and dismisses the Governor, the General Manager and the Deputy General Manager. A two-thirds majority is necessary for election, simple majority for dismissal.

The names of the Governor, General Manager and Deputy General Manager must be approved by the Government.

Art. 42. The general administration of the Bank is vested in the Board of Directors.

Auditors and Censors

Art. 46. The supervision prescribed by the Commercial Code is exercised by auditors (for the Central Department) and censors (for the Chief Offices and branches).

The auditors ensure that the administration is carried out in accordance with the law and the Bank's statutes and general regulations.

Governor

Arts. 48-49. The Governor represents the Bank before third parties in all contracts, instruments, actions; fixes the rates of interest for advances and discounts, assigns the distribution into the various operations of the funds allotted monthly to the Chief Offices and branches, provides for Government Securities and all transactions in Foreign Exchange. He proposes to the Board the nomination and dismissal of the staff, of the censors and discount councillors of the Branches.

The Governor has all other such powers as are not explicitly attributed to the Board or to the Executive Committee or to the General Manager in the Statutes.

The Governor, with the concurrence of the Executive Committee:

(*a*) may assent to transactions, arrangements and grants not involving sums greater than L. 400,000 and reports to the Board;

(*b*) decides on extraordinary discount operations proposed by the Chief Offices and Branches and reports to the Board.

Moreover, the Governor, with the concurrence of the Directory (consisting of himself, the General Manager and the Deputy General Manager):

(*a*) Supervises the reserves in bullion, foreign exchange and current accounts abroad ;
(*b*) decides regarding the convertibility of damaged notes ;
(*c*) prepares the agenda for the meetings of the Board.

General Manager and Deputy General Manager

Arts. 50, 51, 52. The General Manager carries out the decisions of the Board.

He is entitled to be present at the meetings of the Councils and Discount Committees of the Chief Offices and branches or may delegate the Deputy General Manager to be present in his place.

He decides the promotions of the staff which he assigns to the Head Offices or branches.

The General Manager represents the Governor during his absence.

The Deputy General Manager assists the General Manager in his functions and represents him during his absence.

General Provisions

Art. 73. The Governor, the General Manager, the Deputy General Manager, the Managers of Chief Offices and branches and other officials of the Bank may not be members of any other credit institution, or carry on a commercial occupation, undertake business on the Stock Exchange, or hold a responsible position in any company, or be interested in any company of unlimited liability or accept responsibility in any joint-stock company.

Art. 74. Members of any Council of the Bank may not be directors or administrators of any other credit institution.

Art. 132 of the consolidated Act issued 1910. Members of either House of Parliament cannot hold any office in the Bank, whether with or without salary.

NOTE ISSUE AND RESERVE

Decree of 21st December 1927 :

Art. 1. The Banca d' Italia must redeem its notes on presentation at its Head Office in gold or, at its option, in the currency of foreign countries where bank-notes are legally convertible into gold.

The mint parity is fixed at 7.919052 grammes fine gold per 100 lire. (Under decree of 22nd February 1927 the export and

import gold points are fixed at 19.10 and 18.90 lire per U.S. dollar respectively.)

Art. 4.[1] A reserve of not less than 40 per cent of the notes and other sight liabilities of the Bank (demand drafts, interest-bearing current accounts and Treasury current account) combined, to be held in gold or foreign currencies convertible into gold.

The notes are guaranteed, apart from the reserve, by all the assets of the Bank, in conformity with the laws in force.

Circulation Tax

Art. 3.[2] The circulation tax is calculated on the half-yearly average of total notes actually outstanding, deducting the average amount of gold or equivalent in the reserve held against them.

Exemption from taxation is granted for the notes outstanding in respect of ordinary advances made to the Treasury.

The rate of taxation is 1·50 per mille per annum.

Art. 1.[2] Provided that legal cover is held against the other sight liabilities, if the percentage of the reserve to the notes outstanding should fall below 40 per cent, but not under 30 per cent, an extraordinary tax will be payable on the notes not having legal cover, which shall be equal to the full Bank Rate plus one-tenth. For every further 10 per cent decline in the proportion between reserve and circulation, the extraordinary tax charged on the uncovered notes will be further increased by 10 per cent over the existing Bank Rate.

GENERAL BUSINESS

I.—*Discounts*

Art. 27.[3] The Bank may discount :

(*a*) Bills of Exchange and bank drafts with two or more signatures of known solvency.

(*b*) Treasury bills.

(*c*) Warrants issued by public and bonded warehouses legally constituted.

(*d*) Coupons falling due within the current half-year of securities on which the Bank may make advances. (See Art. 29 below.)

[1] Decree of 21st December 1927.

[2] Decree of 17th June 1928.

[3] Numbers in this and following sections refer to articles of the Law on the Banks of Issue, as codified in 1910, except where otherwise stated.

Maximum maturity for the above, four months.

Art. 28. During the legal currency of notes the normal rate of discount may not vary without the authorisation of the Finance Minister.

The Finance Minister may suggest changes in the normal rate of discount, whenever he may consider that the conditions of the market require it.

The Bank may discount at 1 per cent less than the fixed rate bills of exchange presented by certain institutions, and warrants issued on citrus products to two-thirds of their value, on silk and sulphur in public warehouses, and warrants issued by companies which conduct public stores for vegetables.

A limit is fixed to the total of such preferential discounts.

The Bank may apply a preferential rate to bills of exchange presented and guaranteed by first-class banking and commercial firms with no more than three months to run, the rate for such discounts not to be less than 3·50 per cent per annum.

II.—*Advances*

Art. 29. The Bank may make advances for not more than four months :

(1) On Government securities and Treasury bills or bonds. On long-term Treasury bonds advances may be made for periods up to two years ;
(2) on bonds guaranteed by the Government or of which the Government has guaranteed the interest ;
(3) on notes of mortgage credit institutions ;
(4) on bonds payable in gold, issued and guaranteed by foreign States.

The advances on (1), (2) and (3) may be made up to nine-tenths of market value ; on Treasury bills up to full value ; on (4) up to four-fifths of market value.

(5) On gold and silver coins, whether national or foreign, in legal circulation, and gold bars ;
(6) on silver bars reckoned at no more than two-thirds of current value ;
(7) on silks, sulphur and spirits, and on certificates of public warehouses under certain specified conditions.

The Bank may make advances up to six months on certificates of deposit of certain goods under certain specified conditions,

also on bonds issued under the law by grantee railways and subsidised extra-urban tramway companies for not more than three-quarters of their current value.[1]

Art. 30. During the legal currency of notes the interest on advances may not vary without the authorisation of the Government.

The Finance Minister may suggest changes in the rate of interest whenever he deems that the conditions of the market demand it.

III.—*Investments*

Art. 32.[2] The Bank may hold investments in Italian bonds or other bonds issued or directly guaranteed by the Government.

IV.—*Deposits*

Art. 36.[2] The Bank may receive interest-bearing deposits on current account. The rate of interest on current accounts is fixed by decree of the Finance Minister after consultation with the Bank.

The Statutes of the Banca d' Italia also provide that the Bank may (Art. 14):

(1) Accept deposits in safe custody, as security or otherwise pledged.

(2) Accept sums on current account with or without interest, repayable at sight or at fixed term.

(3) Invest up to 125 million lire of its capital in buildings for the use of the Head Office, Chief Offices or branches.

(4) Collect dividends on private account or for companies, and generally act as financial agent for and at the risk of third parties.

(5) Carry out any other operations in accordance with the law with the approval of the general meeting.

Art. 16. The Bank has the exclusive charge of the existing Clearing-houses, and of those that may be established in the future.

[1] According with Art. 23 of the Statutes of the Bank, as revised June 1928, the value of securities or goods pledged must exceed by not less than 15 per cent the amounts advanced by the Bank.

[2] See also Art. 5 of the Decree of 17th June 1928.

Relations with the State

Art. 108. The supervision of the Bank of Issue is vested in the Treasury.

Art. 110. A permanent commission is appointed for this purpose under the presidency of the Finance Minister. It consists of three senators and three deputies elected by their respective Chambers, five members appointed by royal decree upon the recommendation of the Finance Ministry, and with the consent of the Council of Ministers.

The members appointed by the Government are :

The President or a Councillor of the State Council.
The President or a Councillor of the Court of Accounts.
The Director-General of the Treasury.
The Director-General of Credit in the Ministry of National Economy.

Art. 111. The permanent commission advises the Finance Minister at his request.

Art. 113. The permanent supervision of the Bank of Issue is undertaken by the Finance Minister through the general direction of the Treasury.

Art. 114. A Government inspector or official delegated by the Finance Minister shall be present at the general meetings of shareholders and at the meetings of the Board of Directors, with power to suspend the execution of decisions that may in his opinion be contrary to the law, or to the regulations and statutes of the Bank.

The Minister has the power to annul any such suspended decision if it is recognised as contrary to the laws, regulations and statutes.

Art. 115. The Finance Minister may suspend, for the above reasons, and thereafter annul any decision, basing his action on the report received, if his representative has failed to act.

Art. 117. The general direction of the Treasury shall examine the annual balance sheets and, where deemed necessary, check them.

Art. 118. The Bank returns in an approved form must relate to the position of the Bank on the 10th, 20th and last day of each month and be handed to the Treasury.

Art. 130. Not later than the month of May the Finance Minister shall submit to Parliament a detailed account of the operations of the Bank of Issue for the previous calendar year.

Art. 136. The Treasury shall have one representative on any Clearing-house established.

Art. 39. The Bank may assume the duties of provincial revenue offices. It may make advances to Provinces on account of taxes to be collected for a sum not greater than the total of two bi-monthly payments.

The sums thus advanced must be repaid within the maximum term of six months, and a new advance may not be granted until the expiration of two months after the entire repayment of the original loan.

Art. 40. The Banca d' Italia shall act as State Treasurer in all the Provinces of the Kingdom and in the Colonies.

Art. 4.[1] The Treasury is entitled to demand and the Banca d' Italia to grant it temporary advances, not exceeding at any time the sum of four hundred and fifty million lire in all, against which interest will be payable to the Bank at the net rate of 2 per cent per annum.

See also Arts. 28, 30, 36, under General Business; Art. 2, under Branches.

Returns

Art. 68.[2] The Bank must draw up an annual balance sheet and an account of the assets and liabilities in accordance with the Commercial Code, and a profit and loss account.

Art. 71. The profit and loss account must be presented to the Auditors with the annual balance sheet not later than 15th February of every year.

Art. 72. The profit and loss account for the half-year must be submitted by the Governor to the Board of Directors during July of each year. On the basis of this account the Board, with the approval of the Auditors and of the Finance Minister, may vote an interim dividend to the shareholders.

[1] Decree of 17th June 1928.

[2] Numbers refer to articles of the statutes of the Banca d' Italia, as revised June 1928, except where otherwise stated.

JAPAN

BANK OF JAPAN

Capital

Art. 4.[1] Sixty million[2] yen in shares of 200 yen each. May be increased with approval of the Government.

Art. 5. Only Japanese entitled to hold shares.

B. Art. 8. Government may become a shareholder in Bank to an amount of one-half its capital.

B. Art. 14. Any person desirous of becoming a shareholder in Bank must obtain the permission of the Minister of Finance.

Profits and Reserve Fund

B. Art. 36. The net profit apportioned as follows :

1. A dividend of 6 per cent per annum on the paid-up capital.
2. At least one-tenth of the remainder to be set aside as a reserve fund.
3. An amount to an extent not exceeding one-tenth of the said remainder shall be set aside as bonuses and allowances for the officers, subject to the Internal Regulations of the Bank by which the actual rate is fixed.
4. The amount remaining after the above three deductions have been made shall be divided among the shareholders, subject to the approval of the Minister of State for Finance for the actual rate of dividend.

B. Art. 38. If the dividend falls below 6 per cent it shall be made up by drawing on reserve fund, which is to be recouped if ensuing half-year's dividend exceeds prescribed rate.

Art. 10. The reserve fund to be used :

(*a*) To make good losses of capital.

(*b*) To make up any deficit in the dividend below 6 per cent.

[1] Numbers refer to Articles of the Bank of Japan Act, 1882, and of the By-laws of the Bank, the latter being indicated by the letter B.

[2] Originally 10 million yen.

B. Art. 20. The reserve fund shall be employed in purchase of gold and silver coin or bullion and public loan bonds, provided that earnings accruing from the fund are added to gross profits of Bank.

Branches

Branches may be established.

Management

Art. 17 and B. Art. 41. Administrative Board to consist of one Governor, one Vice-Governor and four Directors. Three to five Auditors to supervise business management. Also Discount Committee to examine bills to be discounted.

Governor

Art. 18 and B. Art. 42. Governor to be appointed by Government on Imperial nomination and Vice-Governor with Imperial approval for five years, both being eligible for re-appointment. They are to hold no other official appointments while in office.

Directors and Auditors

B. Arts. 45-46. Directors to be appointed by Finance Minister from twice as many candidates elected by General Meeting of Shareholders. Casual vacancies to be filled by nomination by Finance Minister. Term of office, four years; eligible for reappointment.

B. Art. 50. Auditors to be elected in general meeting of shareholders for three years and are eligible for reappointment.

Art. 19. Directors and auditors may not be officials of other banks or companies.

B. Art. 53. If share of half-yearly profits to be distributed under paragraph 3 of Article 36 exceeds 5000 yen for each Director and 2000 yen for each Auditor, general meeting of shareholders may reduce share to said amounts.

B. Art. 55. If Governor considers decision of Administrative Board improper he may summon General Council of Bank to consult. If he considers a decision adopted by any meeting as contrary to the Act or By-laws or to the interests of the State he shall suspend decision and report to Government. If no

instruction is received from Government within thirty days from the report original decision to be carried out.

B. Art. 58. Administrative Board shall decide all matters relating to Bank, calculate rates of discount and amounts to be applied to discount of bills or notes issued by Government, to loans on public loan bonds and other securities and to purchase of public loan bonds. Execution of decision is subject to approval of Auditors' Meeting.

Annual Report on operations of Bank to be submitted to shareholders.

B. Art. 61. Auditors shall supervise all operations of Bank and inspect all books. Approval of Auditors' Meeting to be obtained to all decisions on matters relating to change in rate of discount, to increase or decrease in amount of bills or notes issued by Government to be discounted or of amount of loans to be made on Government securities or to the purchase of public loan bonds. But if immediate action is required rate of discount may be changed by Administrative Board, provided the approval of Auditors' Meeting must be obtained within five days.

B. Art. 62. Auditors' Meeting to be held at least once a month.

General Council

B. Art. 64. Meeting of Governor, Vice-Governor, Directors and Auditors to be called General Council of the Bank.

B. Art. 65. General Council to meet at least once a month. Determines distribution of profits and amount of bonuses, internal regulations of Bank, establishment and abolition of branches, terms and procedure for receiving deposits for safe keeping. Decision on above four topics cannot be carried into effect unless approved by Finance Minister.

Discount Committee

B. Art. 67. Discount Committee to consist of three persons appointed by General Council of Bank, to receive fees in proportion to their attendances.

B. Art. 68. Discount Committee to be presided over by one Director to examine all bills submitted for discount.

For Government Supervision see under Relations with the State.

General Meetings

B. Art. 73. General Meeting of shareholders may be attended by only those shareholders who own ten or more shares for at least sixty days before meeting. Persons may appoint proxies.

Art. 20 and B. Art. 75. Each shareholder to have one vote for every ten shares, one additional vote for every fifty shares over and above that number, provided that no one can have more than ten votes as proxy for others. This does not apply to cases of proxy for the Imperial Household, the Government, a company, a bank or similar establishment.

B. Art. 76. General Meeting of shareholders to take place in February and August each year. It shall pass the Balance Sheet of preceding half-year, shall elect Directors and Auditors to take the place of those whose terms expire.

B. Art. 77. Extraordinary General Meeting of shareholders may be convoked, whenever necessary, either by Finance Minister or Administrative Board, or at any time upon request either of the Auditors' meeting or of not less than fifty persons entitled to attend the General Meeting.

B. Art. 84. Dismissal of a Director or Auditor during his term can be decided upon only by consent of three-fourths or more of shareholders present at General Meeting owning at least one-half of entire shares of the Bank. Dismissal of a Director requires the approval of the Finance Minister.

B. Art. 85. Amendment of By-laws can only be passed by General Meeting of shareholders specially convoked and representing three-fifths of the shares of Bank. A majority of two-thirds of votes present is required and Government approval necessary.

Note Issue and Reserve

Extract Summary of the Convertible Bank-note Regulations.

Promulgated by Decree No. 18 of the Dajokwan (the Council of State) on the 26th of May in the Seventeenth Year of Meiji (1884).

Art. 1. Bank-notes shall be issued by the Bank of Japan and shall be convertible into gold coin.[1]

[1] The conversion of bank-notes into gold coin and the exportation of gold were prohibited, except under licence, on 17th and 13th December 1931 respectively.

Art. 2. Subject to following paragraph, notes issued to be against an equivalent value of gold and silver coin or bullion. Silver coin and bullion shall not exceed one-fourth of the total amount of such reserve.

The Bank of Japan may issue convertible bank-notes to the amount of 120,000,000 yen against Government loan bonds or Treasury bills or other certificates and commercial bills of a reliable nature.

In case an increase in the circulation of money is deemed necessary, according to the condition of the market, the Bank of Japan may make an additional issue of convertible bank-notes, with the approval of the Minister of State for Finance, against Government loan bonds or Treasury bills or other certificates and commercial bills of a reliable nature, over and above the issues provided for in the two preceding paragraphs. In such case the Bank shall pay a tax on the issues at the rate of not less than five per cent per annum, and the actual rate shall be fixed on each occasion by the Minister of State for Finance.

The Bank of Japan shall make an advance to the Government to the amount of 22,000,000 yen without interest for the purpose of redeeming Government paper money.

The period of repayment of the advance provided for in the preceding paragraph, and the annual amount of repayment thereof, shall be determined by the Minister of State for Finance.

Art. 3. The denominations of convertible bank-notes shall be One Yen, Five Yen, Ten Yen, Twenty Yen, Fifty Yen, One Hundred Yen and Two Hundred Yen; and the amount of issue for each kind shall be determined by the Minister of State for Finance.

Art. 4. Notes are legal tender.

Art. 5. Bank-notes shall be manufactured by the Bank of Japan in conformity with forms and designs fixed by the Minister of State for Finance, and the amount manufactured shall be reported to the Minister of State for Finance on each occasion.

Art. 6. Notes to be convertible into coin at the Head Office or its branches on demand,[1] provided that at the branches such

[1] See footnote on previous page.

conversion may be deferred until there is time for the coin to arrive from the Head Office.

Art. 7. The Bank of Japan to take gold on demand in exchange for the notes, free of charge, at its Head Office or its branches.

Art. 8. Daily and weekly returns of notes issued and reserve to be submitted to Minister of Finance.

Art. 9. Comptrollers instructed by Minister of Finance to supervise all matters relating to notes.

Summary of Law relating to Taxation on Note Issues Promulgated by Law No. 56 of 9th March 1899

The Bank of Japan to be taxed at the rate of one and a quarter per cent per annum on the monthly average amount of its convertible notes issued against securities under second paragraph of Article 2 of the Convertible Bank-note Regulation, provided that the Bank shall be exempt from the obligation to pay a tax on notes advanced at interest of one per cent or less or without interest, in compliance with the special order of the Government.

The obligation to pay a tax, provided for in the present Law, shall have nothing to do with any other obligations under which the Bank of Japan has already been or may, in the future, be put.

GENERAL BUSINESS

Art. 11. The operations of the Bank shall be as follows :

1. to discount or purchase bills or notes issued by the Government, bills of exchange, and other commercial bills as well as similar instruments ;
2. to deal in gold and silver bullion ;
3. to make loans on gold and silver coin and bullion ;
4. to collect bills for the banks, companies and merchants who had previously entered into a business relation with the Bank ;
5. to receive sums of money in deposit accounts and gold and silver coin, precious metals, and documents for safe keeping ;
6. to make advances on current account or loans, for fixed terms, upon the deposit of public loan bonds, bills or notes issued by the Government, and

other securities guaranteed by the Government, provided that the amount of such advances and loans and the rates of interest thereon shall be determined on each occasion by a joint resolution of the Governor, the Vice-Governor, the Directors, and the Auditors, with the approval of the Minister of State for Finance therefor.

B. Art. 23. Commercial bills to be discounted by Bank to be only such as are transferable by endorsement, endorsed by two or more reliable persons of means and payable within 100 days. However, such bills bearing only one endorsement may be admitted to discount by special arrangement approved by the Finance Minister.

B. Art. 24. Merchandise or warehouse warrants of value equivalent to bill may be accepted as collateral replacing one signature.

B. Art. 25. Discount of Government bills or notes to be determined by Administrative Board after consulting on each occasion with Minister of Finance regarding maturity and rate of discount.

B. Art. 28. Loans to be made only to reliable persons, and period of loan at longest not to exceed six months and amount of advance not to exceed 80 per cent of market value of securities deposited.

If renewal of loans asked for at maturity, application may be complied with on one occasion only, except where special permission is granted by the General Council of the Bank.

B. Art. 26. Rate of discount to be fixed monthly by Administrative Board. However, rate may be changed at any time deemed necessary by Board.

B. Art. 27. Amount to be applied to discount of bills or notes issued by Government, and amount of loans to be made on deposit of public loans, bonds and securities guaranteed by Government, as well as interest, shall be decided every ten days by the Administrative Board on agreement with Auditors' Meeting and with approval of Finance Minister.

B. Art. 33. Buildings, real estate or other property owned by debtors in default may be taken over by the Bank, provided they are disposed of within one year, unless permission to the contrary is obtained from the Finance Minister.

Art. 12. The Bank of Japan shall not engage in lines of business other than those set forth in Article 11, and is expressly forbidden to undertake the following operations:

1. to make loans on the security of real estate or shares of banks or other companies;
2. to make loans on the security of shares of the Bank or to purchase the same;
3. to become a shareholder in industrial companies or to take any part, either directly or indirectly, in industrial enterprises;
4. to become the owner of real estate, except so far as it is necessary for establishing the Head Office and branches of the Bank.

Art. 13. Bank of Japan to undertake management of Government funds.

Art. 15. Bank authorised to issue drafts and orders.

Relations with the State

Art. 24. The Government shall control all the operations of the Bank of Japan, and shall prevent not only any operation which is contrary to the Act or By-laws, but also any measure that the Government may deem disadvantageous for the State.

Art. 21. The Minister of State for Finance shall despatch Comptrollers to the Bank on the express commission to supervise all its affairs.

B. Art. 69. The Comptrollers, under direction of Finance Minister, to supervise all matters connected with operations of Bank, especially those matters relating to issue of bank-notes and discounting of domestic and foreign bills.

B. Art. 70. Comptrollers may at any time inquire into condition of Bank and inspect books and vaults.

B. Art. 71. Comptrollers may be present at and have a voice in meeting of Administrative Board, Auditors' Meeting, General Council of Bank, Discount Committee and General Meeting of shareholders, provided they have no right of vote.

B. Art. 87. The Government has the right to revise or amend the present By-laws of the Bank, whenever such revision or amendment is deemed necessary at the convenience of the Government.

B. Art. 39. Balance sheet and accounts to be presented to Finance Minister and published.

Election of Governors and Directors, see B. Arts. 42 and 45, under Management.

For cases in which Government approval is necessary see:

B. Art. 14, under Capital.
B. Art. 36 (4), under Profits and Reserve Fund.
B. Art. 85, under Management.
B. Arts. 2, 3 and 5, under Note Issue.
B. Arts. 23 and 25, under General Business.
B. Art. 5, under Liquidation.

For State holding of capital see B. Art. 8, under Capital.

For Returns see Art. 8, under Note Issue, and B. Art. 91 and Art. 22, under Returns.

Returns

B. Art. 91. Daily returns showing amount of convertible bank-notes issued, amount of notes exchanged and increase or decrease in the reserve. Weekly returns stating average amount thereof, to be presented to Finance Minister in the one case daily and the other case weekly. Weekly returns to be published in official *Gazette*.

Art. 22. Monthly statement to be submitted by Bank to Finance Minister.

B. Art. 34. Administrative Board to draw up on 30th June and 31st December balance sheet to be submitted within twenty days to Auditors' Meeting.

Term of Charter and Liquidation

Term of Charter, 30 years, till October 1942.

B. Art. 5. Bank of Japan to be wound up should balance sheet show losses aggregating or exceeding one-half of capital. Except in this case, approval of Government is required for winding up after resolution passed by three-fourths of number of shareholders present at General Meeting and owning at least one-half of Bank's shares.

LATVIA

BANK OF LATVIA

Capital, Profits and Reserve Fund

Art. 3.[1] The capital of the Bank consists of original capital fund of 10 million lats.

Reserve fund to cover eventual losses.

Art. 4. Of the net profits:

Twenty-five per cent to be added to the capital of the Bank until this reaches 25 million lats.

Ten per cent to the reserve fund.

Art. 5. If the reserve fund is insufficient to cover any losses the capital shall be used for the purpose, but if this should reduce the latter to less than 10 million lats it should be made good up to this amount from the resources of the State.

Art. 7. All balance of the net profits is paid to the State.

Directors' share in net profits, see Article 64, under Management.

Branches

See Art. 52, under Management.

Management

Art. 41. The Bank is administered by a Council and Board of Directors.

The Council consists of the President, his Deputy and eleven members, including the Director-General and a representative of the Minister of Finance.

The Executive consists of the Director-General, his Deputy and three Directors.

Art. 42. The members of the Council and Executive are chosen by the Ministry from candidates proposed by the Minister of Finance.

Art. 43. The President, his Deputy and members of the Council, excluding the representative of the Minister of Finance and the Director-General, are elected for three years, and are eligible for re-election.

[1] Numbers refer to Articles of Statutes adopted 1923 and amended March 1927.

Art. 44. The Council is independent in its decisions. The Minister of Finance has the right of veto for three days after the decision has been submitted to him. If the Council persists in its decision the matter is submitted to the Ministry.

The functions of the Council are as follows:

Art. 47. It gives instructions concerning the internal activities of the Bank, which are published in the official *Journal.*

Art. 48. It discusses the proposals of the Board of Directors with regard to the policy of the Bank, accepts or rejects the proposals of the Board of Directors with regard to the amount of notes issued, ensures that the gold reserve is adequate and supervises the other securities employed as cover for the note issue.

Art. 49. It examines the monthly and annual balance sheets. The latter are submitted to the Minister of Finance for approval. The Council or their special attorneys examine at least once every three months the deposits, securities, etc., of the Bank, and ensure that they are in agreement with the books and balance sheets.

Art. 50. It determines the maximum amounts to be employed in discounts, loans and other operations.

Art. 51. The Council forms Discount Committees, the names of the members being submitted to the Minister of Finance.

Art. 52. In agreement with the Executive the Council decides as to the opening and closing of branches and agencies. The consent of the Minister of Finance is necessary for the liquidation of any branch.

Art. 54. The Director-General is the legal representative of the Bank. He directs all the affairs and operations of the Bank.

Art. 55. The Board of Directors (1) carries out the policy of the Bank according to the decisions of the Council, (2) sees to the increase of the gold reserve and that the notes are adequately covered, (3) directs the Bank's activities, both in the central organisation and the branches and agencies, (4) prepares the balance sheets for the Council.

Art. 57. Subject to confirmation by the Council, the Executive determines the rates of discount and interest, which must be published.

Art. 60. Attorneys for the Directors, the heads of the

branches and agencies and their substitutes are appointed by the Minister of Finance from candidates proposed by the Board of Directors and recommended by the Council. Other officials are appointed by the Director-General.

Art. 61. The Director-General, his Deputy and the Directors may not hold any other salaried position. The Bank may not make any advances in any form to members of the Council or Board of Directors.

Art. 62. The Directors, Heads and Attorneys of branches and agencies may not participate, personally or through third parties, in commercial firms of which the activities may be inconsistent with the interests of the Bank. Members of Council may not hold positions in other credit or commercial undertakings, to which the Bank has afforded credit, excepting only co-operative organisations.

Art. 64. Of the net profits, a share of 1 per cent is payable to the Board of Directors and 5 per cent to the employees, but such share must not exceed two months' salary.

Note Issue and Reserve

Art. 13. The Bank has the sole right of issue.

The proportion of notes which must be covered by gold or stable foreign currencies is as follows :

1. As regards the first 100 million lats—50 per cent.
2. In addition, when the issue exceeds 100 million lats, but does not exceed 150 million lats, 75 per cent of the excess over 100 million to be covered as above.
3. In addition, any issue in excess of 150 million to be wholly covered as above.

The balance of the notes to be covered by reliable short-term bills of exchange.

Art. 14. If the holder requires, the Bank must exchange notes against gold. Gold must be paid on demand against notes at the rate of 0·2903226 grammes fine gold per lat.

Art. 16. Notes are legal tender.

Art. 17. Weekly statements of notes in circulation and their cover to be published weekly in the official *Gazette*.

GENERAL BUSINESS

Art. 2. The objects of the Bank are :

to regulate the circulation of money ;

to assist commerce, industry and agriculture by granting short-term credits ;

to facilitate payments at home and abroad ;

to carry out the operations of the Treasury.

Art. 19. The Bank may :

(1) discount bills of exchange and other securities of fixed maturity ;

Bills of exchange must not be of more than three months' maturity, they must arise out of commercial transactions and bear at least two good signatures. The consent of the Council is necessary for the discount of bills of longer maturity.

(2) open credit accounts and make short-term advances ;

(3) accept deposits in cash or other values ;

(4) buy and sell bills of exchange, drafts, foreign and other values ;

(5) supply letters of credit, carry out transfers and other operations on commission ;

(6) carry out operations for account of State departments free of charge.

Art. 24. The Bank may open credits and make short-term loans against promissory notes bearing one signature only, accepting as additional security :

(1) mortgages,

(2) agricultural or industrial products,

(3) other values.

Art. 25. Short-term loans may also be made against goods not quickly perishable and easily realisable, or against transport documents if such goods are in transit.

Art. 26. Loans must not exceed :

Seventy-five per cent of immovable property accepted as security, and 60 per cent of goods or plant.

Art. 27. The Bank may accept as collateral on account of private credit institutions, and on their guarantee, bills and promissory notes with one signature given as security to those institutions.

Art. 28. The Bank may only make advances against securities of the State or private parties with the consent of the Council, which shall determine the amount of the loan in relation to the value of the security.

Art. 31. The Bank may accept as deposits :

(1) coin of the land or foreign values, whether for fixed term or not, paying simple or compound interest, or on special conditions ;

(2) for safe-keeping, securities, money, documents, precious metals and other values.

Art. 32. The receipts of the Bank are free from stamp duty and are accepted as security at their face value by all departments of the State.

Art. 34. The Bank may buy and sell bills of exchange, drafts, certificates of merchandise, warrants, precious metals, cheques, foreign and other values, at its own establishments, on the Stock Exchange or abroad, and may issue drafts and cheques on its agents abroad on instructions from the Council of the Bank.

Art. 35. The Bank may carry out transfers of money in all places where it has branches or correspondents, and accept documents authorising cash payments.

Art. 37. With the consent of the Council the Bank may arrange the issue of loans for private or public undertakings.

Art. 38. The Bank may open branches and agencies at home and abroad and enter into relationships with banks and other establishments at home or abroad. The Council decides as to the opening of branches and agencies.

Art. 53. The Bank may only acquire immovable property for its own purposes and to a value not exceeding one-twenty-fifth of its capital. Sums drawn from the net profits may be used with the consent of the Ministry of Finance for amortisation.

Relations with the State

Art. 1. The Bank of Latvia is a State institution. The operations of the Bank and its solvency are guaranteed by the State.

Art. 6. The capital of the Bank or sums deposited with it cannot be used to cover the expenditure of the State.

Art. 7. The balance of net profits after deductions for capital, reserve funds and bonuses is paid to the State.

Art. 66. Operations of Bank must be audited by a Commission of Supervision, comprising two representatives of the State Audit (Contrôle d'État) and one of the Ministry of Finance.

See also under Management for :
appointments by the State, Arts. 42 and 60 ;
representation of the Government on the Council, Art. 41 ;
suspensory veto of Government, Art. 44 ;
approval of annual balance sheet, Art. 49.

For State payments to Reserve Fund in event of losses, see Art. 5, under Capital, Profits and Reserve Fund.

For consent of Minister of Finances required for certain purposes, see Arts. 51 and 52, under Management, and Art. 53, under General Business.

Returns

Art. 65. The periodical statements and annual accounts are to be published.

Art. 17. Weekly statement of notes and cover to be published in official *Gazette*.

LITHUANIA

BANK OF LITHUANIA

Purpose of the Bank

Art. 1.[1] The Bank's functions are to regulate the circulation of money, to facilitate the payment of money in the country and abroad, to realise a stable and strong currency system and to encourage the growth of agriculture, commerce and industry.

Capital

Art. 3. The Bank's capital stock is 12 million litas, consisting of 120,000 nominal shares of 100 litas.

By-law 4. The capital may be increased on decision of a general meeting, with agreement of the Minister of Finance, Commerce and Industry.

[1] Numbers refer to Articles of Act of August 1922, as amended 1931.

Art. 6. The Lithuanian State, municipalities, companies, associations and individuals may be shareholders.

Foreigners may not own more than one-third of the capital stock.

Profits and Reserve Fund

Art. 5. Ten per cent of the annual net profit to be paid to the reserve fund until this equals half the capital stock.

The reserve fund is assigned :

(1) to cover the Bank's losses ;

(2) to make up the shareholders' dividend to 8 per cent.

If reserve fund is insufficient to cover losses, these are met from capital, which is replenished, on resolution of the general meeting, either by fresh contributions from shareholders or net profit of next year (By-law 13).

Art. 54. The annual net profit is divided as follows :

(1) ten per cent to the reserve capital ;

(2) a dividend up to 8 per cent to shareholders ;

(3) from the remainder, 8 per cent to the Board of Directors and 2 per cent to members of the Advisory Board ;

(4) from the remainder one-third to the State ;

(5) from the remainder the shareholders' dividend is increased up to 12 per cent ;

(6) of the remainder 50 per cent to the State, 50 per cent allotted by the general meeting at its discretion.

Branches

Art. 2. The Bank may establish branches and agencies. The Minister of Finance, Commerce and Industry has the right to require the establishment of Bank agencies in any place, if the State Treasury or public interest should so demand.

Management

Art. 18. The Bank administration is vested in the Bank Governor and Directors.

Only Lithuanian citizens may be members of the Board of Directors.

The Bank Advisory Board supervises the work of the Board of Directors.

The Board of Directors and Advisory Board constitute the General Bank Advisory Board.

There is also a Discount Committee.

The Governors and Directors may not discharge any duties in other banks.

Governor and Board of Directors

Art. 19. The Bank Governor is appointed and dismissed by the President of the Republic on the recommendation of the Cabinet.

A substitute is appointed by the President of the Republic from among the Directors.

Art. 25. The Governor has the right to suspend the execution of the resolutions of the Board of Directors and Advisory Board. The question must then be submitted to the General Advisory Board, whose resolutions must be ratified by the Minister of Finance, Commerce and Industry.

Art. 26. The Directors are elected by the general meeting of shareholders from among their number for a term of three years. They shall be four in number (By-law 39).

Art. 27. The Board of Directors decides all Bank affairs other than those which by this law and the Bank By-laws are entrusted to other organs of the Bank.

Art. 28. The Board's functions include:

(1) Fixing the conditions of discount and rate of interest, and the amount of credits on security of State paper or State guaranteed securities. Their decisions on these points to be ratified by the Bank Advisory Board.

(2) Settling the remuneration of Bank employees.

(3) Preparing the report for presentation to the General Meeting.

Advisory Board

Art. 30. The members of the Advisory Board are elected by the General Meeting of shareholders from among their number for a period of three years. Foreigners may participate in the Advisory Board in proportion to the share of capital stock held by them.

There shall be six members and three substitutes (By-law 44).

Art. 34. The duties of the Advisory Board are :

(1) To ratify the estimate of expenses and balance sheet presented by the Board of Directors.

(2) To ratify the conditions of discount fixed by the Board, the rate of interest and the amount of credits issued against State paper or other State-guaranteed securities.

(3) To consider the proposals of the Board of Directors to amend or supplement the By-laws, to acquire immovable property and to write off bad debts.

(4) To decide all other questions submitted by the Board of Directors.

Discount Committee

Art. 35. Members of the Discount Committee are elected by the General Advisory Board from among experts on commercial, industrial and economic affairs. They may be members of the Advisory Board.

Art. 36. Members are elected for two years, and are eligible for re-election.

Art. 37. The Discount Committee examines commercial obligations offered and advises the Board as to acceptance.

General Advisory Board

Art. 38. The General Advisory Board meets at least once a month to consider the Bank's general affairs.

Art. 39. It ratifies the regulations for the internal administration of the Bank and its branches and agencies.

Art. 40. It decides as to the necessity of opening or closing the Bank's branches and agencies.

Commission of Supervision

Art. 41. The Commission of Supervision is composed of three shareholders, elected by the general meeting for one year.

Art. 42. The Commission of Supervision has the right at any time to make an examination of the Bank's property and books.

At the end of each year it must verify the report and balance sheet, and submit its opinions thereon to the general meeting.

It has the right to demand the convening of a General Meeting in special cases.

General Meeting of Shareholders

Art. 43. The time and order of ordinary General Meeting are fixed by the Bank's By-laws. (It is held annually.)

Art. 44. Extraordinary General Meetings may be convened by the Board of Directors, or if:

(1) The Advisory Board demands it.
(2) If the Commission of Supervision demands it.
(3) If the number of Bank Directors is reduced to half.
(4) If shareholders possessing not less than one-twentieth of the shares demand it.

Art. 45. Shareholders possessing not less than four shares may attend and vote at the General Meeting. Every ten shares gives one vote, but no one person may have more votes than one-fifth of the Bank's capital affords.

Art. 49. Questions concerning an increase in the Bank's capital stock, additions or amendment of the By-laws and dismissal of Directors or members of the Advisory Board are decided at a shareholders' meeting, where holders of not less than one-half of the shares take part, by a majority of two-thirds of the votes.

Art. 51. Resolutions of the General Meeting must be ratified by the Minister of Finance, Commerce and Industry.

Art. 52. The General Meeting:

(1) ratifies the Bank's annual reports;
(2) allots the net profits;
(3) elects directors, members of the Advisory Board and Commission of Supervision;
(4) determines the remuneration for members of the Board of Directors, Advisory Board, Discount Committee and Commission of Supervision;
(5) decides to acquire immovable property;
(6) considers proposals to amend or supplement the Bank's By-laws.

NOTE ISSUE AND RESERVE

Art. 11. The sole right of issue is granted to the Bank for a term of twenty years.

This term may be extended by legislation at the request of a General Meeting of shareholders.

Art. 12. Not less than one-third of the notes in circulation to be covered by gold and the residue by easily realisable securities.

Art. 13. The notes are legal tender and are accepted on a par with gold coin. Notes to be redeemed on demand at the Head Office, the Bank having the option of redemption either in :

(*a*) Lithuanian gold coins ;

(*b*) gold bars at the rate of 0·150462 grammes of fine gold to 1 litas ;

(*c*) in foreign undepreciated gold exchange drafts, payable at sight at the prevailing rate of exchange but not deviating from parity by more than the cost of transporting gold from Lithuania to the place of payment.

Redemption of amounts less than 20,000 litas is not obligatory.

Art. 14. The Bank determines the form of denomination of the notes in agreement with the Minister of Finance, Commerce and Industry.

NOTE.—The Minister of Finance, Commerce and Industry fixes the procedure for the conversion of bank-notes into gold.

GENERAL BUSINESS

Art. 7 and B. 14. The Bank's operations are :

(1) the purchase and sale of gold, silver and platinum, and the issue of loans on the security of the foregoing ;

(2) the discounting, purchase and sale of bills of exchange, cheques, drafts, warrants and other commercial (including agricultural) obligations ;

(3) to buy and sell bills of exchange, cheques and notes of foreign countries in which money is backed by metal ;

(4) the issue of loans on the security of goods not quickly perishable, and on the guarantee of two reliable persons ;

(5) the collection of money on commercial obligations and payment of accounts of third parties ;

(6) the acceptance of sums on current account and fixed deposit ;

(7) the acceptance of securities, precious metals and other valuables for safe keeping ;

(8) the issue of advances for current account or for short term on the security of the values in (1), (2) and (3), or of State paper or other State-guaranteed securities. The extent and condition of such advances to be determined by the Board of Directors and ratified by the Bank Advisory Board ;

(9) to support the loans of the State and municipalities (including their distribution on a commission basis) ;

(10) to issue transfer cheques and letters of credit at home and abroad and to cash those of its correspondents ;

(11) to conduct Clearing-house operations.

The following conditions are laid down in the By-laws :

Loans against gold, silver or platinum are issued to not more than 90 per cent of their value ; on bills of exchange, drafts, cheques and bank-notes for not more than 70 per cent ; on State interest-bearing securities, goods, warrants and transport documents for not more than 60 per cent of their value.

Arts. 8 and 9. Bills of exchange, drafts, warrants and other commercial obligations may only be accepted for discount, provided :

(1) the maturity is not more than three months ;

(2) they bear three signatures.

In exceptional cases the Board of Directors in agreement with the Advisory Board may accept bills or commercial obligations of a maturity not exceeding six months, and commercial obligations bearing only two signatures.

Art. 16. The Bank may acquire public funds and other State-guaranteed securities to an amount not exceeding one-third of its capital stock. It may also acquire shares issued by the Bank for International Settlements.

Immovable property may be acquired only for its own need and with the permission of the Minister of Finance.

Art. 17. The Bank is forbidden to conduct operations not indicated in Article 7 above.

The Bank may not :

(1) conclude loans for its own requirements ;

(2) contract loans on mortgages or on security of shares of industrial companies ;

(3) borrow money on or buy its own shares ;
(4) participate directly or indirectly in industrial establishments or conduct commercial operations on its own account other than those specified in Article 7 ;
(5) conduct any operations with the State which are not indicated in this law.

Relations with the State

Art. 10. All operations of the State Treasury and State Savings Banks may be confided to the Bank to carry out independently of its own operations. Operations for the Treasury to be carried out gratis.

By-law 95. The Bank's capital, turnover and profit are immune from all taxation, either for needs of State or municipalities.

The agreement of the Minister of Finance, Commerce and Industry is required for certain purposes. See By-law 4, under Capital ; Article 14, under Note Issue ; Articles 25 and 51, under Management ; Art. 16, under General Business.

For appointment of Governor by the President of the Republic see under Management, Article 19.

For Share in Profits see under Profits and Reserve Fund, Article 54.

For State and liquidation see Arts. 57 and 59, under Term of Charter and Liquidation.

For State and opening of branches see Article 2, under Branches.

See also Art. 17 (5), under General Business.

Returns

By-law 86. Annual balance sheet and profit and loss account are published.

Also not less frequently than once a month the Bank balance sheet is published according to prescribed form.

Term of Privilege and Liquidation

Term of privilege : see Art. 11, under Note Issue.

Liquidation

Art. 55. Should the Bank's capital stock be reduced by half, and should the General Meeting be unwilling to replenish it, the Bank's affairs to be liquidated.

Art. 56. In all other cases the Bank may be liquidated only on decision of a General Meeting representing half the shares and on a three-quarter majority of votes.

Art. 57. In case of liquidation the General Meeting appoints liquidators and determines procedure, subject to approval by the Minister of Finance, Commerce and Industry.

Art. 58. In case of liquidation the holders of bank-notes are given a preferential right to receive payment from the Bank's assets.

Art. 59. In case of liquidation, under Arts. 55 or 56, Government has right to take over assets and liabilities at true value.

NETHERLANDS

NETHERLANDS BANK

Capital

Art. 6.[1] Capital, guilders 20,000,000, fully paid up, in shares of 1000 guilders each, divisible on first issue, but not later, into one-half, one-quarter or one-eighth shares (S. 4).

Amount may be increased by law with approval of Bank.

Profits and Reserve Fund

Art. 8. The Bank shall form a Reserve Fund to the sum of one-quarter of its capital, intended, subject to 31 (*b*), to make good losses which may be incurred on capital. (Nothing will be added to this fund from profits when it reaches 25 per cent of capital (S. 42).)

Art. 9. With approval of Finance Minister, Bank may form special reserves, and each year when fixing balance sheet it will be determined, with approval of Finance Minister, whether and how far these reserves shall be maintained as such or be credited to profits of year.

[1] References are to Bank Act, 1919, and Statutes, the latter marked (S.).

Art. 13. Bank may invest Reserve Fund and one-fifth of share capital, according to rules laid down by combined meeting of Management and Commissaries. (Interest on investments is to be included in profits, appreciation or depreciation being credited or charged to reserve fund (Art. 32).)

Art. 31. (*a*) First charge on profits is 3½ per cent on capital to Bank.

(*b*) If profits are less than 3½ per cent deficit shall be taken from Reserve Fund, provided it is not reduced below 15 per cent of capital.

(*c*) If profits exceed 3½ per cent on capital, 10 per cent goes to Reserve Fund, until it reaches amount specified in Art. 8; of remainder, 3-3½ per cent goes as bonus to Management, Advisory Committee and Commissaries, and of balance Bank receives one-quarter and State three-quarters, until Bank's share, apart from Reserves and bonus, amounts to 7 per cent of capital. If any balance remains Bank receives one-eighth and State seven-eighths.

(*d*) Share of State in profits will cease if:

(1) any other body than the Bank should be allowed to issue notes, or

(2) if State should resolve to issue notes.

(By virtue of special arrangement between the Bank and the State the currency notes issued by the State since August 1914 are not considered "notes" in the sense of this clause.)

Branches

Art. 5. Head Office, Amsterdam; Branch at Rotterdam; elsewhere agencies may be established and correspondents nominated; the Bank Act provides that there shall be not less than one agency in each province.

Management

Art. 24. Management consists of President, Secretary and not less than two Directors Number of Directors to be fixed by combined meeting of Management and Commissaries.

Art. 25. President and Secretary are appointed by Crown for seven years, two names for each post being submitted by combined meeting of Management and Commissaries.

Directors are appointed by voting shareholders (who must be Netherlanders — Article 7) for five years from nomination list of three persons, prepared by combined meeting as above.

On proposal of combined meeting as above, President and Secretary may be suspended or dismissed by Crown; upon similar proposal, Directors may be dismissed by voting shareholders.

(Members of Management are eligible for re-election (S. 16).)

Art. 26. Combined meeting as above may appoint Deputy-Directors.

Advisory Committee

Art. 27. Advisory Committee consists of five persons, elected by voting shareholders from nomination of two persons for each vacancy, prepared by Board of Commissaries. Appointment is for five years, and holders are ineligible for immediate re-election.

Committee shall meet with Management at fixed periods, and shall be consulted on important matters. If there is a difference of opinion Board of Commissaries to be informed.

Commissaries

Art. 28, S. 26-28. Fifteen Commissaries are to be elected by and from voting shareholders for five years, one-fifth resigning annually and being eligible for re-election. They are entrusted with the supervision of the Management and the examination of the annual returns.

They meet as may be necessary, and have right to demand information from Management and production of documents.

S. 40. The annual balance sheet is submitted for approval of Commissaries.

Combined Meeting of Management and Commissaries

S. 32. Combined meeting may be convened by President at any time. Royal Commissioner may attend and give advisory vote.

S. 34. Duties of combined meeting include:

(1) preparing nomination list for selection of members of Management;

(2) fixing regulations for Crown approval;

(3) fixing of general rules for investment of Reserve Fund and one-fifth of capital;
(4) deciding to call extraordinary meeting of shareholders.

General Meeting

S. 10.

1 to 5	shares entitle	holder to	1 vote.
6 „ 10	„	„	2 votes.
11 „ 20	„	„	3 „
21 „ 30	„	„	4 „
31 „ 40	„	„	5 „
41 and more	„	„	6 „

A share for voting purposes is 1000 guilders.

Proxies are allowed. But under no conditions may one person return more than six votes.

Right to vote is exercised only by shareholders who are subjects of the Netherlands.

S. 37. Ordinary general meeting receives report of President on year's working, and deals with distribution of profits and with vacancies in Management, Commissaries and Advisory Committee, and other matters as may arise.

Royal Commissioner

See under Relations with State.

NOTE ISSUE AND RESERVE

Art. 1. No Bank of Issue may be established, and no foreign Bank of Issue may have its notes brought into circulation, otherwise than by virtue of a special Act.

Art. 17. Shape and size of notes to be announced by Bank. Notes for less than 10 guilders not to be issued.

Art. 18. Notes are free of stamp duty. They are payable at all offices and agencies on demand, except that in case of agencies time may be allowed for obtaining specie from Head Office.

Art. 19. In case of war or danger of war obligation to pay may be suspended by Order-in-Council.

Art. 23. Proportion of bank-notes, bank drafts and balances of accounts current, which must be covered by coin or bullion, shall be laid down by Royal Decree passed on recommendation

of Management and shall be published. This decree may be changed as necessary from time to time.[1]

General Business

Art. 11. 1. To issue notes and to sell drafts on its agencies and drafts and cheques on its correspondents.

2. To discount (*a*) bills of exchange, drafts and promissory notes bearing signature of at least two parties, with currency not longer than required by trade custom; (*b*) debenture bonds, redeemable within six months and guaranteed by discounter.

3. To buy and sell telegraphic transfers, cheques, bills and other commercial paper, payable abroad.

4. To advance either for one month or on current account on securities, goods, warrants, coin, bullion and paper eligible for discount or purchase under 2 and 3.

5. To deal in precious metals.

6. To keep current accounts, effect transfers and clearances, and collect moneys on behalf of clients.

7. To take custody of securities, valuables, etc.

8. To perform, with Government approval, in public interest other business than that specified above.[2]

Art. 12. Bank may not make unsecured advances. Bank may purchase, at a sale under execution, securities or goods, pledged with Bank, for subsequent realisation.

Relations with the State

Art. 14. The Bank shall act, without charge, as banker to State.

Art. 16. As an exception to Art. 12 above, Bank is bound, when Finance Minister deems necessary, to advance moneys to Treasury on current account on collateral of Treasury notes, the issue or pledging of which is permitted by law. These

[1] Before the outbreak of the European War the prescribed percentage was 40 per cent, when it was changed by decree of 31st July 1914 to 20 per cent to give the Bank greater elasticity. The Bank only availed itself of this concession for a brief period in 1914, and in recent years has maintained a ratio substantially above 40 per cent. The legal minimum was restored to 40 per cent by decree of 4th January 1929.

[2] By Decree of 14th May 1930 the Bank may participate in the capital and operations of the Bank for International Settlements.

advances shall not carry interest, but may not at any time exceed guilders 15 million. This obligation will cease :

(1) if State resolves to issue Government notes.
(By virtue of special arrangement between the Bank and the State the currency notes issued by the State since August 1914 are not considered " notes " in the sense of this clause) ;
(2) as soon and as long as metallic surplus of Bank falls below guilders 10 million.

Royal Commissioner

Art. 29. Royal Commissioner appointed by Crown and paid by State will supervise transactions of Bank on behalf of Government. He may attend all meetings of shareholders and Commissaries with advisory vote.

Management is bound to supply needful information.

For State share in Profits see Art. 31, under Profits and Reserve Fund.

For State Appointments see Art. 25, under Management.

See also Art. 9, under Profits and Reserve Fund (Formation of Special Reserves).

For State and Liquidation, Art. 33, under Liquidation.

RETURNS

Art. 30. Bank is to publish weekly a return in form to be approved by Government.

TERM OF CHARTER AND LIQUIDATION

Art. 2. Term of Charter, until 31st March 1934.

Period is to be considered to have been extended for one year after this term or any other term for which it is extended, unless notice to the contrary is given either by Government or Bank. The right of issue may not be terminated before expiry of five years from 1st April, after which notice is given.

Art. 33. If right of issue is not extended, and obligatory reserve exceeds corresponding figure of 1889, half of the excess goes to State and half to Bank.

Art. 34. If right of issue is not extended, property and furniture will be valued, and value will be adjusted with figures in balance sheet through profit and loss account of final year.

NORWAY

NORGES BANK

Capital

Art. 2.[1] Capital, 35 million kroner, which may be increased to 50 million on the decision of the Supervisory Council and the Board of Directors.

Profits realised from issues of stock at a price above par are placed to the reserve.

Art. 3. The holdings of stock may not be for amounts under 100 kroner.

Profits and Reserve Fund

Art. 39. From the profits of the year shall be deducted :

(*a*) All general charges and expenses. The expense of the issue of bank-notes and of the construction of buildings may be distributed over a period up to five years.

(*b*) Irrecoverable accounts.

(*c*) The sum considered necessary as provision against doubtful credits.

Art. 40. The distribution of the rest of the profits shall be as follows :

(*a*) Six per cent of nominal capital stock to the stockholders.

(*b*) Up to 10 per cent of the remainder to the reserve fund, if this is less than two-fifths of the capital.

(*c*) Half of the remaining balance to the State and half to the stockholders, until the total dividend equals 9 per cent.

(*d*) Of the remainder, four-fifths to the State and one-fifth to the stockholders.

The portion of the profits due to stockholders which does not constitute one-tenth of 1 per cent of the capital shall be paid to a dividend regulation fund, which shall not exceed one-twentieth of the original capital.

If the dividend which is paid to the stockholders exceeds 9 per cent, the Supervisory Council may decide that the surplus

[1] Numbers refer to the Articles of the codified laws governing the Norges Bank from *Scandinavian Banking Laws*.

shall be carried to the dividend regulation fund, entirely or in part.

An amount from this fund may be used on decision of the Supervisory Council to augment the dividends, but not beyond 8 per cent.

If the profits augmented by supplement from the dividend fund are not sufficient to pay a dividend of 6 per cent, the amount may be made up from the reserve fund, provided this is not reduced to less than one-third of the share capital.

Art. 41. In case of insufficiency of profits to cover losses and provide for doubtful credits deficiency is to be made up by a draft on the reserve fund.

Branches

Art. 13. Branch offices may be established.

Management

Art. 20. At the head of the Bank is a Supervisory Council of fifteen members. The management is carried out by a Board of Directors of five members. The Board of Management of each Branch Office consists of three members and of the Director of the Branch where one has been nominated.

Method of Appointment

Art. 21. The members of the Supervisory Council are appointed for six years by the Storting. In addition, seven substitutes are elected every three years.

Art. 22. The President (Governor) and Vice-President (Vice-Governor) of the Board of Directors are nominated by the King, after the Supervisory Council has had opportunity to express itself, with the power of dismissal.

They may not hold any other remunerative appointment nor carry on any commercial, industrial or banking business.

The other directors are elected by the Storting for a term of six years.

Art. 23. The members of the Board of Management of the branches are elected for terms of six years by the Storting. They may be suspended by the Supervisory Council pending a final decision by the Storting. The Supervisory Council on consultation with the Board of Directors decide which of the Branches shall have a Director and nominate the Directors accordingly.

Supervisory Council

Art. 26. The Supervisory Council elects its President and Vice-President annually. It meets quarterly and as often besides as is deemed necessary. It may require the Board of Directors to be present at its meetings. On the other hand, the Board of Directors have the right to be present unless the Council on special occasions rule otherwise.

Art. 27. Powers of the Supervisory Council include the following:

To settle the statutes and regulations for internal government of the Bank.

To define the duties of the President and Vice-President and other members of the Board of Directors.

To present proposals to the Storting regarding salaries of the President of the Council, the elected Directors and members of the Board of Management of the Branch Offices.

To determine the salaries and pensions of employees and officers of the Bank, to determine their election and dismissal on recommendation of the Board of Directors or Boards of Management of the Branch Offices.

To decide in conjunction with the Board of Directors on the establishment or elimination of Branch Offices.

To determine by agreement with the Board of Directors the amount of capital to be placed at the disposal of each Branch Office for loans.

To examine and verify at least once every three months the records of the Board of Directors and of the Branches, the deposits in the Bank, the cash balances and other departments of the Bank.

To have the books audited and approve the accounts.

To decide on the distribution of profits.

Board of Directors and Management

Art. 28. The Board of Directors shall meet every day.

It is bound to administer all funds of the Bank and to see that all the business of the Bank is transacted in accordance with the law and the decisions of the Supervisory Council.

Art. 29. The Board of Management of each Branch shall

elect a President annually from amongst the members nominated by the Storting.

The operations managed by the branch offices are identical with those of the main office.

Art. 32. No member of the Government may act as member of the Supervisory Council or Board of Directors or Branch Management. No director or member of the branch management of another bank may, without the consent of the Supervisory Council, occupy any of the above posts in the Bank of Norway.

Note Issue and Reserve

Art. 6. The Bank has the exclusive right of note issue.

Art. 7. The notes are legal tender as long as the Bank is redeeming its notes in gold coin on demand.

In the case of peculiarly menacing circumstances the King may decide that the obligation on the Bank to redeem its notes should be suspended. On such suspension they do not cease to be legal tender.[1]

Art. 8. The notes are for 1000, 500, 100, 50, 10, 5 kroner.

Art. 9. Notes may be issued to a sum of 250 million kroner in excess of the gold reserve.

The reserve consists of gold coined or in bullion in the vaults of the Bank or deposited to its account with the Mint.

Art. 10. In case of the most unusual circumstances, such as war, menace of war or a serious financial crisis, the King may, with the subsequent approval of the Storting, authorise the Bank to issue additional notes.

The Bank is taxed on the additional issue in circulation at the time of each publication of its financial statement at a rate of interest of 1 per cent below the discount rate of the Bank at the time.

Art. 11. If the Bank exceeds its authorised issue, it must immediately inform the proper Department, furnishing a report on the cause, and it shall be taxed at a rate of interest corresponding to the discount rate. The tax shall increase ½ per cent for each month the excess continues beyond the end of the first following month.

Art. 14. The Bank is bound to deliver current gold coin

[1] By Royal Decree of 27th September 1931, the Norges Bank is temporarily released from its obligation to redeem its notes in gold.

(kroner) against its notes at the Head Office. It is likewise bound to buy gold bar against the issue of notes at the rate of 2480 Kr. per kilogram of fine gold, subject to a coinage charge of one-quarter of 1 per cent, this exchange of gold against notes taking place at the Head Office and at branch offices specially designated.

General Business

Art. 1. The Bank is a private joint-stock company authorised to function as a bank for loans, clearings, deposits and note issues.

Art. 15. The Bank may:

(*a*) Make advances against security for a fixed term not exceeding six months. Stock of the Bank may not be accepted as security.

(*b*) Discount bills of exchange and "vekselobligationer"[1] payable within the country, with maturity of not more than six months.

(*c*) Open current accounts for a period of one year at most on security or on registry of mortgage.

(*d*) Buy and sell bills of exchange payable in foreign countries.

(*e*) Buy and sell gold and silver bullion.

(*f*) Invest its capital in the stocks of the Norwegian State, the bonds of the Mortgage Bank, as well as in other bonds, Norwegian or foreign, productive of interest, quoted on foreign bourses and readily saleable. The profits and expenses resulting from these operations are entered to the account of the reserve fund.

(*g*) Deposit part of its funds to its credit with foreign banks and invest them in the shares of a union of Central Banks. It may also deposit gold, coined or uncoined, with foreign banks or foreign houses of deposit.

The Bank may also invest a portion of its funds in claims on foreign banks, with which it may also deposit gold, coined or otherwise.

Art. 16. The Bank receives gratuitously sums for deposit or current accounts.

[1] The vekselobligation is an advance based on personal guarantee, and is repaid in instalments.

Arts. 17 and 18. The Bank may in consideration of commission :

(*a*) Accept for deposit objects of value and securities on which it may undertake to collect dividends, and effect the redemption of securities which have matured.

(*b*) Purchase or sell transferable securities for account of third parties who have previously placed funds or securities with the Bank.

(*c*) Collect debts and effect the transfer to the branch offices of the sums collected.

[For transactions carried on for State see Relations with the State.]

Relations with the State

Art. 5. The Bank is free from all imposts.

Art. 19. The Bank is bound to carry out the following transactions for the State without charge :

(*a*) Receive the revenue of and take charge of the payments of the State and the Public Treasury, and effect all the movements of the funds of the Treasury without, however, having to make loans.

(*b*) Receive and manage the securities and other objects of value belonging to the State.

(*c*) Effect the exchange of fractional money which is incumbent upon the Treasury.

Art. 36. The Bank must submit an annual report to the Storting and present its books and securities to the inspection of delegates from the Storting.

For State Power of Appointment see Arts. 21, 22 and 23, under Management.

For State Share in Profits see Art. 40 (*c*) and (*d*) under Profits and Reserve Fund.

Returns

Art. 37. Financial statements shall be prepared and published at least twice a month.[1]

[1] Extracts of accounts are issued weekly and the balance sheet for the Bank is published monthly.

PERU

CENTRAL RESERVE BANK OF PERU [1]

CAPITAL

Art. 4.[2] One share of fully paid-up stock of the Central Reserve Bank shall be given for each two shares of Class A stock of the Reserve Bank of which 50 per cent has been fully paid, and one share of fully paid stock for one share of Class B stock of the Reserve Bank of which 50 per cent has been paid.

Arts. 7 and 8. Authorised capital Soles 30,000,000 in fully paid shares of S. 100. Capital may be increased to a sum not exceeding S. 40,000,000 on an affirmative vote of at least eight members of the Board of Directors with the approval of the Minister of Finance.

Art. 9. Shares divided into A, B and C shares.

Art. 10. Class A are shares owned in accordance with Art. 13, by banks doing a commercial banking business in Peru. They may not be pledged for loans nor alienated for any purpose.

Class B are shares owned by the public and shares owned by the commercial banks in excess of the quotas required in Art. 13.

Class C shares are owned by the Government and carry no voting rights. They may be sold or pledged without restriction except they may not be purchased by the Bank or accepted by the Bank as collateral. C shares sold by the Government shall be converted into A or B shares.

Art. 13. Every domestic bank and every branch of a foreign bank doing commercial banking business in Peru shall own Class A shares to a par value equivalent to 10 per cent of the par value of the paid-up capital and surpluses. Banks holding Class A shares are " member banks ".

Art. 17. No Class B shares shall be issued apart from those required for exchange for Reserve Bank shares (see Art. 4), except under conditions imposed by Art. 7 or for exchange of Class A or Class C shares.

No member bank shall own Class B shares or hold them as collateral in excess of 10 per cent of its paid-up capital and surpluses.

[1] Replaced the Reserve Bank of Peru in 1931.

[2] Numbers refer to the Project of Law for the creation of the Central Reserve Bank which was enacted into law, 16th May 1931.

Art. 18. Ownership of stock carries no right to intervene in the administration of the Bank, but only to elect members of the Board of Directors.

PROFITS AND RESERVE FUND

Art. 77. The profits to be divided as follows :

(1) 10 per cent to a " Contingency Fund " until this equals 20 per cent of Bank's capital. The Contingency Fund to be used to cover bad debts and to pay dividends when the profits are inadequate. This Fund may not be accumulated beyond the amount of 20 per cent of the Bank's capital ;

(2) 15 per cent to the Bank's Surplus until this equals S. 10,000,000. Thereafter the assignment may be reduced to 10 per cent upon the affirmative vote of seven Directors. When the Surplus equals S. 15,000,000 the payments to the Surplus may be discontinued upon the affirmative vote of seven Directors ;

(3) an amount not exceeding 10 per cent of the total wages and salaries to be assigned to an " Employees' Sickness, Insurance and Retiring Pensions Fund " ;

(4) from the balance a dividend of 6 per cent shall be paid for the first six years of the Bank's existence and thereafter 8 per cent. Dividends to be cumulative. The amount, if the profits are insufficient, may be made up from the Contingency Fund ;

(5) the Balance to be paid to the Government, as Franchise Tax for the Bank's monopoly of note-issuing privilege. (The sum paid to the Government to be used for the amortisation of the National Funded Debt.)

BRANCHES

Domicile—Lima

Art. 35 (l). The establishment of branches and agencies to be provided for in the Statutes of the Bank.

MANAGEMENT

Art. 21. The Bank to be under the direction of a Board of ten or eleven Directors, each with an Alternate. Term of office: 3 years. Directors and Alternates are eligible for reappointment.

Art. 23. The President of the Republic to appoint three Directors known as Class C Directors. One of them to be a man who is familiar with labour conditions in Peru and sympathetic with the aspirations of the labouring classes.

Arts. 24 and 26. Banks holding Class A shares to elect three Directors (Class A Directors), two of whom are elected by national banks and one by foreign banks. Voting to be on the basis of one vote for each Class A share owner.

Art. 27. One Class B Director to be chosen by holders of Class B shares on the basis of one vote for each share owned, but Class B shares owned by member banks do not give a vote.

Art. 28. Three Class D Directors to be elected by the following:

(1) the National Agricultural Societies;
(2) the Chambers of Commerce of the various cities of Peru;
(3) the National Society of Industries.

Art. 30. So long as Section 14 of the Agreement of 1st December 1927 between the Republic of Peru and F. and W. Seligman & Co. and the National City Bank of New York is in force, there shall be one Class E Director appointed in accordance with the terms of the agreement.

Art. 31. The following are not eligible as Directors or Alternates: Directors, Managers, etc., and other employees of member banks or persons owning 10 per cent or more of the stock of any member bank (this restriction does not apply to Class A Directors); Deputies and Senators; members of the judiciary, public officials and employees; two or more persons of the same or closely affiliated financial or commercial organisations; two or more persons of blood relationship to the fourth degree, or of relationship by marriage to the second degree; bankrupts; persons who do not reside within 50 kilometres of Lima.

Art. 32. No member of the Board of Directors or of a Branch Board shall vote on any question concerning accommodation to a bank with which he is connected or on the relation of that bank to the Central Reserve Bank.

Art. 33. Every Director, no matter by whom appointed or elected, shall be considered a representative of the Nation and shall always vote for what he considers to be the general public interest.

Art. 37. The Board to elect a President, Vice-President and General Manager. The affirmative vote of seven Directors is necessary. Either the President or Vice-President may act as General Manager.

Art. 38. Term of office of the President and Vice-President: one year. They are eligible for re-election. The term of office of the General Manager to be determined by the Board, but he cannot be removed from office within this period except by an affirmative vote of at least six Directors.

Art. 39. The President, Vice-President and General Manager may be elected from outside the Board or from the members. If elected from the members they have the same voting power as other members.

Art. 40. During their term of office the President, Vice-President and General Manager or Branch Manager may not be a salaried employee of Government, a member of Congress or Director, etc., or employee of any member bank, nor hold more than 5 per cent of any bank's stock.

Branch Management

Art. 42. Branch Managers to be appointed by the Board of Directors.

Art. 43. The Branch Board of Directors to consist of three Branch Directors and the Manager.

One Branch Director, who must be a business, professional man or farmer, but not a banker, public official or member of Congress, to be appointed by the Minister of Finance. One to be appointed by the Central Board of Directors; he may not be a banker, public official or member of Congress. The third to be elected by the local member banks; he may be a banker, but not a public official or member of Congress.

Term of office: 3 years.

Note Issue

Art. 54. The Bank to have the exclusive right of note issue.

Art. 56. All notes to be issued in terms of the gold sol, which is made the monetary unit of Peru by the Monetary Law of 16th May 1931.

Art. 57. Notes to be of denominations as provided by the Statutes of the Bank.

Arts. 59 and 60. Except as otherwise specifically provided by law or Government contract, the notes to be unlimited legal tender except in payment of the debts of the Bank itself represented by its notes.

Art. 61. Notes to be redeemable on demand at the head office at the option of the Bank in :

(*a*) gold bars of approximately 100 per cent fineness, and Peruvian and foreign gold coins at the rate of S. 2.3738 per gram of fine gold ;

(*b*) demand drafts on New York or London payable in gold or its equivalents and drawn on funds held in banks of high standing. The Bank may charge a premium not exceeding the cost of shipping gold bars between Lima and New York or London, to be determined by the affirmative votes of at least eight Directors and publicly announced.

Art. 62. At the Branches the notes to be redeemable on demand as in the preceding Article or at the Bank's option on demand drafts at par in the head office.

Art. 63. In order to avoid appreciation of the sol, the Bank to pay out its own notes on demand in exchange for :

(*a*) gold bars of 100 per cent fineness, gold coins at the rate of S. 2.3738 per gram of fine gold content ;

(*b*) full weight foreign gold coins, or their equivalent in paper money, and/or deposit payable on demand at par in gold coin or gold bars to the credit of the Bank's legal reserve account in the banks of New York and London where such reserve accounts are maintained. The Bank may charge a premium to be determined as in Art. 61 (*b*) ;

(*c*) Peruvian coins of silver and nickel in lawful circulation. If at the end of any years the Board of Directors by an affirmative of seven members declare the amount of silver and/or nickel in circulation to be in excess of trade requirements and the Bank to be burdened with an excessive holding of such coins, the Bank as the agent of the Government may break up such coins and either sell the metal or make it over to the Government. Any loss accruing to the Bank under

this paragraph to be charged against the profits accruing to the Government. (See Art. 77 under Profits above.)

Art. 65. The notes to be a first and paramount lien on all assets of the bank.

RESERVES

Art. 67. The Bank to maintain a reserve of 50 per cent against notes and deposits combined.

Art. 68. The reserve may consist of any of the following :

(1) gold bars and coins in the Bank's vault and gold earmarked for the Bank and held abroad in banks of high standing at the rate of S.2.3738 per gram of pure gold ;

(2) deposits payable in gold, or its equivalent, on demand in banks of high standing in New York and/or London, computed at the legal gold parity of the dollar and pound with the Peruvian gold sol ;

(3) bankers' acceptances of high standing of not more than 90 days' maturity, which enjoy a ready market in New York and/or London, and are for the types customarily purchased by the Federal Reserve Banks of the U.S.A. or the Bank of England, provided that the amount invested in such acceptances does not exceed two-fifths of the total minimum reserve ;

(4) silver coins of Peru not in excess of one-tenth of the reserve minimum.

Art. 69. A tax on any deficiency in the reserve to be imposed as follows :

if the reserve is below 50 per cent but not less than 45 per cent, tax 2 per cent p.a. on daily deficiency ;

if the reserve is below 45 per cent but not less than 40 per cent, tax 4 per cent p.a. on daily deficiency ;

if the reserve is below 40 per cent but not less than 35 per cent, tax 8 per cent p.a. on daily deficiency ;

if the reserve is below 35 per cent, tax 12 per cent plus an additional $1\frac{1}{2}$ per cent upon each per cent or fraction thereof by which the reserve falls below 35 per cent.

Art. 70. If the reserve is below the legal minimum continuously for ten days or more the minimum rates of discount or interest to be 7 per cent.

Art. 71. In addition to any increase necessary to bring the rates of discount and interest up to 7 per cent there shall be added a percentage equal to at least one-half of the percentage rate or of the combined percentage rates of the tax imposed upon the reserve deficiency.

General Business

Art. 47. The Bank is authorised to conduct the following business with its member banks, and no other business:

(1) to rediscount for them high grade liquid paper;
(2) to grant them direct loans of a liquid character adequately secured by paper eligible for rediscount;
(3) to sell them Class A and B stock;
(4) to buy from them and sell to them domestic and foreign coins and gold bullion;
(5) to conduct with them, or as their agent, operations in domestic and foreign exchange;
(6) to receive from them non-interest bearing deposits, including their reserve accounts;
(7) to act as agent in the clearing of cheques, and in the collection of cheques, notes, bills of exchange and other credit instruments;
(8) to provide them with safe deposit facilities.

Art. 48. On the demand by any member bank for rediscount or advance the Bank may require a statement of its portfolio and investments, and may verify the statement through an examination of its own auditors.

Art. 49. The Bank may conduct the following business with the general public, and no other business:

(1) buy and sell gold bullion and Peruvian and foreign money;
(2) buy and sell cable and telegraphic transfers and bills of exchange, drafts and cheques, drawn on banks of high standing in Peru or abroad and borrow money from such banks for periods not exceeding 90 days;
(3) buy, sell and discount drafts and bills of exchange payable abroad which arise from Peru's foreign trade, such bills to bear at least two signatures or one signature if secured by bills of lading or other documents having a ready market and market value of at

least 25 per cent greater than the face value of the credit instalment secured;

(4) buy, sell and discount domestic bills of exchange and other credit instruments arising from the production, manufacture, transportation or sale of goods. Conditions as to signature as in (3);

(5) receive non-interest bearing securities payable on demand;

(6) receive pledges of real estate, produce, merchandise and securities of all kinds as additional security for advance authorised by this Article;

(7) act as agent for the collection of drafts, bills of exchange, cheques, promissory notes, bonds, coupons and other credit instruments;

(8) provide facilities for the safe deposit of valuables.

Art. 50. *re* discounting of Government drafts, see under Relations with the Government, below.

Art. 52. The Board of Directors shall fix and publish the rates of rediscount, discount and interest. Rates fixed for member banks may differ from those fixed for the general public.

Art. 53. The Bank is subject to the following restrictions:

(1) it may not make loans for periods in excess of 90 days or discount or purchase paper with a maturity exceeding 90 days except as provided in Art. 50, and in the case of paper fully secured by agricultural products or live stock when the maturity may be up to six months, but the amount for advances outstanding with maturities in excess of 90 days may not exceed 30 per cent of the Bank's capital and surplus;

(2) except as provided in Art. 50 the Bank may not make any loans, or other advances, to any Government, Peruvian or foreign, or invest in any form of Government debt;

(3) The Bank may not make any loan or other advance to a member bank, which would increase the liability of the bank to the Central Reserve Bank to an amount in excess of one-third of the member bank's capital or surplus, or to an amount in excess of 10 per cent of the Central Reserve Bank's capital or

surplus, whichever is smaller; excepting that upon the affirmative vote of seven Directors and with the approval of the Superintendent of Banks, (*a*) the limit may be increased to two and a half times the amount, and (*b*) the restriction may be waived in so far as it applies to a member bank's liability on accepted drafts drawn on specified banks and other concerns of high standing located abroad, or drafts drawn on such banks and concerns under their irrevocable letters of credit.

(4) the Bank may not make any loan or other advance to any individual, partnership, etc., other than a member bank, or purchase any credit instrument if it thereby increases the total liability of the individual, partnership, etc., to the Bank to an amount in excess of S. 1,500,000, excepting as under (*b*) in the preceding paragraph;

(5) the Bank may not grant overdrafts or make other advances payable on demand. All loans and advances to represent negotiable instruments payable at a definite time;

(6) it may not pledge as security its own notes, those of the Reserve Bank of Peru or circular cheques;

(7) it may not pay interest on deposits;

(8) it may not make loans or other advances to any of its Directors or to any concern of which a Director is a partner or holds a controlling interest, excepting in the case of loans to a member bank when the Class A Director signs the credit instrument as representative of the Bank.

(9) it may not purchase any of the credit documents enumerated below nor grant loans, etc., on these documents except that it may accept them as additional security or purchase them from a debtor to protect the interests of the Bank in the case of advances previously made legally and in good faith. In such cases it may hold the documents for 1 year, or in special cases for an additional year with the consent of the Superintendent of Banks. The documents are:

(*a*) Credit documents bearing less than 2 signatures except as in Art. 49 (*b*). The Bank may, however, buy from other banks and business houses of high standing, cheques and drafts with maturities not exceeding 90 days with one bank name and drawn on foreign banks and banking houses of high standing located abroad.

Credit documents the proceeds of which have been, or are intended to be :

(*b*) employed in capital investments ;

(*c*) used for consumption purchases and not for the needs of current business ;

(*d*) used for purposes of speculation in stock or other securities, or in foreign exchange or merchandise ;

(*e*) stocks of corporations or companies, or credit documents secured by such stocks.

(10) The Bank may not own any real estate except :

(*a*) that which is needed for its own premises ;

(*b*) that which is transferred to it in satisfaction of debts or to secure itself the payment of such debts ;

(*c*) that which is owned by the Reserve Bank of Peru at the time of its reorganisation.

Real estate acquired under (*b*) or (*c*) may not be held for a period of longer than 2 years, except that this may be extended for a further period of 2 years by the Superintendent of Banks if it is required in the public interest.

Art. 19. The Bank may not make loans or other advances against its own shares nor hold such shares as an investment, except that with the consent of the Superintendent of Banks it may take Class B shares as additional collateral for loans previously made, for a period of 1 year or for an additional year with the consent of the Superintendent of Banks. Class A shares may be taken from insolvent member banks.

Relations with the State

Art. 50. The Bank may rediscount for member banks and may accept from them as collateral for loans, drafts with maturity

of not more than three months' sight drawn by the National Government upon and accepted by the Office of Deposits and Consignments in anticipation of national revenues to be collected by the said office, the total of such drafts held by the Bank not to exceed 20 per cent of the Bank's unimpaired capital and surplus.

The Bank to be a depository of the funds of the Government, and to make no charge for the transference of Government funds from one of the Bank's offices to another.

Art. 79. The Bank to be exempt from all taxes except (1) the franchise tax on profits (Art. 77, see under Profits); (2) the reserve deficiency tax (Art. 69, see under Reserves); (3) import and export taxes excepting that the Government undertakes to permit the Bank the free import and export of gold coin, or bullion of a millesimal fineness of 900 or higher; (4) general taxes on land and buildings.

Art. 72. Amongst the obligations of the State to the Bank are the following:

(*a*) to permit the Bank to enjoy the exclusive right of note issue;

(*b*) to respect the opinion of the Board of Directors with regard to future issues of fiduciary coins;

(*c*) to receive the Bank's notes at par in payment of all dues to the Government as long as the Bank continues to redeem its notes;

(*d*) not to make any demands upon the Bank for advances except as authorised in Art. 50;

(*e*) to permit the Bank to import and export gold freely without payment of any duty.

For Government approval for an increase of capital see Art. 7, under Capital.

For Government holdings of capital see Art. 10, under Capital.

For Government share in profits see Art. 77 (5), under Profits.

For Government appointments of Directors and Branch Managers see Arts. 23 and 43, under Management.

For Extension of Charter see under Term of Charter below.

Returns

Art. 73. The Bank to submit an annual report to the Superintendent of Banks describing the condition of the Bank at the

end of the preceding calendar year and the operations of the Bank during the year, with comparative data for the years immediately preceding.

Art. 74. The Bank to submit a weekly statement to the Superintendent in a prescribed form.

Term of Charter

Art. 2. 30 years.

Renewals of the Charter require legislative action.

POLAND

BANK OF POLAND

Purpose of the Bank

Art. 1.[1] The Bank is established in order to maintain the stability of the currency, to regulate the money circulation and credit.

Capital

Art. 4. 150 million zloty in shares of 100 zloty each. The capital can be increased by decision of the General Meeting with the consent of the Minister of Finance (Art. 12).

(Under the programme for the stabilisation of the zloty issued in October 1927 the Bank's capital was increased by 50 million zloty, the new shares being subscribed by the Government in the first instance with a view to sale to the public thereafter. While held by the Government these shares carry no voting rights, and dividends on them may not exceed 10 per cent.)

Profits and Reserve Fund

Art. 75. Net profits distributed as follows:

(1) 10 per cent to reserve fund until it equals 20 per cent of the capital; thereafter 5 per cent until it equals 50 per cent of the capital;

(2) from remainder, a dividend not exceeding 8 per cent to shareholders;

(3) of the balance, half to the shareholders, half to the State, provided that the profit, less payments to reserve, does not exceed 12 per cent of share capital.

[1] Numbers refer to statutes of the Bank of Poland, November 1927, as amended 1930 and 1931.

If the profit, less payments to reserve, is in excess of 12 per cent, one-third of the balance, after deducting 8 per cent dividend, 2 per cent supplementary dividend and 2 per cent for the State, to shareholders and two-thirds to Treasury.

(4) if the net profit is insufficient to enable a dividend of 4 per cent to be declared, and if the reserve fund exceeds 10 per cent of the capital, the reserve may be used to bring the dividend up to 4 per cent.

Art. 76. The reserve fund to be used to cover losses and amortisations which cannot be covered out of profit and to make up dividends to 4 per cent.

At least half the reserve must be invested in Government securities.

Art. 77. Shares and dividends are tax free till 31st Dec. 1937.

Branches

Art. 3. The Bank may, with the consent of the Minister of Finance, establish (and close) branch offices and agencies.

Management

General Meeting

Art. 12. The following matters come under the competence of the General Meeting of shareholders :

(*a*) adoption of the annual report and balance sheet ;

(*b*) election of members for the Council and Auditors' Committee ;

(*c*) motions put by the Council ;

(*d*) increase of share capital ;

(*e*) other amendments of the statutes ;

(*f*) winding up of Bank ;

The approval of the Minister of Finance is necessary for (*d*), and of the Legislature for (*e*) and (*f*).

Art. 13. The ordinary General Meeting is held once a year, not later than March.

Extraordinary meetings can be convened :

(*a*) on the decision of the Council ;

(*b*) at the request of the President of the Bank ;

(*c*) at the request of shareholders representing at least one-fourth of the share capital.

Arts. 17-18. Voting by proxy is allowed. Every twenty-five shares give right to one vote, but no shareholder may have more than 500 votes, either on his own account or as proxy including his own votes. No shareholder may have more than one proxy.

Art. 20. Representative of Treasury as shareholder will be designated by Finance Minister.

Council

Art. 25. The Council consists of a President and Vice-President appointed by the President of the Republic, and twelve members (with three substitutes) elected by the General Meeting. In addition, the Commissioner of the Bank, who may be a civil servant, is *ex officio* a member of the Council for his term of office (see below, Art. 39, under " Relations with the State ").

Art. 26. Members are elected for three years and are eligible for re-election. (They take an oath of fidelity—Art. 41.)

The Minister of Finance has the right to veto the election of any member or substitute within three days after the election.

Art. 29. The following are ineligible as members of Council: deputies, senators, civil servants and members of armed forces on active service.

Art. 30. Meetings are held at least once a month.

Art. 24. The Council directs the policy of the Bank in general and supervises the work of the executive.

In particular it deals with the following:

(*a*) appointment of General Manager and other members of Board of Directors and presentation of their names to the Minister of Finance for approval;
(*b*) regulations concerning the duties and salaries of the Board of Directors;
(*c*) appointment of members of Discount Committees;
(*d*) confirmation of the budget;
(*e*) fixing discount, interest and commission rates;
(*f*) purchase and sale of real property;
(*g*) presentation of annual reports to the General Meeting.

President

Arts. 35 and 37. The President of the Bank is appointed by the President of the Republic on recommendation of Council

of Ministers for five years. Eligible for reappointment. On recommendation of Council of Ministers based on a special inquiry, President may be removed by the President of the Republic if he fails in his duties.

He may not be a member of the Diet or Senate or hold a salaried position, whether under the Government or municipality or privately, nor may he be a member of the managing or supervising bodies of or partner in any undertaking.

Art. 40. Similar qualifications for Vice-President.

Art. 38. The President of the Bank has the right to suspend the carrying out of any decision of the Council if he considers it contrary to the law, the statutes of the Bank or the interest of the State, and in particular the purpose specified in Art. 1.

The suspended decision will then be submitted to the Minister of Finance, and will not be carried out if within three days he confirms the President's veto.

The President may attend the meetings of the Board of Directors in an advisory capacity, and can prevent the carrying out of any decision not in accordance with the fundamental aims of the Bank pending approval by the Council.

Art. 41. The President and Vice-President take an oath before the President of the Republic that they will carry out their duties in accordance with the statutes of the Bank.

Board of Directors

Art. 42. The Board of Directors acts as executive of the Bank. It consists of the General Manager and Directors appointed by the Council and approved by Finance Minister. The number is determined by the Council. The members may not be deputies or members of the Senate or hold other salaried post except in concerns in which the Bank has an interest.

Art. 43. The General Manager or his substitute attends the Council without right to vote in an advisory capacity.

Auditing Committee

Art. 45. The General Meeting elects from its number five auditors and three substitutes to examine the books of the Bank after the close of the financial year and to report to the General Meeting. The Auditing Committee may also investigate the functioning of particular departments of the Bank after arrange-

ment with President. They may demand any information required.

Discount Committee

Art. 61. Bills presented for discount are examined by Discount Committee presided over by the Branch Managers of the Bank.

The Chairman may reject bills or securities approved by the Committee, the matter to be referred to the Board of Directors if the Committee desire it.

Art. 62. The members of the Discount Committee are appointed by the Council from persons conversant with the agriculture, industry and trade in the district after consultation with the business associations of the district.

Term of appointment three years; eligible for re-election. No member is allowed to express an opinion on a bill in which he is interested.

Members take an oath before the President of the Bank.

NOTE ISSUE AND RESERVE

Art. 46. Bank has sole right of issue until 31st December 1944. Notes are legal tender.

The privilege may be extended beyond 1944 by special Act of Parliament.

Art. 47. The Bank after a date to be fixed by the Council of Ministers will be obliged to redeem the notes in gold on demand. Until that date notes for sums exceeding 20 thousand zlotys will be redeemable at the option of the Bank at the Head Office in Warsaw in:

(*a*) gold coin;
(*b*) gold bullion at the rate of 5924·44 zlotys per kilo of fine gold;
(*c*) cheques payable abroad in gold at the monetary par after allowing for the cost of transferring gold in bulk to the place of payment from Warsaw.

Art. 48. Denomination of notes to be approved by Minister of Finance.

Art. 51. Notes and demand obligations to be covered up to a minimum of 40 per cent by the following:

(*a*) gold in coin or bar;
(*b*) silver at gold value to amount not exceeding 5 per cent of the gold holding;
(*c*) foreign currencies;
(*d*) assets in first-class banks abroad payable within 30 days;
(*e*) sight cheques and drafts on first-class banks abroad;
(*f*) bills accepted or endorsed by first-class banks abroad payable in 90 days.

Assets comprised in (*c*), (*d*), (*e*) and (*f*) must be in foreign currencies payable in gold.

For determining amount of cover there shall be deducted:

(*a*) sums derived from loans secured by the gold of the Bank;
(*b*) obligations of the Bank in foreign money payable within 90 days.

The gold holding must represent at least three-quarters of the minimum cover required under this Article.

Art. 52. If the reserve falls below 40 per cent the Bank shall pay to the Treasury a tax on the deficiency as follows:

3 %	per annum	if the reserve is	less	than	40 %	
6 %	,,	,,	,,	,,	37 %	
10 %	,,	,,	,,	,,	34 %	but not less than 30 %

If the reserve falls below 35 per cent the tax of 10 per cent will be increased by 1 per cent for each fall of 1 per cent.

The tax to be calculated every 10 days.

If the reserve is below 40 per cent the rate of discount must be raised to 6 per cent plus at least one-third of the amount of the tax.

Art. 53. The balance of the note circulation not covered as in Art. 51 to be covered by:

(*a*) bills of exchange and other securities as in Art 55 (*a*) (see under General Business);
(*b*) Polish silver coin and subsidiary coin in base metals to an amount not exceeding 5 per cent of the total note issue;
(*c*) advances guaranteed as in Art. 63 (see Art. 55 (*b*) under General Business);

(*d*) public securities as specified in Art. 55 (*e*);

(*e*) non-interest-bearing advances to Treasury up to maximum of 50 million zlotys for the duration of the Bank's note-issue privilege.

Art. 54. The Bank buys gold against notes on demand at the statutory relation, subject to a deduction for minting and other costs.

General Business

Art. 55. The operations of the Bank are as follows:

(*a*) Discounting bills of exchange, warrants, and other paper resulting from commercial transactions, of a maturity not exceeding three months (agricultural paper, six months) and payable in centres where there is a branch or agency of the Bank. They must bear three, or, in exceptional cases, two signatures; at least two signatures are needed for warrants (Art. 58). State and Municipal securities and mortgages may also be discounted if the maturity does not exceed three months to an amount not exceeding 10 per cent of the bill portfolio of the Bank (Art. 60).

(*b*) Granting advances against (Art. 63):

(i.) gold or silver;

(ii.) State or Municipal bonds or bonds of Mortgage Banks, bearing fixed interest, listed on the Polish Stock Exchanges up to 20 per cent of the portfolio of the Bank;

(iii.) bills of exchange, with maturity not exceeding six months, payable in Poland or abroad, and drawn in Polish or foreign currencies, but otherwise complying with conditions of eligibility for discount;

(iv.) foreign currencies and bills in foreign currencies conforming to the requirements of Art. 51 (*c*), (*d*), (*e*) and (*f*) (see under Note Issue).

The rate of interest on advances must be at least 1 per cent above rate of discount (Art. 65).

(*c*) purchase and sale of gold and silver;
(*d*) dealing in foreign currencies and bills, keeping of accounts abroad and the utilisation of credits necessary for these operations;
(*e*) dealing on its own account in State and Municipal securities and mortgage bonds, provided that not more than 10 per cent of the capital of the Bank is employed for the purchase of these securities;
(*f*) opening of deposit and current accounts. Interest-bearing deposits may be accepted with the approval of the Minister of Finance, but only for account of staff and authorities of the Bank (Art. 69);
(*g*) arranging transfers and payments on the branch offices;
(*h*) collection of bills of exchange and other instruments;
(*i*) receipts of deposits for safe keeping;
(*k*) all other banking operations on commission.

Art. 56. The Bank may not purchase shares except those of undertakings entrusted with the printing of bank-notes and other bank documents, undertakings for the construction of cereal elevators and undertakings organised in agreement with the Minister of Finance in order to facilitate the working of the Bank; the Bank's holdings in these enterprises not to exceed 25 million zlotys.

The Bank may participate in institutions whose object it is to facilitate the co-operation of banks of issue.

The Bank may neither grant credits against its own shares, nor purchase them for its own account except for the Staff Pension Fund.

Art. 57. The Bank may not purchase real estate except for its own requirements. Mortgages and other rights may be taken over for the purpose of covering doubtful debts, but must be disposed of within one year, subject to extension of period by President of Bank.

Relations with the State

Art. 39. The Minister of Finance is empowered to appoint a Commissioner and an alternate. The Commissioner or, if absent, his alternate is a member of the Council. They may attend the meetings of the Board of Directors in an advisory capacity and demand any information they require.

Art. 70. The Bank must accept and effect payment on account of the Treasury free of charge. It may act on commission for the Treasury, provided that the indebtedness of the Government to the Bank is not thereby increased.

Art. 85. The estate and revenue of the Bank are free from taxation with the exception of the tax on land and buildings.

Art. 90. Disputes between the Government and the Bank arising out of the application of the statutes to be decided by a Committee of Arbitrators, consisting of four members, two appointed by the Government and two by the Council of the Bank. The President of the Supreme Court to act as Chairman.

(Under the stabilisation programme of October 1927 the State gives the following undertakings:

1. To extinguish the floating debt of zloty 25 million, and to raise no loan from the Bank other than the existing debt of zloty 25 million.

2. To deposit a Treasury reserve of zloty 75 million at the Bank to be drawn upon under stated conditions. Drafts on this reserve are to be made good within six months, and the reserve is neither to be reduced or abolished except with the agreement of the Bank and the foreign expert on the Board.

3. To deposit with the Bank (*a*) zloty 140 million gold, and (*b*) silver for the issue of zloty 140 million of token coinage in order that the State paper in circulation amounting to zloty 280 million may be withdrawn.

4. Not to issue any subsidiary or other coinage apart from the above zloty 140 million and zloty 180 million actually in circulation.)

For State powers of appointment see Arts. 25, 26, 35, 37 and 42, under Management.

For State powers in case of disagreement between Council and President see Art. 38, under Management.

For State delegate to General Meeting see Art. 20, under Management.

For Share in Profits see Art. 75, under Profits and Reserve.

For State and Liquidation see section on Liquidation below.

For cases in which Government approval is necessary see:

Art. 12, under Management.

Art. 48, under Note Issue.
Art. 55 (*f*), under General Business.
Art. 3, under Branches.

RETURNS

Art. 78. The following must be published in the official *Gazette*:

(*a*) Annual balance sheet and profit and loss account, not less than a fortnight before the General Meeting.

(*b*) Summarised balance sheets in prescribed form, not less than seven days after the expiration of each ten days.

Art. 74. Of the overhead charges only expenses connected with the issue of bank-notes can be spread over a number of years.

TERM OF CHARTER AND LIQUIDATION

Art. 46. Term of Charter for note issue till 31st December 1944.

Art. 79. The Bank may be wound up on the resolution of a two-thirds majority of a specially convened General Meeting. The confirmation of the Legislature is required if the Bank is liquidated before the expiration of its charter.

Art. 80. In the event of expiration of the Bank's privilege or earlier liquidation, the Treasury may take over the Bank by Act of Parliament at its balance-sheet valuation.

Art. 82. Should the Government not exercise its right at the expiration of the privilege, the General Meeting may decide to continue the operations of the Bank, apart from note issue and other special privileges.

PORTUGAL

BANK OF PORTUGAL[1]

PURPOSE OF THE BANK

rt. 5,). 19869. The Bank is bound to maintain the stability of the Portuguese currency, with effect from the coming into effect of the new regime (1st July 1931), on the basis fixed in Art. 1.

[1] The constitution of the Bank was reformed in 1931 in pursuance of two Decrees dated 9th June 1931, Nos. 19869 and 19870. These are referred to under the letter D. The other fundamental provisions of the Bank are contained in the bases attached for the Law of 29th July 1887. The articles of these bases are referred to under the letter B.

As from the 1st July 1931 there shall take effect on the main- Art. 1.
land and the adjacent islands the following currency regime:

(1) The gold escudo, the unit of currency, shall have the weight of 0·0739 gr. of the fineness of 900 per mill.

(2) English sovereigns and half-sovereigns of 7·98805 gr. and of 3·99402 gr. gold of the fineness of 916⅔ per mill., will continue to be legal tender for a value of 110 escudos and 55 escudos gold respectively.

(By Decree No. 20683 of 29th December 1931 the Bank was provisionally dispensed from the above obligation.) (See also under "Note Issue".)

Capital

One hundred million escudos in shares of E. 750 (fully paid-up). Art. 3, D. 19870.

Profits and Reserve Fund

Net profits to be distributed as follows: Art. 20, D. 19870.

(1) 5 per cent for General Reserve Fund until it represents 50 per cent of the Capital;

(2) 5 per cent for the Special Reserve Fund;

(3) 2 per cent for Staff Pension Fund with minimum of 300 contos;

(4) Dividend of 6 per cent on shares;

(5) 80 per cent of surplus to State with minimum of 6000 contos (conto = E. 1000), and balance after deducting amount necessary to increase dividend to 7 per cent to be divided equally between State and Bank.

Bank to create two reserve funds: Art. 19, D. 19870.

(1) General Reserve Fund up to limit of 50 per cent of Capital—5 per cent of profits allocated thereto (see above);

(2) Special Reserve Fund without limit of amount, formed from

(*a*) 5 per cent of profits (see above);

(*b*) any contributions thereto allocated from profits and in No. (5) above.

This fund is to cover depreciation of assets, not pertaining to profit and loss account, and to guarantee minimum dividend of 5 per cent.

Branches

L. 29th July 1887, B., Art. 2. Bank is to establish branches and agencies in chief towns on mainland and adjacent islands.

Management

General Meeting of Shareholders

L. 29th July 1887, B., Art. 42. (1) Ordinary meetings, composed of 240 largest shareholders; (2) extraordinary meetings, composed of all shareholders holding 50 shares. Latter deal with alterations of Statutes, time

Art. 42. of Charter, increase of Capital or liquidation of Bank.

Art. 44. No shareholder has more than one vote, irrespective of number of shares held. Members of the General Council of the Bank take part in the General Meetings, but without vote, unless they are included in those covered by No. 42 (1) and (2) above.

Council of Administration

Board of Directors

Art. 21, D. 19870. L. 29th July 1887. Council of Board of Directors is composed of 13 as follows:

(*a*) Governor and two Vice-Governors appointed by the Minister of Finance;

(*b*) Ten Directors, shareholders and Portuguese by birth or naturalisation, are elected by the General Meeting, of whom one shall be a Vice-Governor on behalf of the Bank, elected biennially by the General Council. There are five alternate Directors similarly elected.

Art. 22, D. 19870. A Committee which meets weekly is appointed to direct the Bank's policy in regard to the monetary stabilisation, viz. the Governor, three Vice-Governors and two Directors.

General Council

Art. 23, D. 19870, L. 27th July 1887. The Fiscal Council consists of seven effective members (and three alternate members) elected by the General Meeting. They are shareholders and Portuguese by birth or naturalisation.

L. 29th July 1887, B., Art. 31. The Council of Administration (*i.e.* Governor and Directors) plus the Fiscal Council constitute the General Council.

The Governor

The Governor, who is nominated by the Government for 6 years (appointment is renewable), may suspend the execution of decisions of Committees on the Council of Administration for consideration by the General Council and shall suspend and communicate to the Government any decision that is contrary to the laws, statutes and interests of the State. L. 29th July 1887, B., Arts. 30 and 34.

NOTE ISSUE AND RESERVES

Bank has exclusive privilege of issuing notes as legal tender on the mainland and in the adjacent islands. L. 29th July 1887, B., Art. 12.

The Bank is obliged to hold in gold coin or in bullion, in national or foreign public gold securities readily realisable and in gold exchange on markets of countries where the currency is either of gold or convertible notes, a sum at least equal to 30 per cent of the amount of the fiduciary circulation, deposits and other liabilities at sight. D. 19869, Art. 12.

(1) The limit which the fiduciary circulation can reach under this article is fixed at 2,200,000 contos, but can be increased by agreement between the Government and the Bank to meet the necessities of the national economy.

(2) The Bank can nevertheless issue notes above the limit fixed, so long as the excess is entirely covered by gold in coin or bullion.

(3) The national gold securities shall be of the Foreign Debt (stamped), but their total shall not exceed 22 per cent of the existing reserve and shall be converted into the other gold securities designated in the body of this article within the maximum period of ten years.

The Bank on the demand of holders of notes shall repay them in coin or in foreign gold exchange at the choice of the Bank and in harmony with Art. 1 of this Decree. Art. 13.

Sole paragraph: The sale of exchange shall be effected at a price which shall not exceed the theoretical parity of the ratio established in Art. 1 of this Decree increased by the charges for the conveyance of the gold. The basis shall be the exchange on

London, and the Bank shall publish in the *Diario de Governo* the gold points so determined and in accordance with which the transactions in gold exchange are to be effected.

By Decree No. 20683, dated 29th December 1932, the Bank is authorised during the suspension of the gold obligation (p. 381, above) to repay notes by cheque on London on the basis of £1 sterling for 110 escudos increased by the charges referred to in Art. 13 above. The Bank is also authorised temporarily to include in the Reserve exchange and foreign public securities expressed in pounds sterling.

Art. 14, D. 19870. The portion of the fiduciary circulation and other liabilities at sight not covered by the balance of the debt of the Treasury to the Banco de Portugal, by the temporary balances of the Current Account, by the gold reserve and exchange specified in the previous article, shall be completely guaranteed by the exchange not included in the Reserve, by the commercial portfolio and the advances on mortgage or other asset accounts easily realisable in a period not exceeding ninety days.

General Business

L. 29th July 1887, B., Art. 26.

(1) The discounting of:
- (*a*) Bills of Exchange, inland and foreign, and commercial paper;
- (*b*) Promissory Notes guaranteed by collateral;
- (*c*) obligations of the State and Colonies;
- (*d*) interest and coupons of the national debt and certain special securities issued by the General Portuguese Mortgage Credit Company or guaranteed by the State.

(2) The purchase and sale of:
- (*a*) Bills of Exchange;
- (*b*) gold and silver in coin or bar;
- (*c*) bonds of the public debt and certain securities of the Portuguese General Mortgage Credit Company;
- (*d*) Foreign Government bonds of recognised credit (Contract of 4th December 1891, Art. 15).

(3) Loans against collateral, viz.:
- (*a*) gold, silver or precious stones or bonds of the public debt;

(*b*) fully paid shares or obligations of Banks and Municipalities and certain Companies of recognised credit whose shares are quoted on the Lisbon Bourse ;

(*c*) shares of the Bank of Portugal ;

(*d*) bonds of foreign governments and certain foreign securities guaranteed by the States concerned;

(*e*) warehouse warrants.

(4) Receiving cash on current account and opening credits on current account against securities of specified types and granting credits in national and foreign markets by circular letter, etc.

(5) Carrying out of collections and payments and transfers of funds and execution for third parties of banking operations not prohibited by the Charter.

(6) Endorsing drafts of first-class foreign banks for exchange operations.

(7) Safe custody of deposits of precious metals, etc.

(8) The employment of foreign credits for the importation of gold or silver or operations in foreign exchange for the maintenance and defence of the reserves of the Treasury.

(9) Collection of revenue and making payments on account of the State and public bodies and execution of operations for the Treasury at home or abroad.

(10) Negotiations, etc., of loans, duly authorised, for Government or public bodies.

Art. 27. Loan operations under (1), (3) and (4) must normally not be effected for more than three months, and bonds or commercial paper discounted must carry, in general, three or at least two first-class signatures. Art. 27.

PROHIBITED BUSINESS

The Bank is prohibited from carrying out the following : L. 29th July 1887, B., Art. 28.

(*a*) purchasing for its own account shares of the Bank ;

(*b*) rediscounting its own bills ;

(*c*) carrying out Stock Exchange operations which cannot be immediately liquidated, even for account of third parties ;

(*d*) paying interest on current accounts, payable at sight ;

(*e*) promoting or taking part in creation of commercial banking or other undertakings ;

(*f*) embarking in operations entailing considerations of risk or insurance ;

(*g*) buying or selling for its own account any commercial goods ;

(*h*) possessing goods or real estate other than necessary for its own business. Liquidation of property acquired through assignment or as security for repayment of credits to be carried out as soon as possible.

Relations with the State

D. 19869, Art. 14. The Bank to open for the State a gratuitous current account, which cannot exceed 100 million escudos.

Art. 9. State debt to the Bank to be reduced to maximum of 1,100,000 contos, and State to pay to Bank ¼ per cent per annum as compensation for the cost of the notes.

Art. 29. Government to fix in agreement with Bank :

(1) date on which legal restrictions on exchange dealings shall cease ;

(2) date from which notes shall be convertible into gold coin.

D. 19870, Art. 26. Questions between Bank and Government as to interpretation of contracts to be decided, without appeal, by three arbitrators, one appointed by each party, and third to preside being President of Supreme Court of Justice.

D. 19869, Art. 3. New silver currency to be passed into circulation through Bank and on its requisition, the amount being settled between Bank and Government in harmony with the necessities of the public economy.

Statutes, Art. 30. The Bank are the bankers of the State and general Pay Office for the Treasury in the Metropolis. (See also under Profits, Management, General Business and following paragraphs.)

Returns

L. 29th July 1887, B., Art. 29. The Bank shall supply to the Government for immediate publication :

(*a*) weekly—a statement of assets and liabilities, showing metal holding, notes and sight obligations ;

(*b*) annually—report of the administration, accounts and balance sheet after they have been discussed and approved by the General Assembly.

Term of Charter and Liquidation

Charter as Bank of Issue extended to 1st July 1961. If privilege of issue should cease before payment in full of State debts, State is obliged to repay the Bank on that date. D. 19869, Art. 15.

In the event of liquidation assets and liabilities to be valued by three experts, one appointed by Government, another by Bank and third by agreement between them. Nominal value of shares to be repaid to shareholders, and balance to be divided in proportion of one-third to them and two-thirds to State. D. 19870, Art. 25.

ROUMANIA

NATIONAL BANK OF ROUMANIA

The Purpose of the Bank

Art. 1.[1] The Bank is charged with maintaining the stability of the currency as well as providing for the monetary circulation and the control of credit. It has the exclusive right of issuing bank-notes.

Capital, Profits and Reserve Fund

Art. 6. The capital of the Bank is fixed at Lei 600,000,000[2] divided into 200,000 shares of Lei 3000. The shareholding of the State and State enterprises may in no case exceed 10 per cent of the amount of this capital. After agreement between the State and the Bank the capital may be increased, the interest to the State being fixed at 10 per cent of the maximum of the new capital. The shareholders of the Bank will have the right to take up one-third of all increases of capital.

Art. 16. No shareholder can be compelled to contribute to the debts of the Bank beyond the nominal value of his shares.

Art. 17. From the annual profits a Reserve Fund is established to cover losses of capital and to make up annual dividends to 5 per cent.

[1] References are to the statutes ratified by the General Meeting on 3rd March 1929, with Amendments up to 15th February 1931.

[2] The law rating the leu at 10 milligrammes of gold, nine-tenths fine, was voted by the Roumanian Parliament on 7th February 1929.

Art. 18. The Reserve Fund is constituted by a first charge of 20 per cent on profits, this charge being reducible to 10 per cent when the Reserve has reached the amount of the paid-up capital and to 5 per cent when the amount of the Reserve is double that of the capital. Subsequently half of the levy should be payable to the State and the balance to the Reserve.

Art. 19. When the Reserve Fund suffices to guarantee a dividend of 5 per cent, the surplus may be invested in securities in accordance with Article 21 (see under General Business below).

Art. 38. From the net profits, as determined in the balance sheet at the end of the year, a first charge is made for the Reserve as in Article 18. From the residue there is paid to the shareholders (including the State in respect of its holding) a first dividend of 6 per cent.

Of the balance 30 per cent accrues to the profit of the State and 7 per cent to the staff.

The balance of 63 per cent goes to the shareholders, up to a dividend of 10 per cent.

After payment of 10 per cent, one-quarter of the balance goes to the State and three-quarters to the shareholders up to a dividend from 10 to 18 per cent.

Of the balance one-half to the State and one-half to the shareholders up to a dividend of 18 to 25 per cent.

Of the balance three-quarters to the State and one-quarter to the shareholders to provide a dividend above 25 per cent.

After complete discharge of the balance of advances by the Bank to the State, the latter shall devote to popular credit one-half of its share in the profits of 30 per cent referred to in the 2nd clause of this Article.

Art. 40. If the annual dividend to the shareholders is less than 5 per cent it may be made up to that amount by a levy on the Reserve Fund.

Branches

Art. 3. The Bank shall proceed as soon as possible to the creation of a branch or agency in each head town of a Department, and may equally establish other branches or agencies wherever needful.

MANAGEMENT

Art. 44. The Bank is directed by the Governor, assisted by the Executive Committee. It is administered by the Council of Administration presided over by the Governor.

Arts. 48-49. The Governor, who must be of Roumanian nationality, is nominated by a Royal Decree for six years, which nomination may be indefinitely renewed for the same term. He may not be a member of the Legislative Assembly ; nor discharge any public office ; nor take part in the administration of any other bank or company ; nor engage in any business or profession. He is excluded from any share in the profits.

Art. 54. The Government designates a Vice-Governor by a Royal Decree from among the Councillors.

Art. 61. The Governor presides at the Executive Committee and the Administrative Council, the General Council and the General Meeting. He attends to the observation of the laws and statutes of the Bank.

Art. 62. He may suspend the execution of decisions of the Executive Committee in order to submit them to the Council of Administration ; and the decisions of the Council of Administration to submit them to the General Council, which in this case is summoned urgently.

Board of Direction and Executive Committee

Art. 51. The Board of Direction consists of the Governor and ten directors. Of these ten directors, who must all be Roumanians, seven are selected by the General Meeting of shareholders, one from a list submitted by the Union of Chambers of Commerce and Industry and consisting of six candidates of commercial, industrial or financial qualifications ; and one from a list submitted by the Union of Chambers of Agriculture and consisting of six candidates of agricultural qualifications. The remaining three directors are nominated by the Government from persons of similar qualifications as those mentioned above. The directors are nominated for four years, being re-eligible for office. They may not be members of the Legislative Assembly, nor fill any public office, nor take part in the administration of any other bank. They are excluded from any share in the profits.

Art. 50. The Executive Committee is composed of the Governor and four directors, including one from those nominated

by the Government. They are nominated for two years by the Board of Direction and are eligible for renomination. They may not be members of the Legislative Assembly, nor fill any public office, nor take part in the administration of any other bank or company beyond those to which they may be nominated or delegated by the directors, nor may they undertake any business or profession.

Art. 63. The Board of Direction meets once a week, but may be summoned by the Governor as often as necessary. It fixes the rate of discount and advances as well as the amount of capital to be applied to the discount of Treasury bonds, the advances against securities and the purchase of securities, all subject to the approval of the Board of Censors. It renders an account to the General Assembly of the Bank's operations.

Art. 66. The Executive Committee carries out the daily administration of the bank, supervising the branches and agencies and discharging any other duties delegated to them by the Board of Direction.

Board of Censors

Art. 55. The Censors, seven in number, must be Roumanians; four of them elected for four years by the General Meeting of shareholders and three of them for three years by the Government—all being eligible for re-election.

Art. 56. The Censors may not be members of the Legislative Assembly nor discharge any public office.

Art. 58. The Board of Censors elects a President from among its members.

Art. 67. The Board of Censors supervises all the operations of the Bank and may call for documents. It examines and approves the balance sheet and reports to the General Assembly; votes the budget for expenditure and proposals for extraordinary loans submitted by the Board of Direction; resolutions of the Board of Direction changing the rate of discount and advances are submitted to the Board of Censors, which also fixes the amount of capital to be devoted to the discounting of Treasury bills, advances and the purchase of securities.

Art. 68. The Board of Censors meets at least once a week.

General Council

Art. 46. The Board of Direction acting with the Board of Censors forms the General Council.

Art. 69. The General Council meets at least once a month to acquaint itself with the general position of the Bank. It decides on all questions submitted to it in accordance with the statutes or internal regulations. It decides on the proposals of the Board of Direction on the rules of the administration of the Head Office, branches and agencies and on all matters relating to the creation and issue of bank-notes.

Discount Committees

Art. 47. Discount Committees are established at the Head Office and at all branches and agencies.

Art. 71. The Discount Committee at the Head Office consists of six directors not included in the Executive Committee and six other members nominated for three years by the Board of Direction, one-third of the number being appointed each year. These last six members are chosen from among the shareholders of the Bank engaged in a commercial or industrial business at Bucharest, and are selected from a list submitted by the Chamber of Commerce at Bucharest and include three names for each vacancy.

Art. 72. The Discount Committee of each branch or agency is presided over by the Manager and includes three or six members nominated by the Board of Direction for three years, one-third of the number being elected each year. They are chosen from the shareholders engaged in agricultural, industrial or commercial business in the district concerned from a list submitted by the local Chamber of Commerce, which must include three names for each vacancy.

Art. 73. Discount Committees examine bills and recommend to the Board of Direction the acceptance of those qualifying with the requisite conditions.

General Meeting

Art. 75. The General Meeting consists of Roumanian shareholders possessing twenty unencumbered shares in their names for three months.[1] A shareholder may only be represented by

[1] Non-Roumanian shareholders holding shares in the Bank at the time of the coming into force of these statutes may take part in meetings till 31st December 1930.

a proxy having himself the right to vote. The State exercises its vote through a delegate of the Minister of Finance or through the Commissioner of Government.

Art. 77. Twenty shares entitle to a vote. No shareholder, including the Corporations and State, can dispose of more than twenty votes irrespective of the number of shares held or represented.

Art. 78. The ordinary General Meeting is held on the third Sunday in February, but it may be summoned to extraordinary meetings as often as the Board of Direction considers necessary. It must be summoned :

(1) When this is requested by the Board of Censors or by shareholders representing a quarter of the capital. (The State is excluded from this provision.)

(2) When the number of Directors or Censors falls below the absolute majority.

Art. 83. The General Meeting deliberates :

(1) On questions mentioned in the agenda and submitted by the Board of Direction and Board of Censors;

(2) On proposals put forward by shareholders representing a quarter of the capital ;

(3) On the annual balance sheet for the past year.

The General Meeting deals with the election of Directors and Censors, and it may remove Directors and Censors from their office.

Art. 93. The statutes of the Bank can only be modified by a two-thirds majority at a General Meeting especially convened for the purpose and representing at least half of the capital. The decisions only become valid after the consent of the Government has been obtained.

Commissioner of Government and Consultative Board

Art. 87. Apart from the rights enjoyed under these statutes the Government may object to the execution of any measure which it considers contrary to the laws or statutes of the Bank or interests of the State. For this purpose a Commissioner, designated by the Government, supervises all the operations of the Bank. His salary is determined by the Government in agreement with the Bank and paid by the latter.

Art. 88. The Commissioner may at all times acquaint himself with the affairs of the Bank and verify the balances. The Board is obliged to supply him on request with information regarding the general situation of the Bank.

Art. 89. The Commissioner takes part in meetings of the General Meetings, Boards and Committees without a vote. The Commissioner may require that any decision which appears to him contrary to the laws or statutes or interests of the State may be suspended, referring it in that case to the Government. If within a month agreement has not been arrived at between the Bank and the Government they may place the case before a Tribunal of Arbitration, presided over by the First President of the Cour de Cassation and comprising four other members, two nominated by the Government and two by the Bank. The Tribunal decides by a majority of votes without appeal.

Art. 90. To settle questions of general interest to the financial economy of the country the Governor of the Bank may, in agreement with the Minister of Finance, summon a Consultative Committee representing various branches of business activity, including, for example, the President of the Bourse at Bucharest, the Presidents of the Unions of Chambers of Commerce and Industry and the Union of the Chambers of Agriculture, representatives of the Banks, University professors and retired Governors of the Bank. These meetings, at which members of the General Council of the Bank may attend, only give advice on measures of a general character which are of interest to the economic or financial situation of the country.

General Business

Art. 20. The Bank may engage in the following operations :

(*a*) discount or buy bills of exchange, drafts to order and other commercial paper ;

(*b*) discount short-term Treasury bills up to 20 per cent of its capital ;

(*c*) deal in gold and silver and foreign currencies, maintain accounts abroad, obtain credits there and use them for the above-named operations ;

(*d*) cash drafts and other paper remitted on behalf of third parties, join in the constitution and management of Compensation Houses ;

(*e*) make advances on gold or silver and silver bars or coin;

(*f*) receive money on current account or on deposit without interest, receive on deposit securities, precious metals as well as gold and silver money;

(*g*) receive deposits from Central Banks and the Bank for International Settlements, invest these funds in bills or short and medium-term securities or in interest-bearing deposits at the Roumanian Banks, in the name of the remitting bank or in that of the National Bank of Roumania; in the last case, however, no transaction may have a maturity longer than three months.

To rediscount, according to the by-law, all bills or securities bought in the above-mentioned conditions and to guarantee same;

(*h*) discount or grant loans on warrants tendered in accordance with the law or relating to goods in existing warehouses or such as may be created by special laws.

(*i*) make advances on current account or short term against deposit of national securities, documents, hypothecation or other securities guaranteed by the State or issued by concerns under the control of the State, subject to conditions fixed periodically by the Board of Direction, subject to the stipulation that the total amount of the advances must in no case exceed 20 per cent of the commercial portfolio of the Bank.

Art. 21. The Bank may buy the securities of the State, or securities on which the interest is guaranteed by the State, or concerns under the control of the State up to the amount of its capital and Reserve Fund.

Art. 22. The Bank may not engage in operations other than those specified in Article 20. The Bank may not contract loans (subject to 20 (*c*)) nor grant loans against mortgages or against shares or fixed interest-bearing securities other than those referred to in 20 (*i*); nor may buy its own shares. It may not engage, directly or indirectly, in any industrial or commercial enterprise with the exception of those concerned with the manufacture of bank-notes; nor may it engage in commercial dealings other

than in gold and silver. It may, however, continue its present interest in the capital of the National Society of Industrial Credit so long as it considers this essential.

It may only acquire real estate so far as it is necessary for its business and for the housing of its staff.

The Bank may take part in international organisations created with a view to the co-operation of Banks of Issue. It may also take part in the creation of international houses of compensation or any other organisation or an international service for clearing between accounts on Banks of Issue, preserving at the same time its complete freedom of action in the country.

Art. 23. The Bank must not admit to discount finance paper created collusively and not based on real values.

Art. 24. The Bank only discounts commercial bills based on real transactions maturing at the latest within a hundred days and guaranteed by three solvent signatures ; but

(*a*) bills with two signatures may be admitted in cases provided for by rules decided upon by the General Council ;

(*b*) in lieu of one signature the pledging of goods, of warrants or securities may be accepted up to the value of the bills presented ;

(*c*) up to 25 per cent of its portfolio the Bank may discount bills with a maturity exceeding a hundred days but not exceeding nine months if they represent genuine agricultural transactions and in no case concern the immobilisation of stocks.

Treasury bills discounted are subject to the same conditions as commercial bills so far as the rate of discount and maturity are concerned.

Art. 25. The Bank is authorised to rediscount its Treasury bills either within or outside the country, and it is also allowed to pledge its commercial bills for the purpose of obtaining credits (*vide* 20 (*c*) above).

Art. 26. The discount rate is fixed weekly, and may be altered in the course of the week in urgent cases.

Art. 27. State securities, Treasury bills and other securities guaranteed by the State or issued by concerns under State control are only accepted as security at four-fifths of their market value.

Note Issue

Art. 1. The Bank has the monopoly of note issue.

Art. 28. The Bank is obliged to maintain a reserve in gold or in foreign drafts payable by Law in exportable gold to a minimum equal to 35 per cent of its sight obligations. Twenty-five per cent of these obligations must be covered by gold in the Bank's reserve or deposited abroad.

Art. 29. The fiduciary issue and other sight obligations which, after deduction of the outstanding balance of the State advances, are not covered by gold or foreign drafts (Article 28) must be entirely guaranteed by drafts not included in the Reserve, discounted bills, short-term credits and other immediately realisable assets.

Art. 31. Notes are payable to bearer and at sight at the Head Office of the Bank, and at its option either in gold legal tender money or in gold bar at the legal ratio or in foreign drafts payable in gold. In this last case the drafts should be issued at a price which shall not exceed the legal parity with an allowance for the cost of the transport of gold.

The Bank guarantees convertibility of its notes without a limit of amount, but they may not be presented in quantities of less than Lei 100,000 at a time.

Art. 32. The notes of the Bank are received as legal tender money by public treasuries and private individuals.

Relations with the State

Art. 34. The Bank undertakes, free of charge within the national territory, the service of the State Treasury as well as of the railway administration and other State organisations.

It is charged with executing, free of payment, disbursements required on account of the national debt either at home or abroad.

Treasury funds in excess of currency requirements are invested by the Bank in commercial values which it guarantees.

In order to facilitate the meeting of public expenditure at the beginning of each financial year the Bank is permitted to grant to the Treasury temporary advances of a maximum amount of Lei 2,000,000,000. These advances must be repaid in the course of the second half of each financial year, and may on no account be carried from one year to the next. They bear no interest. Apart from the above the State may obtain from the Bank no

advances, directly or indirectly, in any form. (The above does not apply to the case of Treasury bonds remitted by the State to the Bank to represent the balance of its debt. Temporary provision E.)

See also Arts. 6 and 38 under Capital, Reserve Fund and Profits.
Arts. 54, 51, 55, 93 and 87-90 under Management.
Art. 5 under Term of Charter and Liquidation.

Returns

Art. 36. On the 30th June and the 31st December of each year the Board of Direction approve the Balance Sheet. It is submitted to the Board of Censors for approval of publication. The approval of the balance sheet by the General Meeting discharges the Directors from responsibility.

Art. 42. The balance sheet and profit and loss account for the first half-year are published in the official *Journal*. The annual balance sheet and profit and loss account as well as the reports of the Board of Direction and the Board of Censors are published in the official *Journal* at least ten days before the meeting of the General Meeting.

Art. 43. The Bank publishes each week a statement of its position. Each month the Bank publishes a report dealing with the principal heads in its balance sheet and with the financial and economic situation of the country.

Terms of Charter and Liquidation

Art. 4. The privilege of the Bank is extended to 31st December 1960. If before 31st December 1955 a law has not been passed to regulate the position of the Bank, its privilege will be extended for five years from 1st January 1961, and the same procedure will be adopted every five years unless it should be otherwise decided by a Law passed five years before the expiry of a prospective term.

Art. 5. The Bank shall be liquidated if the losses shown in the annual balance sheet exceed one-half of the capital. Except in this case liquidation cannot take place before the prescribed term except with the consent of the Government following a decision of a General Meeting convened under Art. 93.

PROVISIONAL

Art. 12. For three years following the promulgation of the laws restoring gold convertibility the Bank to be assisted by a technical adviser, designated by the Board, whose appointment is to be confirmed by the Minister of Finance.

RUSSIA

STATE BANK OF THE RUSSIAN SOCIALIST FEDERAL SOVIET REPUBLIC

CAPITAL

§ 3.[1] Initial capital, two thousand milliard paper roubles,[2] assigned as a budgetary grant from the State Exchequer.

PROFITS AND RESERVE FUND

§ 4. Reserve capital to be formed from assignments from profits. Its amount is not limited.

If in any year the loss exceeds the total of the reserve capital the deficit will be carried over to the special account of the People's Commissariat of Finances, to be covered out of the State Budget.

§ 46. The net profits are distributed as follows:

fifty per cent to reserve capital;

not exceeding 20 per cent for the improvement of the standard of life of the personnel of the Bank;

balance to the State.

MANAGEMENT

§ 5. The general supervision of the Bank is vested in the People's Commissary of Finances. In particular, he directs the general policy of the Bank, approves all the general rules for operations of the Bank, as well as the rate of interest and

[1] Numbers refer to Articles of Statutes adopted 1921. Translation in Dierschke and Müller, *Die Notenbanken der Welt.*

[2] Equivalent at that time to about 15 million dollars. The capital was fixed subsequently in terms of chervonetz (£1 = ·946 ch.) at 5 million chervonetz, the amount being raised in 1925 to ch. 10 million, and in 1927 to ch. 25 million.

commission to be paid, exercises a general supervision over the operations of the Bank, ratifies the annual estimates of expenditure and annual reports and balance sheets.

Board of Directors

§ 6. The management to rest with Board of Directors.

§ 7. The Chairman of the Board of Directors is appointed by the Council of the People's Commissaries on the recommendation of the People's Commissary of Finances.

§ 8. The Board of Directors are charged with issuing of instructions and orders in connection with the operation of the Bank, fixing rates of interest, the opening of provincial offices, branches and agencies, wherever considered desirable, within the boundaries of the Russian Federation or abroad, subject to the sanction of the Commissary of Finances, the drafting of proposals concerning the alteration of provisions in the statutes and all matters connected with the internal working of the Bank.

§ 11. Meetings of the Board are convened by the Chairman as required.

Should the Chairman disagree with a decision of the majority, the question is referred to the People's Commissary of Finances for decision.

Local Organisations

§ 12. The District Offices, Branch Offices and Agencies are, as regards their organisation and administration, subordinate to the Chief of the respective local departments of the Commissariat of Finances.

Loan and Discount Committees

§ 23. A Loan and Discount Committee will be attached to the Board of Directors and each District and Branch Office.

§ 24. The Loan and Discount Committee attached to the Board of Directors consists of the Chairman and one member of the Board, two representatives each of the Supreme Economic Council and the People's Commissariat of Agriculture, one representative each of the People's Commissariats of Finances, of Foreign Trade and of Control, the Central Union of Consumers Societies, the All-Russian Agricultural Co-operative Union and the Amalgamated Industrial Co-operative Society, as well as of representatives of trade and industry invited by the Chairman

of the Board of Directors and approved by the Commissary of Finances.

The Chairman has the right to invite competent persons to act in an advisory capacity.

§§ 25, 26. The Loan and Discount Committees attached to the District and Branch Offices consist of the Manager of the District or Branch Office, as Chairman, the Sub-managers in the case of District Offices, and of one representative each of the local institutions, departments and co-operative unions enumerated in the preceding paragraph, as well as of competent persons, invited by the Chairman to act in an advisory capacity.

Auditing Committees

§ 27. The Commissary of Finances appoints annually a Committee to audit the accounts.

§ 28. The Board and the local organisations will place at the disposal of the auditing committee all the necessary information.

Note Issue and Reserve

The Bank was given the right of note issue by decree of 4th November 1922 as follows:

1. The State Bank is empowered to issue bank-notes.

2. The bank-notes are to be equivalent to 1, 2, 3, 5, 10, 25 and 50 chervonetz.

3. These bank-notes must be fully secured as to a minimum of one-fourth of their value by gold or precious metals or stable foreign currency, and as to the remainder by easily realisable goods, short-term bills of exchange or other securities.

4. The amount of notes put into circulation, and the nature of the security, are to be published by the Bank twice monthly.

5. The date from which the notes may be exchanged for gold shall be fixed by a special Government order.

6. Bank-notes will be accepted at their face value in payment of State taxes and dues (customs, railway fares, etc.), in all cases where payments must be paid by law in gold.

7. The State Bank will have the right to demand that the redemption of loans issued in bank-notes, and in general the redemption of liabilities expressed in bank-notes, shall also be made in bank-notes.

8. Loans in bank-notes made to the Commissariat of Finances are to be secured by precious metals as to a minimum of 50 per cent of the face value and as to the remainder by interest-bearing bonds of the Commissariat of Finances.

9. Bank-notes may be quoted on all the stock exchanges of the Russian Socialist Federation of Soviet Republics.

The notes are legal tender for payment of all State and local dues.

The operations of issue are controlled by a separate department under a Board, composed of two representatives of the Bank and three members appointed by the Stock Exchange, the State Control Department and the Commissariat of Finances. The cover for the note issue must be kept in the Treasury of the Issue Department. Gold and foreign currency held abroad for the account of the State Bank cannot therefore reckon as cover for the note issue.

The State maintains the right to issue gold rouble notes. The amount of the State issue is regulated on the first day of each month, and may not exceed half the circulation of chervonetz notes.

General Business

§ 29. The State Bank is to carry on business required for the development of industry and commerce by granting credits against security and for purposes economically expedient to institutions and undertakings of the State industries, to co-operative and other organisations, and to private enterprises as well as to agricultural establishments and peasant industries.

In particular the Bank is to conduct the following operations :

1. The granting of credits for the promotion of productive and constructive enterprises based on estimates and plans prepared by the borrower and approved by the Bank. Such credits to be granted against or without collateral security in the form of secured overdrafts.

The People's Commissary of Finances to have the right of determining the maximum size of such credits to be granted to any individual borrower by the Board of Directors.

These credits will only be granted to such Government undertakings as are not financed by budget grants.

2. The granting of credits at call (secured overdrafts) against the following security : goods in warehouses, way-bills and

shipping documents, bills of exchange and other promissory notes of a maturity not exceeding six months. The total amount of the credit not to exceed 75 per cent of the market value of the goods or notes.

3. The granting of credits at call against the pledging of foreign bonds and stocks, currency, bullion, drafts and foreign bills of exchange up to 60 per cent of the respective stock exchange value of the bonds and stock, 90 per cent of the internal legal value of the metal in weight and 75 per cent of the rate of exchange value of the remaining securities on conditions stipulated in 2, and in accordance with instructions of the People's Commissary of Finances.

4. The granting of fixed term loans against the pledging of any of the securities enumerated in 2 and 3 in similar proportions of their value for a period not exceeding three months and under the conditions laid down in parts 2 and 3.

5. The discounting of bills of exchange and promissory notes falling due within six months from the day of discount.

6. The purchase and sale on commission of goods, the trading in which is permitted by the Government, receiving in advance the price in full or in part, but in the proportion stipulated in 2 and 3, and on condition of final settlement taking place immediately on completion of the transaction.

7. The buying and selling for its own account of foreign securities, drafts, foreign bills of exchange and precious metals, as permitted by law, and in accordance with the instructions of the People's Commissary of Finances, provided that not more than one-third of the capital of the Bank be expended on these operations.

8. The opening of credit against forwarding documents, receiving in advance full or partial cover, and advancing the balance under terms as previously stated, and on condition of final settlement taking place immediately on arrival of the documents.

9. The issuing of transfers and letters of credit on all places within the Russian Socialist Federal Soviet Republic and abroad, where Branch Offices of the Bank are in existence, or the Bank has correspondents.

10. The collection on commission of bills of exchange, promissory notes, foreign drafts, warehouse and transit documents

and other documents and valuables and the effecting of all kinds of payments by order of its clients, provided the amount of such payments has been received in advance.

11. The receiving and paying out of deposits, without restriction of amount on current account, for a fixed period or for an indefinite period.

12. The receiving into safe custody of articles for periods not exceeding five years.

§ 32. For the purpose of transfers, commission and other operations, the Bank may enter into relations with foreign banks and banking institutions and conclude special agreements with them.

In order to develop relations with its foreign correspondents the Bank has the right, with the approval of the People's Commissary of Finances, to pledge valuables in its possession as security for its operations.

§ 33. The Bank undertakes to open Clearing-houses at its head office and local branches, charging the members of the Clearing-houses actual expenses incurred in their working.

Relations with the State

§ 1. The State Bank is charged with the transaction of all cash operations in connection with State revenue and expenditure.

The State Bank operates on self-supporting business lines and is responsible to the People's Commissariat of Finances. It forms part of the People's Commissariat of Finances and is directly subordinate to the People's Commissary of Finances.

§§ 30-31. The Bank undertakes free of charge to receive and execute payments for deposit account of all Government institutions and undertakings and acts as cashier in connection with the execution of the State Budget.

For detailed powers of the State see under:

Management, §§ 5, 7, 8, 11, 12, 24-27.

General Business, § 29, sub-sections 1, 3, 7, § 32.

Returns, §§ 40, 41, 43, 44.

For loans to the State see under Note Issue.

Returns

§ 40. The mode and time of presenting periodical reports will be confirmed by the People's Commissary of Finances.

§ 41. The yearly report and balance sheets of the Bank are to be presented for examination to the Auditing Committee, not later than during the month of March of the year following.

After the examination by the Auditing Committee and not later than in the month of May following, the Board of Directors will present the report and balance sheets, accompanied by the Auditing Committee's report and by their own explanatory memorandum to the People's Commissary of Finances for confirmation and further disposal.

§ 42. The yearly balance sheet will be published in the official *Gazette*. The Board of Directors will also publish periodically statements of accounts of all operations of the Bank.

§ 43. Estimates of the expenses of the Bank within the limits of the budget grants will be prepared by the Board of Directors and presented for approval to the People's Commissary of Finances. Additional grants to cover unforeseen expenses must be applied for in a similar way.

§ 44. The Workmen and Peasants' Inspection (Commissariat of Control) shall participate in the examination of the cash in hand and safe deposits, and in the checking of the estimated expenditure at the end of the financial year.

SOUTH AFRICA

SOUTH AFRICAN RESERVE BANK

Capital

10.[1] Original capital £1,000,000 stock fully paid, of which not more than 50 per cent was to be subscribed by specified banks, and balance was to be offered to public. Capital may be increased by Board with approval of Government, and price of issue to be similarly settled. Any premium to be added to Reserve Fund.

Stockholder entitled to one vote for every £100 stock, of which he has been registered holder for not less than six months before meeting. Banks not entitled to voting power beyond number of votes on £10,000 stock.

[1] Numbers refer to Articles of Act of 1920 (amended 1923 and 1930).

Profits and Reserve Fund

11. After provision for bad and doubtful debts, depreciation in assets, superannuation of staff and usual items provided for by bankers, and after payment, out of net profits, of cumulative dividend of 6 per cent, surplus to be allocated to reserve fund, until latter equals 25 per cent of paid-up capital. Thereafter until reserve equals paid-up capital, half-surplus to be allocated to reserve, one-quarter to Government, and one-quarter, up to and not exceeding 4 per cent of paid-up capital, to stockholders. If last-named quarter exceeds 4 per cent of paid-up capital, excess to be paid to Government. When reserve fund equals paid-up capital net profits, after paying 10 per cent to stockholders, shall be paid to Government.[1]

Branches

12. Bank may establish branches and agencies in the Union and, with the consent of the Government, branches and local committees outside the Union.

Management

9. Board to consist of eleven Directors, of whom six, who must be, or have been, actively engaged, three in commerce or finance, one in agriculture and two in other industry, shall be elected by stockholders, three shall be appointed by Governor-General, and two, the Governor and Deputy-Governor, also shall be appointed by Governor-General. All to be British subjects and resident in Union of South Africa. Directors are

[1] As the result of the suspension of gold payments by Great Britain, the Bank made losses on its holdings amounting to approximately the whole of its Reserve Fund and half its Capital.

According to an arrangement which has been made between the Government and the Bank, the Government will put forward a Bill to amend section 11 (1) of the Currency and Banking Act during the present (1932) session of Parliament. If Parliament approves of the proposed amendment, the position will be that no dividends will be paid until the Bank's capital has been fully restored. After this has been attained the Bank will begin to pay off the arrears of the 6 per cent cumulative dividend, and thereafter will pay its cumulative dividend of 6 per cent, and any profits in excess of the amounts required to pay the dividend of 6 per cent will be placed to the Reserve Fund until it reaches £800,000, when the provisions of section 11 (1) of the Act as it stands at present will apply.

eligible for re-election and reappointment. Governor and Deputy-Governor to be men of tested banking experience and to have no interest in any other bank. Appointment to be for five years.

No person to be appointed or remain a Director if he is or becomes a director, officer, or employee of another bank, or is a member of either House of Parliament or of a Provincial Council.

24. Audit. Two qualified accountants to be elected by stockholders as auditors. Treasury is authorised to inspect Bank's books and to call for returns from any bank in the Union with a view to ascertaining whether provisions of law are complied with.

Note Issue

15-16. Bank to have sole right of issue for twenty-five years. Denominations to be as prescribed by Government, and notes to be redeemable on demand in gold at office of issue.

18. Notes to be legal tender so long as Bank continues to redeem in legal coin; but no tender of note shall be legal tender of payment by Bank.

22. Form and material of notes to be approved by Government.

Reserve

17. Notes issued to be secured as to not less than 40 per cent in gold, and as to remainder by a first charge on all assets of Bank. (As part of reserve shall be reckoned gold at Mint or in transit belonging to Bank, or gold held with Government approval outside Union, in custody of Bank's branches or in other banks, earmarked for Reserve Bank's account, up to an amount not exceeding one-fourth of reserve requirements.)

23. Bank to hold gold or specie reserve of at least 40 per cent of its deposits and bills payable in addition to note reserve (*vide* 17), provided that silver specie may not exceed 20 per cent of total reserve required under this section. One-fourth of reserve may, with consent of Government, be held outside Union, provided it is in Bank's custody or earmarked for Bank's account in another bank.

Suspension of Reserve Requirements

19. Subject to Government consent, Bank may suspend for not more than thirty days, renewing such suspension for periods not more than fifteen days at a time, reserve requirements in the Act, provided[1] that a graduated tax shall be paid to Government as follows :

One per cent per annum on the deficiency of reserve against notes when gold reserve is less than 40 per cent and not less than 32½ per cent; and in addition 1½ per cent per annum upon each 2½ per cent decrease or part thereof by which reserve falls below 32½ per cent.

Provided[1] further that Bank shall add to interest and discount rate a percentage at least equal to the tax. For purpose of ascertaining gold reserve against notes, allowance shall first be made for reserve of 40 per cent to be held against deposits (*vide* 23).

20. Apart from 19, Bank to be exempt from note tax.

GENERAL BUSINESS

13. The South African Reserve Bank is entitled :

(1) to issue notes ;

(2) to accept money on deposit and current account ;

(3) to buy and sell and rediscount bills, promissory notes, or other commercial paper bearing two or more good signatures and having maturity not exceeding one hundred and twenty days ;

(4) to buy, sell or rediscount agricultural paper, bearing two or more good signatures and with maturity not exceeding six months ;

(5) to buy, sell or rediscount Union Government or local authorities' bills of not more than six months' currency ;

(6) to make loans and advances against (*a*) Government or Municipal securities, (*b*) gold or documents relative

[1] The provisos to this section have been suspended by regulations framed under the Finance Emergency Act, No. 48, for 1931. This Act will remain in force until the 30th June 1932, or such later date as may be fixed by resolution of both Houses of Parliament.

to shipment or storage thereof, (*c*) such notes and bills of exchange as are referred to in item 3 of this sub-section, (*d*) such non-speculative dividend or interest-bearing securities having a ready sale on the stock exchange as the Board may approve for that purpose from time to time at intervals of not more than six months, (*e*) one-name promissory notes of any bank carrying on business in the Union, with a maturity not exceeding fifteen days and covered by any collateral security which the Bank is empowered to discount or accept as security for a loan or advance, (*f*) one-name bills of exchange or promissory notes, secured by documents of title representing staple commodities having extensive and active markets, to an amount not exceeding seventy-five per cent of the value of such commodities at current market prices ;

(7) to engage in remittance and exchange ;

(8) to buy and sell Government and local authorities securities not having more than six months' currency ;

(9) to invest sums not exceeding capital and reserve in Union or other Government securities of not more than two years' currency, and invest staff and superannuation funds in Union Government securities of any currency ;

(10) to buy and sell securities for customers ;

(11) to deal in precious metals and contract for loans of gold and bullion ;

(12) to accept custody and management of articles of value ;

(13) to open accounts in foreign countries and act as agents for other banks.

14. Bank may not :

(*a*) engage in trade or have direct interest in any commercial, industrial or other undertaking save as is specially provided by its permissible business ;

(*b*) purchase its own stock, or shares of any bank, or grant loans on security of same ;

(c) advance money on mortgage of fixed property or become owner thereof, except for its own business requirements;

(d) make unsecured loans or advances;

(e) make loans or advances for a longer period than three months;

(f) accept money on deposit for fixed term or allow interest on current accounts.

Relations with the State

Bank may act as bankers to Government, including railways and official institutions.

29. Governor-General may make regulations as necessary for carrying out provisions of the law.

See also under Management, Art. 9, for conditions of appointment of Governor and Deputy-Governor, and Art. 24, for Treasury Inspection.

Under Profits and Reserve Fund, Art. 11, for State share in profits.

For cases in which Government approval is necessary see under Note Issue, Art. 22; under Reserve, Art. 19; under Branches, Art. 12.

State and Liquidation see Art. 11 below.

Returns

25. Bank to transmit to Government:

(1) weekly account of assets and liabilities, to be published;

(2) annual accounts, to be published;

(3) list of names of stockholders and amount of stock held, to be laid before Parliament.

Relations with Commercial Banks

30. All banks to keep reserve balances with Reserve Bank up to at least 10 per cent of demand liabilities and 3 per cent of time liabilities to the public in the Union, subject to penalty of 10 per cent per annum on amount of deficiency for each day it has continued. No Bank may make new loans or pay dividend until required reserve balance is restored.

31. All banks to submit to Treasury monthly returns, including details of bank's demand and time liabilities to public in the Union of South Africa, gold and subsidiary coin held there, balances at Reserve Bank, advances and discounts and Reserve Bank notes.

Term of Charter and Liquidation

15. Term of Bank's privilege, 25 years from 1920.

11. Bank not to be placed in voluntary or compulsory liquidation except on authority of Act of Parliament. In event of liquidation, reserve and surplus to be divided between Government and stockholders in proportion of 60 per cent and 40 per cent respectively.

SPAIN

BANK OF SPAIN

Capital, Profits and Reserve Fund

S. 1.[1] Capital was raised by the Law of 1921 to Pesetas 177,000,000 in shares of P. 500 each fully paid, and power is given for raising to P. 250,000,000 on vote of a special general meeting of shareholders with the consent of the Government.

Shareholders receive a dividend of 10 per cent from net profits and share excess with State. The amount payable to the State is a percentage of the excess over 10 per cent, and rises with the dividend on the following scale:

	If dividend is over	10	and up to	11 %	proportion to State,		5 %
	,,	11	,,	12 %	,,	,,	10 %
	,,	12	,,	13 %	,,	,,	15 %
L. 1.	,,	13	,,	14 %	,,	,,	20 %
S. 21-22.	,,	14	,,	15 %	,,	,,	25 %
	,,	15	,,	16 %	,,	,,	30 %
	,,	16	,,	17 %	,,	,,	35 %
	,,	17	,,	18 %	,,	,,	40 %
	,,	18	,,	19 %	,,	,,	45 %
	,,	19	,,	20 %	,,	,,	50 %
			Above	20 %	,,	,,	52 %

[1] Numbers refer to Articles of Law of 29th December 1921 (L.) and of Statutes of 18th July 1922 (S.), as amended 27th November 1931.

P. 2,000,000 are deducted from the net profits for credit to a special reserve annually. This sum is not reckoned for the purposes of calculating the share due to the State.

Various reserves have been established in accordance with previous laws, and the Bank is authorised to establish other reserves.

MANAGEMENT

S. 23. The conduct of the Bank is in the hands of the Governor, two Assistant-Governors and a Council of twenty members.

S. 25. The Governor is nominated by the Government. He represents the State and is the head of the Bank control. *Inter alia*, he is responsible for seeing that the Bank's operations conform to the statutes as regards reserves and otherwise. He may suspend any decision of the Council that he considers contrary to the laws and report it to the Finance Minister.

S. 30. The Assistant-Governors are nominated by Royal decree, on the proposal of the Council.

S. 36.[1] The Council numbers twenty-one; Spanish shareholders only eligible. Their appointment requires approval of the Government. Fifteen are to be elected from the shareholders; one is elected by banking institutions participating in the scheme of control of banking; one is nominated by the Chamber of Industry and Commerce; one by the official Agricultural Corporations, and three by the Government on the proposal of the Minister of Finance to represent the general interest of the national economy. The three State councillors may not own any shares in the Bank, all other Directors must deposit a given number of shares as guarantee.

Period of office, five years—members are eligible for reappointment.

S. 37. Eighteen associates, six chosen by each of three groups of shareholders divided according to the amount of their shares, take part in the sitting of the Council.

S. 40. The duties of the Council are defined by the statutes. They include the regulation of the note issue, subject to the legal limit, the supervision of the Bank's operations, the settling of discount and loan rates, the passing of the balance sheet and the allocation of profits.

[1] As amended 27th November 1931.

S. 43-50. The Council is divided into five permanent Committees, called the Committees of Issue, Operations, Administration, Control (Accounts) and Branch Business. Other Committees may be appointed if necessary.

General Assembly

S. 53-54. The General Assembly, whose ordinary annual meeting is held in March, consists of shareholders who have held fifty or more shares for three months. The right of participation is personal and cannot be delegated. Holders of shares up to 150 have one vote, of 150 to 300 two votes, of more than 300 three votes.

S. 59. Duties include passing of the balance sheet and confirming nominations for vacancies on Council and among the Associates.

Extraordinary meetings may be summoned by Royal authority, when deemed necessary by the Council or at the request of 100 or more shareholders representing 15 per cent of the capital of the Bank.

NOTE ISSUE AND RESERVE

L. I. Bank of Spain has monopoly of note issue.[1]

L. I. 2. The circulation may not exceed 5000 million pesetas, except on the proposal of the Supreme Banking Council if required by the economic conditions, when the Government may authorise an increase up to 6000 million pesetas.

On note issue up to P. 4000 million, reserve must be held of 45 per cent metal, with a minimum of 40 per cent gold, balance silver.

On issue in excess of P. 4000 and up to P. 5000 million, 60 per cent metal, with a minimum of 50 per cent gold, balance silver. Same ratio applies to issues in excess of 4000 million, if issue is raised with approval of Government to P. 6000 million. Gold may be held in Spanish coin, foreign coin at its par value, or bars at the rate of 3·444 pesetas to 44 c. per kilogram of gold. Up to 3 per cent of requirements of gold may be held

[1] By the amending Law of 1927, the Bank in virtue of this monopoly will be charged with the control of the foreign exchange market from the date on which the Government may decree the establishment of the Gold Standard, the obligation to cease on certain conditions relating to deficits in the budget or in exceptional economic circumstances.

abroad by Bank's agents. The silver must be in legal tender coin.

No reduction may be made in gold holdings without the agreement of the Government. No authorisation for the decrease of gold holdings may be given unless it is in excess of the reserve necessary for a circulation of P. 6000 million.

In return for the grant of the privilege of issue, the State receives share in profits of Bank (see under Capital and Profits).

By an amendment of 1931 a tax has been instituted on the amount of bank-notes in circulation not covered by the metallic reserve, provided that the reserve does not exceed the legal minimum requirements by 50 per cent. The tax being as follows:

5	per thousand	if the surplus	is less	than 10 %
4	,,	,,	,,	between 10 and 20 %
3	,,	,,	,,	,, 20 and 30 %
2	,,	,,	,,	,, 30 and 40 %
1	,,	,,	,,	,, 40 and 50 %

The amount of advances made by the Bank to the State without interest is deducted for the purposes of estimating the tax, which will be liquidated quarterly.

General Business

S. 6-20. The Bank of Spain is authorised:

1. To discount bills with currency not exceeding ninety days, and bearing signature of at least two persons of known solvency. Special privilege in regard to rate is given in case of bills presented for rediscount by private banks and certain agricultural institutions, and in case of certain bills relating to agricultural operations. In last case the currency of the bills may be up to one year, if certain additional guarantee is afforded.

Bonds of the State and Treasury Debt and industrial and commercial securities may also be discounted, but the above preferential rates do not apply in these cases.

2. To make advances for periods not exceeding ninety days against collateral of:

(*a*) Gold and silver up to 90 per cent of intrinsic value.

(*b*) Government securities up to 80 per cent of effective value or as may be arranged with Government.

(*c*) Other securities on conditions to be determined by the Bank.

(*d*) Bills of lading up to 50 per cent of value.

(*e*) Insured merchandise supported by approved warehouse receipts or approved guarantees up to 70 per cent of value.

In case of (*a*), (*b*) and (*c*) a privilege of ½ per cent on the rate is granted to the organisations indicated in the preceding section, except in the case of State securities, securities of State industrial monopolies and State-guaranteed securities. In case of (*d*) and (*e*) value may be raised by 10 per cent for the above organisations.

3. To open current accounts. (These may be opened against approved collateral and, in certain cases, against personal security with guarantees.)

4. To take custody of articles, etc., of value.

5. To buy and sell precious metals, transfer funds and to undertake business for third parties and all other customary bank operations.

6. To act as bankers to the Government gratis.

The Bank is not allowed to buy or sell securities for speculative purposes, to lend on its own shares, or to accept mortgages as collateral. Shares or real property that come into its possession in the course of business are to be realised as soon as possible.

Relations with the State

L. 1. State has received in the past various credits from the Bank either interest-free or on beneficial terms, which were extended by the Laws of 1921 and 1927.

The Bank acts as bankers to the Government gratis.

See also under :

Capital, Profits and Reserve Fund for State share in profits.

Management, S. 25 and 30 for State appointments.

Note Issue.

By the Act of 1931 the bank rate is to be fixed by the Bank with the approval of the Minister of Finance, both parties being empowered to propose its alteration.

Returns

S. 21. Accounts to be prepared twice a year at end of June and December.

Term of Charter

Until 31st December 1946.

SWEDEN

SVERIGES RIKSBANK

Capital

Art. 2.[1] Capital, 50 million kronor,[2] apart from real estate, office equipment, collection of coins and medals and the instalment loan fund.

Profits and Reserve Fund

Art. 26. Ten per cent of the net profits to be paid to the Reserve Fund until this equals 25 per cent of the capital stock of the Riksbank. Thereafter payments to the Reserve Fund may cease, but if it falls below 25 per cent they must be resumed.[3]

A sum not less than the amount of the reserve fund shall be held in the following forms :

(*a*) Foreign government securities which are readily saleable.

(*b*) Bills of exchange, payable abroad.

(*c*) Funds with a maturity not exceeding six months deposited on account with foreign banks, less any contra accounts.

Branches

Art. 9. Head Office at Stockholm and branch offices. There shall be at least one branch in each of the counties excepting the county of Stockholm.

Management

Directors

Art. 72 of Constitution of 1809. The Riksbank is governed by a board of seven directors in accordance with the laws laid down jointly by the King and the Riksdag.

One director (with one substitute) appointed by the King for a renewable term of three years.

[1] Except where otherwise stated numbers refer to Articles of the Law of 1897, with subsequent amendments to 1931.

[2] Owned entirely by the State and placed under the guarantee of the Riksdag.

[3] By decision of the Riksdag in 1929 the Reserve Fund is increased to 20 million kronor.

Six directors appointed by the Riksdag [1] for a renewable term of three years; three substitutes for a renewable term of one year.

The Director appointed by the King shall be President of the Riksbank.

Art. 29. Members of the Ministerial Council and directors of the National Debt Office may not be directors of the Bank.

Art. 30. Directors must be Swedish citizens.

They may not be members of any other Swedish bank other than a savings bank or the Post Office Savings Bank, or of any foreign bank except the Bank for International Settlements.

Art. 35. Directors of the Bank and managers of branch offices may not act as agents in connection with the discounting of bills and the securing of loans.

Auditors

Art. 72, Regulations of 1866. Twelve auditors for each year, six from each chamber, shall be elected each session of the Riksdag to verify the balance sheet, administration and management of the Treasury, the Riksbank and the National Debt Office.

NOTE ISSUE AND RESERVE

Art. 72, Constitution of 1809. The Bank has the sole right of note issue. Its notes are legal tender.

The notes shall be payable on demand at the Head Office in gold.[2] A suspension of the obligation on account of war or some serious financial crisis may be granted for a fixed period jointly by the King and Riksdag, or if the Riksdag is not in session by the King alone, on the proposal of the Board of Directors and after consultation with the directors of the National Debt Office. Such suspension must be ratified by the Riksdag within twenty-one days after its first meeting, failing which it becomes void.

[1] These Directors are elected by 48 Electors taken in equal numbers from each chamber of the Riksdag. Election is by secret ballot. Regulation of Riksdag, 1866 (Art. 71).

[2] By Royal decree of 27th September 1931, supplemented by later decrees, the Bank has been temporarily discharged from its obligation to redeem its notes in gold.

Art. 5. The denomination of the notes to be for 5, 10, 50, 100 and 1000 kronor. In exceptional circumstances the King may authorise on the proposal of the Board of Directors the issue of 1 kronor notes.

Art. 6.[1] Notes may be issued to an amount of 250 million kronor, together with an amount equal to double the metallic reserve.

In case of war, menace of war or a serious financial crisis, the issue of an additional 125 million kronor may be authorised by the King and Riksdag acting together.

Art. 7. The portion of the note issue which exceeds the metallic reserve must be covered by the following assets :

(*a*) Readily saleable Government securities, domestic or foreign.

(*b*) Bonds of the Royal Mortgage Bank of Sweden, of the Swedish Cities Mortgage Bank and other domestic bonds which are quoted on foreign bourses.

(*c*) Gold coin or bullion on deposit abroad, or in transit therefrom, duly insured unless included in the gold reserves as in Art. 8.

(*d*) Bills of exchange payable in Sweden or abroad.

(*e*) Funds with a maximum maturity of six months deposited on account with foreign banks, less any sums owing by the Riksbank to foreign banks.

(*f*) Advances made on Government securities and bonds defined under (*a*) and (*b*).

Art. 8. The metallic reserve consists of gold coin (Swedish or foreign) and bullion belonging to the Riksbank and held in Sweden and, up to an amount corresponding at most to 15 per cent of the total gold reserve, of gold held abroad or under transport, duly insured. It may not be allowed to remain below 150 million kronor.

General Business

The Riksbank may carry out the following business :

Art. 10. Buy and sell gold and silver.

Bullion delivered to the Mint on account of the Bank shall be paid for by the Bank at the rate of 2480 kronor per kilogram of fine gold, less $\frac{1}{4}$ of 1 per cent for the expenses of minting.

[1] As amended by the Law of 9th May 1930.

The Board of Directors may, however, exempt the seller from all or part of the expenses of minting.

Art. 11. Buy and sell bills of exchange drawn on foreign firms or persons resident abroad of a maturity not exceeding six months, and payable abroad or in Sweden.

Buy and sell foreign securities of the same maturity.

Art. 12. Buy and sell Swedish bonds and foreign government securities quoted on foreign bourses and readily saleable.

Acquire through other transactions Swedish Government bonds or securities of foreign governments which are readily saleable.

Serve as agent for the sale of Swedish Government bonds and bonds of the Royal Mortgage Banks of Sweden.

The Bank is also entitled to purchase shares of the Bank for International Settlements to an amount fixed by the King and the Riksdag.[1]

Art. 13. (*a*) Discount acceptances payable in Sweden within six months;

(*b*) make advances on bonds, shares or other securities for a fixed period not exceeding six months, or on call for a period not exceeding three months (certain local and other authorities may obtain advances without other collateral than their own notes);

(*c*) make advances redeemable at a fixed date within six months on merchandise deposited in a public warehouse or with a reliable third person who binds himself to hold them or their value at the disposition of the Riksbank;

(*d*) grant cash credit or drafts on current account for a period not exceeding twelve months, against securities in the form of bonds, shares or mortgages on real estate, or on a personal guarantee. The total of such credits not to exceed kr. 15 million, exclusive of cash credit to National Debt Office (see Relations with the State, Art. 14);

(*e*) grant credits from the Instalment Loans Fund,[2] which amounts to kr. 44 million and is placed under the administration of the Bank. Credits to be secured as in (*d*) above.

[1] The amount has been fixed at 20 millions of Swiss Francs.

[2] These loans are repayable in instalments over 2½, 5 or 7½ years.

Art. 15. Loans or cash credits to Directors of the Bank or its branches to be made only against merchandise stored in a public warehouse, bonds of the Swedish Government, Royal Mortgage Banks or mortgage societies.

Loans, cash credits or credits on current account may not be granted on the guarantee of a Director of the Bank or its branches, nor bills discounted bearing the name of any Director as acceptor, or drawer or last endorser, or of any substitute Director.

Art. 16. The Riksbank may receive at its Head Office or branches:

(*a*) deposits of money repayable without interest on sight or at fixed periods;

(*b*) deposits on drawing accounts without charge or interest. The Bank may make arrangements to facilitate clearing in this connection.

The Bank may also open checking accounts for firms which do discounting business with the Bank, and not themselves conduct a banking business.

The Bank is empowered to open deposit accounts on which interest is payable. (*N.B.*—The Bank has not taken advantage of this permission.)

Art. 18. All persons are entitled to make payments to the head office or branch, and to receive a draft free of charge on the main office payable on presentation.

Art. 19. The Riksbank to accept gold, silver or securities for safe keeping.

Art. 20. If the Board of Directors deem it necessary, the Riksbank may arrange for foreign credits.

The Riksbank may open accounts with or without interest with foreign banks and mercantile firms of sound credit.

Art. 21. The Riksbank is authorised to conduct business for profit at its printing works and paper mills.

Art. 22. The Riksbank may not conduct or take part in any type of business other than those expressly permitted by law.

It may not own real estate other than that necessary for the conduct of its business. The Riksbank is, however, authorised to purchase real estate or other property given as pledge, if such purchase is considered necessary to safeguard its rights. Property so acquired shall be disposed of when it is deemed advantageous, or when it can be done without loss.

Relations with the State

Art. 72, Constitution, 1809. The Riksbank is placed under the guarantee of the Riksdag.

Art. 14. The National Debt Office may be granted a credit not exceeding kr. 1,500,000 without security or commission charges.

Art. 17. The Riksbank to accept without interest funds deposited to the account of the Treasury.

Art. 32. The Directors to present annually to the Parliamentary Committee on Banking a report on the position and management of the Bank, which shall be made public.

Art. 34. The Directors may not receive instruction for the administration of the Riksbank, except from the Riksdag or its Parliamentary Committee on Banking.

The Directors are responsible to the Riksdag, its Parliamentary Committee and its Auditors.

The responsibility of the Directors of the Bank and its branch offices is determined in special statutes.

For State powers in connection with :

Appointments of Directors and Auditors see Arts. 72 of Constitution of 1809 and Art. 72 of Regulations of 1866, under Management.

Note issue, Art. 72 of Constitution of 1809, Arts. 5. 6 and 7.

Accounts

Art. 24. The Bank to publish in the official *Gazette* :

(*a*) a monthly summary statement of assets and liabilities ;

(*b*) a weekly statement of notes outstanding and of the metallic reserve and other securities against notes.

SWITZERLAND

SWISS NATIONAL BANK

Purpose of the Bank

2.[1] The principal task of the Bank is to regulate the money market and to facilitate payments.

[1] Numbers refer to Articles of Loi fédérale sur la Banque Nationale Suisse, dated 7th April 1921, except where otherwise stated, with subsequent amendments.

Capital

5. Capital, fcs. 50,000,000 paid up as to 50 per cent, in 100,000 shares of fcs. 500 each.

6. Capital may be increased by vote of the general meeting of shareholders, subject to approval of the Federal Assembly, which determines the conditions of raising the new capital.

7-8. Only Swiss citizens and firms or corporations domiciled in Switzerland may be registered as shareholders. Transfers require approval of Bank Committee.

Profits and Reserve Fund

27. A reserve fund created out of profits has been formed to cover loss of capital.

28. Out of annual profits, first charge is 10 per cent to reserve, provided this charge does not exceed in a financial year 2 per cent of paid-up capital. Next charge is dividend not exceeding 5 per cent on paid-up capital. Further of the balance, up to 10 per cent, may be appropriated for the payment of a super-dividend not exceeding 1 per cent of paid-up capital.

The remainder is divided as follows :

(1) Cantons receive contribution of 80 centimes per head of population.

(2) Thereafter, subject to Art. 29, one-third of surplus reverts to Confederation and two-thirds to Cantons. Shares of Cantons are determined by Federal Council on basis of population normally resident according to latest census.

29. If in any year the profits do not suffice to pay the fixed dues to be made over to the Cantons, the Federal Treasury shall advance the sums required to make up the amount. These advances shall be repaid with 3½ per cent interest as soon as profits allow, and until this has been done the supplementary apportionment referred to in final clause of 28 shall not take place.

Branches

4. Branches and agencies may be established after consultation with the Cantonal Government. Failing agreement the decision rests with the Federal Council. Each canton or

half-canton not possessing a branch may demand the establishment of an agency in its area.

Management

General Meeting of Shareholders

31. Meeting may be attended by any registered shareholder or his attorney (provided latter is also shareholder).

33. President of the Bank Council, or if he is prevented, Vice-President, or, if need arise, another member of the Bank Committee designated by the Bank Council, presides.

37. Each share gives one vote, but no individual can exercise more than 100 votes in respect of his own shares or those he represents.

39. The ordinary general meeting is held annually to receive the report and accounts, and to decide as to disposal of the profits.

40. Further, it deals with following :

(1) Nomination of fifteen members of the Bank's Council.
(2) Nomination of the Commission of Control.
(3) Decisions on matters submitted by Council of Bank.
(4) Decision on increase of capital, subject to approval of Federal Assembly.
(5) Proposals to the Federal Council, for transmission to the Federal Assembly, for revision of the Bank Act.
(6) Decision, at least a year before the expiry of its privilege, regarding the continuance or liquidation of the Corporation.

41. Proposals for increase of capital or revision of the Bank Act can only be carried if at least a quarter of the total number of shares is represented. The decision regarding continuance or liquidation of the Bank can only be taken if at least a half of the total number of shares is represented. If the meeting does not provide the required quorum, a second meeting is held, at which the matters referred to can be deliberated even if the stated number of shares is not represented.

The Corporation will be continued after expiration of its privilege, unless at least two-thirds of the votes are entered for liquidation.

Council of the Bank

42. The Council is composed of forty members, appointed for administrative term of four years, fifteen chosen by the General Meeting and twenty-five by the Federal Council.

43. The Council should include, besides representatives of finance, representatives of commerce, industry, trade and agriculture.

44. The Council is nominated as follows :

The Federal Council first names the President and Vice-President.

The General Meeting next nominates fifteen members.

The Federal Council then nominates twenty-three others, of whom at most five may be members of the Federal Chambers and at most five of Cantonal Governments.

The members of the Council need not deposit shares.

45. The Council exercises a general supervision on the conduct of affairs. It is specially charged :

(1) to nominate five members of the Bank Committee ;
(2) to nominate local Committees ;
(3) to make proposals to the Federal Council for the nominations of the members to the general direction, and their substitutes, and for the local directions ;
(4) to approve such regulations, reports and annual accounts prepared by the Bank Committee as require submission to the Federal Council ;
(5) to lay down rules regarding transfer of shares ;
(6) to prescribe issue of notes envisaged in 18 (second clause) ;
(7) to call up unpaid capital ;
(8) to recall series of notes ;
(9) to fix terms of service for staff ;
(10) to draw up proposals to be submitted to the General Meeting ;
(11) to take decisions regarding business involving more than five million francs or the grant of credit to clients involving more than three million francs. (When the credit concerned exceeds one-fiftieth of paid-up capital of Bank, the assent of at least thirty members of Council is required.)

49. The Council meets at least once in three months. (Provision exists for extraordinary meetings.)

Committee of Bank

50. A Committee of seven members, nominated for administrative period of four years, controls the conduct of the Bank, as a delegation of the Council. The Committee includes the President and Vice-President of the Council, and five others nominated by the Council of the Bank, which also appoints three substitutes.

The Committee meets as necessary, and at least once a month.

51. The Committee deals in the first instance with all questions coming before the Council. It advises regarding the discount rate and rate of interest on advances. It determines all matters not reserved by law for any other organ of the Bank. Grants of credit exceeding one million francs and not requiring sanction of the Council are submitted for its approval.

Local Committees

52. These consist of three or four business men nominated by the Council of the Bank for each office and branch. They consider questions concerning grants of credits and advances.

Commission of Control

53. This Commission is nominated annually by the ordinary General Meeting. It consists of three members and three substitutes (non-shareholders are eligible). It verifies the annual accounts and balances and submits a written report to the General Meeting.

General Direction

54. The general direction is the supreme executive of the Bank. Subject to the reservations in the law it carries out all measures appropriate to the purpose of the Bank. In particular it fixes rate for discounts and advances, after consulting the Bank Committee and hearing the views of the directions of the principal branches.

55. The general direction is composed of three members with necessary substitutes, who are nominated by the Federal Council on the proposal of the Council of the Bank for an

administrative term of six years. The Federal Council designates the President and Vice-President.

Local Directions

56. Each branch has a director and may have a sub-director. They are nominated for administrative terms of six years by the Federal Council on the recommendation of the Council of the Bank.

General Regulations

57. Members of the Bank Council and Local Committees, the members and substitutes of the Commission of Control as well as all the officials, must be Swiss citizens domiciled in Switzerland.

58. Members of the Federal Assembly, the Cantonal Governments and the Bank Council are incligible for the general or local directions.

NOTE ISSUE AND RESERVE

1. The Bank has monopoly of note issue.

17. Bank issues notes in accordance with trade needs.

The preparation, withdrawal and destruction of notes is under supervision of Federal Finance Department.

18. Denominations of notes are 50, 100, 500 and 1000 francs. With assent of Federal Council notes of other denominations may be issued.[1]

19. Equivalent of notes in circulation must be covered by :

(1) Swiss gold coins ;

(2) gold bar, reckoned at mint parity allowing for coinage charges ;

(3) foreign gold coin ;

(4) bills of exchange, cheques, securities, Treasury bonds, foreign sight drafts ; or

(5) loans resulting from advances on current account :

(*a*) against securities, conforming to the conditions in 14 (4*b*) (see under General Business) ;

(*b*) against precious metals (*vide* 14 (8)—see under General Business).

The metallic cover must amount to at least 40 per cent of note circulation.

[1] Notes of 5 francs and 20 francs have been authorised (Decrees of Federal Council dated 30th July and 3rd August 1914 and 3rd October 1921).

20. The Bank is obliged to cash its notes on demand at par in Swiss gold coins:

(*a*) at its Head Office in Berne without limit of amount;

(*b*) at its Head Office at Zurich, branches and agencies, to the extent of available cash, but in all cases after the time necessary for bringing currency from the Central Office.

As long as the Central Banks of States, designated by the Bank authorities as of special importance, do not themselves cash their notes in gold coins, the National Bank equally may cash its notes on demand at its option:

in Swiss gold coins;

in gold bars of the usual commercial weight (about 12 kg.) at the legal mint parity;

in gold exchange (payments or cheques) of States with a free gold market. The rate of conversion is to be reckoned on the basis of the exchange rate at the time of the operation, but in no case may it exceed the export point for Swiss gold coins to the respective foreign banking centre. The designation of the exchanges is reserved to the National Bank.

Payment is made

in gold coins and gold bars: at its Head Office in Berne to any amount, at the Head Office in Zurich, branches and agencies, to the extent of available gold after their own requirements have been met, but in all cases within the time necessary for bringing gold from the Central Office;

in gold exchange to any amount at all the above-mentioned offices of the Bank.

21. The Bank is obliged to receive its notes at par. Public Federal Treasuries are equally obliged to accept the Bank's notes at par in payment.

22. The Federal Council cannot declare the notes legal tender or free the Bank from the obligation of cashing them in legal currency, except in case of necessity at time of war.

25. With the authority of the Federal Council the Bank may recall specified series of notes owing to deterioration, forgery or other important reason. For twenty years from the notice of recall the Bank is obliged to pay or exchange the notes at nominal value.

GENERAL BUSINESS

14. The Bank may :

(1) Issue notes.

(2) Discount bills of exchange, and cheques to order (including agricultural paper arising out of commercial transactions), payable in Switzerland, bearing at least two thoroughly good and independent signatures. Discount securities payable in Switzerland and eligible as collateral for loans. Maturity must not exceed three months.

(3) Purchase and sell bills, cheques to order, foreign sight drafts and Treasury bonds of foreign States. (Conditions as to maturity of and signatures on bills as in (2).)

(4) Make advances at interest against security :

(*a*) for fixed period not exceeding three months ;

(*b*) on current account, callable at most at ten days' notice.

Shares are not accepted as security.

(5) Receive deposits without interest, and receive at interest on current account Government funds and funds of establishments under Government control.

(6) Make transfers and payments, and carry out collections.

(7) Purchase on its own account Government and Cantonal bonds and those of foreign states, payable to bearer and easily saleable. These operations may only be effected for the temporary employment of resources at the disposal of the Bank.

(8) Purchase and sell, for its own account or for third parties, precious metals, coined or in bar, and make advances against these metals.

(9) Issue gold certificates.

(10) Accept for safe custody securities and articles of value, and effect purchase and sale of securities and subscriptions on account of third parties.

(11) Arrange issue of Government loans and accept subscriptions for Government and Cantonal loans, but it is excluded from taking up these loans.

15. The Bank is obliged (1) to receive and pay moneys on behalf of the State, without charge, but only up to the amount of balances of the State with the Bank ; and

(2) to manage without charge funds belonging to the State and placed under its administration.

Relations with the State

2. The Bank undertakes to carry out without charge the service of the Federal Treasury.

26. Accounts must be submitted to approval of Federal Council before presentation to shareholders.

12. The Bank is exempt from all taxation in the Cantons.

65. This article enumerates the heads under which the Government exercises a supervision over the Bank.

1.—*Federal Assembly*

See Art. 6, under Capital.

2.—*Federal Council*

See Art. 4, under Branches.
See Arts. 18, 22 and 25, under Note Issue.
See Art. 28, under Profits and Reserve Fund.
See Arts. 42, 44, 55, 56, under Management.
See Art. 26, under Returns.

3.—*Federal Department of Finances*

See Art. 17, under Note Issue.

Returns

16. The Bank publishes its rate for discounts and advances. It also publishes weekly returns of assets and liabilities and its annual accounts.

26. The accounts for the Bank must be submitted to the Federal Council for approval before presentation to the General Meeting. The annual balance sheet must conform with the requirements of the Federal Code.

Term of Charter and Liquidation

76. The decision relative to the renewal or otherwise of the Bank's privilege as well as to the possible taking over of the Bank by the Confederation is effected by the Federal Legislature. If the Confederation wishes to renew the privilege, the term of renewal shall be ten years each time. If the Confederation is against renewal, it reserves the right, subject to a year's previous

notice, to take over the Bank with its liabilities and assets on the basis of an agreed balance sheet, or one settled by the Federal Court in the event of disagreement. The same conditions apply if the General Meeting votes for liquidation.

77. Failing a decision under 76, the issue of notes rests with the Bank for three further years.

78. In the event of transfer of the Bank to the State, the paid-up capital is repaid with interest at 5 per cent pending liquidation. Any reserves available after providing for losses are divided as to one-third, but not exceeding 10 per cent of the paid-up capital, to the shareholders, a half of the balance to the State, to be paid to the new Bank of Issue, and the other half to the Cantons in proportion to their population. The assets balance is assigned to the new Bank of Issue of the Confederation.

Term of Charter

Extended from 20th June 1927 to 20th June 1937 by the Law of 1925.

UNITED STATES OF AMERICA

FEDERAL RESERVE SYSTEM

Purpose of Federal Reserve System

Preamble

To provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States of America, and for other purposes.

Capital

2.[1] All national banking associations to subscribe to capital stock of Federal Reserve Bank in their district, in gold or gold certificates, up to 6 per cent of capital stock and surplus of bank, half to be paid up by instalments and half to be at call.

[1] Numbers refer to sections of Federal Reserve Act, 1913, as amended to 1932.

State banks, banking associations and trust companies conforming to certain requirements may also become members of the Federal Reserve Banks.

Stockholders are liable for engagements of Bank to the amount of the par value of their stock, in addition to the amount subscribed, whether paid up in whole or in part.

If subscriptions by banks are insufficient to provide necessary capital, stock may be offered to public at par, and provision is made for issue of stock to United States Government for subsequent disposal if subscriptions by banks and public are insufficient to produce requisite capital.[1]

No Federal Reserve Bank to commence business with subscribed capital of less than $4,000,000.

5. Federal Reserve Bank stock to be in shares of $100 each. Stock of Bank to be increased or decreased as member banks increase or reduce their stock or surplus. Such banks to subscribe 6 per cent of any increase in stock or surplus, one-half to be paid up and one-half to be at call.

6. Provision is made for readjustment of capital of Federal Reserve Bank on reduction by member bank of its capital or on its liquidation.

Profits and Reserve Fund

7. After payment of expenses stockholders to receive cumulative dividend of 6 per cent. Balance to be paid to the United States as a franchise tax, except that net earnings shall be paid into a surplus fund until such fund equals subscribed capital of Bank, after which 10 per cent of net earnings to be so credited.

Net earnings derived by United States from Federal Reserve Banks to be used to supplement gold reserve against United States notes, or to reduce outstanding bonded debt of United States.

Organisation

Federal Reserve Districts

§ 2. Designation of Federal Reserve Cities, not less than eight and not more than twelve, as centres of Federal Reserve districts.[2]

[1] No offer of stock to the public or Government has been necessary.

[2] Actually 12 have been designated.

Board of Directors of Federal Reserve Banks

4. The Board " shall administer affairs of Bank fairly and impartially and without discrimination . . . and shall, subject to provisions of the law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks ".

Board to consist of nine members, in three classes :

A. Three chosen by and representative of stockholding banks ;

B. Three at time of election actively engaged in their district in commerce, agriculture or other industry ;

C. Three designated by Federal Reserve Board, one of whom to be designated Chairman and Federal Reserve Agent—he must be a person of tested banking experience.

No Senator or representative of Congress to be member of Federal Reserve Board or officer or director of a Federal Reserve Bank.

No director of Class B to be connected with a bank as director or official.

No director of Class C to be connected with a bank as director, official or stockholder.

A and B directors to be elected by member banks under a prescribed procedure.

Term of office, three years.

State Banks as Members

9. All State banks, becoming members of the system, to comply with reserve and capital requirements of Federal Reserve Act, and with provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, and relate to withdrawal or impairment of their own capital stock and the payment of unearned dividends.

No State bank operating a branch outside the city, town or village in which the parent bank is situated can become a member of the reserve system if the branch was acquired subsequently to 25th February 1927.

All such banks to make reports at least three times annually to Federal Reserve Bank, subject to penalty for omission.

All such banks to be subject to examination under direction of Federal Reserve Bank or Board.

Subject to the Act and rules, all State banks, becoming members of system, to retain full rights as a State bank or Trust Company, and to enjoy all privileges of member banks, provided that no Federal Reserve Bank shall discount paper of any one borrower whose debt to such State bank or Trust Company is greater than could be lawfully incurred if it were a national banking association.

Federal Reserve Board

10. Eight members—Secretary of the Treasury and Comptroller of the Currency (*ex officio*), and six members appointed by the President with the approval of the Senate, not more than one of whom to come from any one Federal Reserve district. In making selection, President to have regard to fair representation of financial, agricultural, industrial, commercial interests and geographical divisions of the country. The six members to be full-time officers and to be salaried ($12,000 per annum); term of office, ten years. One of the six appointive members to be designated by President as Governor, " the active executive officer ", and one as Vice-Governor of Federal Reserve Board. Secretary of Treasury to be *ex-officio* Chairman of Board.

The Secretary of the Treasury may assign offices in Department of Treasury.

All members of Board to take oath of office.

Expenses of Board to be met from a levy on Federal Reserve Banks in proportion to their capital stock and surplus.

No member of Board to be officer or director of or stockholder in a Bank.

Secretary of the Treasury and Comptroller of the Currency to be ineligible while in office and for two years after to hold any office in a member bank. This applies also to other members of the Board who resign prior to the expiration of their appointed term.

Board to make annually full report for information of Congress.

11. Powers of Board :

(*a*) to examine books and affairs of Federal Reserve Banks and member banks. Weekly returns of assets and liabilities, showing position of each Federal Reserve Bank, and a consolidated statement for all Federal Reserve Banks must be published ;

(*b*) to provide for rediscounting by Federal Reserve Banks of discounted paper of other Federal Reserve Banks at prescribed rate of interest ;

(*c*) to suspend any reserve requirements for period not exceeding thirty days, and to renew same for periods not exceeding fifteen days, subject to establishment of graduated tax on deficiency, and subject to following graduated tax in case of deficiency of note reserve :

If gold reserve against Federal Reserve notes falls below 40 per cent, tax not exceeding 1 per cent per annum, if proportion is between 40 per cent and 32½ per cent ; a tax of not less than 1½ per cent per annum for each 2½ per cent or part thereof by which reserve falls below 32½ per cent. Tax to be paid by Reserve Bank, which shall add amount of tax to rates of discount and interest fixed by Federal Reserve Board.

(*d*) to regulate Federal Reserve note issue ;

(*e*) to regulate classification of reserve and central reserve cities ;

(*f*) to suspend or remove officers or directors of any Federal Reserve Bank ;

(*g*) to require writing off of doubtful or worthless assets on books of Federal Reserve Banks ;

(*h*) to suspend, for violation of Federal Reserve Act, any Federal Reserve Bank, and to administer, liquidate or reorganise same ;

(*i*) to make regulations for safeguarding assets in hands of Federal Reserve Agents ;

(*j*) to exercise general supervision over Federal Reserve Banks ;

(*k*) to grant special authority to national banks to act under conditions prescribed in laws as trustee or in

other fiduciary capacity permissible to Trust Companies that come into competition with national banks;

(*l*) to employ any requisite experts or officials.

Federal Advisory Council

12. Representatives of Federal Reserve districts to meet at least four times a year. Powers advisory only.

Bank Examinations

21. Provisions for examination of member banks at least twice a year on behalf of Government, for which purpose State examination may be accepted in case of State banks.

In addition every Federal Reserve Bank may, with the approval of the Federal Reserve Agent or Federal Reserve Board, provide for special examination of member banks within its district.

Provisions for examination of Federal Reserve Banks at least once a year on order of Federal Reserve Board.

25. National banking associations possessing a minimum prescribed capital and surplus may be allowed to open foreign branches and invest part of capital in banks doing business abroad under conditions prescribed by Federal Reserve Board.

Banking corporations authorised to do foreign banking business may be formed under prescribed conditions.

NOTE ISSUE AND RESERVES

16. Federal Reserve notes, which shall be obligations of the United States, may be issued at discretion of Federal Reserve Board for advances to Federal Reserve Banks through the Federal Reserve Agents—to be accepted by all national and member and Federal Reserve Banks, and for all public dues. Redeemable in gold at Treasury or in gold or lawful money at any Federal Reserve Bank.

Federal Reserve Banks to give to the Federal Reserve Agent collateral for notes issued to them. Collateral may consist of:

(*a*) bills, drafts, etc., acquired under Section 13 (see under General Business);

(*b*) bills of exchange endorsed by a member bank and purchased under Section 14 (see under General Business);

(*c*) gold or gold certificates.

Provided that until 3rd March 1933, should the Federal Reserve Board deem it in public interest it may, upon the affirmative vote of not less than the majority of its members, authorise Federal Reserve Banks to offer and Federal Reserve Agents to accept as such collateral security direct obligations of the United States. On the 3rd March 1933, or sooner should the Federal Reserve Board so decide, such authorisation shall terminate and such United States obligations be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve Board may at any time call upon the Federal Reserve Bank for additional security to protect Federal Reserve notes issued to it.

Every Federal Reserve Bank to hold:

(*a*) against deposits, not less than 35 per cent in gold or lawful money;

(*b*) against notes in actual circulation, not less than 40 per cent in gold. See also 11 (*c*) under Federal Reserve Board, p. 433.

Gold or gold certificates held by the Federal Reserve Agent as collateral for notes issued to the Banks must be counted exclusively as part of the 40 per cent reserve against Federal Reserve notes.

No Federal Reserve Bank may pay out notes issued by another.

Federal Reserve Banks to keep on deposit at United States Treasury gold sufficient in the judgment of the Secretary of the Treasury for redemption of notes, but in no case less than 5 per cent of amount of notes issued, less gold or gold certificates held as collateral, such gold also to be reckoned exclusively as part of the 40 per cent reserve. Federal Reserve Agents also to keep on deposit at Treasury as a redemption fund against Federal Reserve notes part of the gold held by them as collateral.

Federal Reserve Board to have right to grant or reject in whole or part application of Federal Reserve Bank for notes. Federal Reserve Banks to pay such rate of interest as may be established by Federal Reserve Board on its Federal Reserve

notes outstanding, less amount of gold or gold certificates held by Federal Reserve Agent as collateral.[1]

A Federal Reserve Bank may reduce its liability for Federal Reserve notes by depositing with Federal Reserve Agent Federal Reserve notes, gold, gold certificates or lawful money of the United States. Federal Reserve Agent shall hold such gold, certificates or lawful money exclusively for exchange of outstanding Federal Reserve notes, when offered by the Reserve Bank of which he is a director.

Notes to be first and paramount charge on assets of Bank.

Comptroller of Currency, under direction of Secretary of Treasury, to arrange for form and printing of notes.

Reserves of Member Banks

19. All member banks shall maintain with their Federal Reserve Bank as balance:

(*a*) if not in a reserve or central reserve city, minimum of 7 per cent of demand deposits and 3 per cent of time deposits;

(*b*) if in a reserve city, minimum of 10 per cent of demand deposits and 3 per cent of time deposits;

(*c*) if in central reserve city, minimum of 13 per cent of demand deposits and 3 per cent of time deposits.

Demand deposits comprise deposits payable within thirty days, and time deposits all deposits payable after thirty days.

Prescribed balance may, under rules and penalties laid down by Federal Reserve Board, be drawn upon by member bank for meeting existing liabilities, provided no new loans are made or dividends are paid until statutory balance is restored.

GENERAL BUSINESS OF FEDERAL RESERVE BANKS

13. (1) To receive deposits from member banks or Government or bills for exchange or collection; to receive from non-member banks deposits, provided such banks maintain adequate balance.

(2) To discount paper endorsed by member banks and arising out of actual commercial, agricultural or industrial transactions and with maturity of not more than ninety days (exclusive of days of grace) at time of discount. (For power to discount paper

[1] No interest charge has been imposed hitherto.

of maturities of more than ninety days see (4) and (10) of this section.) Eligible paper to exclude bills covering merely investments or drawn for purpose of carrying on trading in securities, except bonds and notes of United States Government.

(3) To discount or purchase bills endorsed by member banks and payable at sight or on demand, drawn to finance domestic shipment or exportation of non-perishable readily marketable agricultural products and other staples and secured by bills of lading or other shipping documents, conveying or securing title to such staples, provided no such bill is held by or for account of a Federal Reserve Bank for more than ninety days.

Aggregate of such paper bearing signature of any one borrower, rediscounted for any member bank, shall not exceed the amount for which such borrower may become liable to a National Banking Association under section 2500 of the revised Statutes, viz. 25 per cent of capital and surplus.

(4) To discount acceptances, with maturity of not more than ninety days' sight (exclusive of days of grace), and bearing endorsement of at least one member bank, provided that such acceptances, if drawn for agricultural purposes and secured by warehouse receipts or other documents of title covering readily marketable staples, may be discounted with maturity not exceeding six months (excluding days of grace).

(5) Member bank may accept bills drawn upon it, with not more than six months' currency (excluding days of grace), arising out of importation or exportation of goods, or arising out of domestic shipment of goods, provided they are secured as in (4).

No member bank may accept for any one person or firm an amount exceeding 10 per cent of its paid-up and unimpaired capital and surplus unless bank is secured by attached documents or other security growing out of same transaction as the acceptance, and no bank shall accept such bills in the aggregate to more than 50 per cent of its paid-up and unimpaired capital and reserve, subject to power of Federal Reserve Board to permit increase up to 100 per cent and provided that acceptances arising out of domestic transactions shall in no case exceed 50 per cent.

(6) Any Federal Reserve Bank may make advances to its member banks on their promissory notes for maximum period

of fifteen days—rates to be determined by Federal Reserve Bank, subject to approval of Federal Reserve Board—provided the promissory notes are secured by paper eligible for rediscount or purchase by Federal Reserve Banks, or by bonds or notes of United States.

(7) Discount and dealing in bills and acceptances by any Federal Reserve Bank shall be subject to regulations by Federal Reserve Board.

(8) In places of less than 5000 inhabitants any national banking association may act under regulations prescribed by the Comptroller of the Currency as agent for insurance or as agent for securing loans on real estate.

(9) Any member bank may accept drafts or bills of exchange drawn upon it with not more than three months to run (exclusive of days of grace), drawn according to regulation of Federal Reserve Board by banks or bankers abroad or in United States dependencies and possessions to provide dollar exchange required for trade purposes—provided that maximum to be accepted from any one bank is limited to 10 per cent of paid-up capital of accepting member bank, unless bill is accompanied by documents of title or adequate security. Aggregate of such bills not to exceed one-half of paid-up capital and surplus of member bank.

(10) Federal Reserve Banks may, subject to regulation of Federal Reserve Board, discount notes, drafts and bills of exchange endorsed by member banks and drawn for agricultural purposes or based on live stock with maturity not exceeding nine months, exclusive of days of grace. These may be offered as collateral for issue of Federal Reserve notes, provided that paper of more than six months' maturity is not eligible, unless it is secured by warehouse receipts or other negotiable documents of title.

(11) Federal Reserve Banks may, subject to regulation of Federal Reserve Board, rediscount notes, etc., for Federal Intermediate Credit Banks, except that no such rediscount may be made of paper endorsed by a non-member State bank or trust company eligible for membership of Federal Reserve system.

(12) Federal Reserve Banks may buy and sell debentures, etc., issued by Federal Intermediate Credit Banks or National Agricultural Credit Corporations, subject to certain limitations.

(13) Federal Reserve Board may limit to a percentage of the assets of Federal Reserve Bank the amount of paper with maturity of three to six months that may be discounted by the Bank, and the amount of paper with maturity of six to nine months that may be rediscounted by such Bank (days of grace excluded).

Glass-Steagall Act

Section 10 (A). Upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal Reserve Bank may make advances to groups of five or more member banks within its district upon their time or demand promissory notes, provided that such bank or banks have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit from Federal Reserve Bank through rediscount or advances other than is provided in section 10 (B) below. Liability of individual banks in each group to be limited to such proportion of total amount advanced to such group as deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advance may be made to a lesser number of such member banks if aggregate amount of their deposit liability constitutes at least 10 per cent of the entire deposit liability of the member banks within such district. Proceeds of loans may be distributed among banks concerned against deposit with trustee of their individual notes in favour of the group protected by collateral as agreed. Federal Reserve Banks making advances under this section shall charge interest or discount at a rate not less than 1 per cent above discount rate in force at time of making advance. No note upon which advances are made under this section shall be eligible as collateral security for Federal Reserve notes.

Section 10 (B). Until 3rd March 1933 and in exceptional and exigent circumstances and when a member bank, having a capital of not exceeding $5,000,000, has no further eligible and acceptable assets to enable it to obtain adequate credit through rediscounting at the Federal Reserve Bank or any other method provided by this Act other than under Section 10 (A) above, any Federal Reserve Bank, subject to affirmative action by not less than five members of the Federal Reserve Board, may make advances to such member bank on its time or demand promissory

notes secured to the satisfaction of such Federal Reserve Bank, provided that :

(1) each such note shall bear interest at a rate not less than 1 per cent higher than the highest discount rate in effect at Federal Reserve Bank at date of such note ;

(2) the Federal Reserve Bank may, by regulation, limit and define the classes of security for advances under this section ; and

(3) no note accepted for such advances shall be eligible for collateral security for Federal Reserve notes.

No obligation of any foreign Government, individual, partnership, association or corporation organised under the laws thereof shall be eligible as collateral security for advances under Sections 10 (A) or 10 (B).

Open Market Operations

14. Federal Reserve Banks may (1) subject to regulations of Federal Reserve Board buy and sell in open market at home or abroad cable transfers, bankers' acceptances and bills of exchange of kind eligible under the Act for rediscount, with or without endorsement of a member bank.

(2) Deal in gold coin and bullion at home or abroad, make loans thereon, exchange Federal Reserve notes for gold bullion, coin or certificates, and to contract for loans of gold coin or bullion, giving security where necessary.

(3) Deal in bonds and notes of United States and bills, notes, revenue bonds and warrants up to six months' maturity issued in anticipation of collection of taxes or in anticipation of receipt of assured revenues of any State or local Government authority.

(4) Fix rates of discount, subject to review and determination of Federal Reserve Board.

(5) Establish accounts with other Federal Reserve Banks, and with consent of Federal Reserve Board maintain accounts abroad, appoint correspondents, establish agencies, and buy through such agencies commercial bills of exchange with minimum of two good signatures, and with not more than ninety days' maturity (exclusive of days of grace), and to maintain accounts for foreign correspondents.

(6) Deal in acceptances of Federal Intermediate Credit

Banks and National Agricultural Credit Corporations, when Federal Reserve Board declare that public interest so requires.

Relations with the State

15. Funds of Treasury, except 5 per cent fund for redemption of National bank-notes and funds for redemption of Federal Reserve notes, may be deposited with Federal Reserve Banks, which, when required by Treasury, shall act as fiscal agents for United States.

7. Federal Reserve Banks to be exempt from Federal, State and local taxation, except taxes upon real estate.

See also:

7. Under Profits and Reserve Fund.
10. Under Organisation (Federal Reserve Board).
21. Under Organisation (Bank Examinations).
16. Under Note Issue and Reserves.

Returns

See under Organisation 10 and 11 (*a*) Federal Reserve Board.

Miscellaneous

16. Federal Reserve Banks shall receive on deposit at par from member banks or Federal Reserve Banks cheques and drafts drawn upon any of their depositors and, when remitted by a Federal Reserve Bank, cheques and drafts drawn by any depositor in any other Federal Reserve Bank or member bank upon funds at credit there. Member banks may charge actual expenses incurred in collecting and remitting funds. Federal Reserve Board shall fix charges to be collected by member banks in connection with cheques cleared through Federal Reserve Banks.

13 (1). Member or non-member banks may make reasonable charges not exceeding 10 cents per $100 or fraction thereof based on the total of cheques or drafts presented for collection or payment; no such charges to be made against Federal Reserve Banks.

26 Reaffirmation of parity provisions of Act, approved 4th March 1900, entitled " An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes ".

Term of Charter

4. Federal Reserve Banks to have succession until dissolved by Act of Congress or until forfeiture of franchise for violation of law (Amendment of 1927).

See also under Organisation, Federal Reserve Board, Art. 11.

YUGOSLAVIA

NATIONAL BANK OF THE KINGDOM OF YUGOSLAVIA

Purpose of the Bank

Art. 2.[1] The objects of the Bank are :

(1) to regulate the circulation of the currency according to the relevant laws, and to maintain its stability and security ;

(2) to provide and control the short-term credit necessary for the economic life of the country ;

(3) to co-operate, in its capacity as Banker to the State, with the Treasury, and to make temporary advances to the Treasury according to its seasonal needs, or if the public receipts are less than the expenditure.

Capital

Art. 5. Capital—180,000,000 dinars divided into 60,000 shares of 3000 dinars each.

The capital may be increased by agreement between the State and the Bank.

Art. 6. The shares are registered and can only be transferred with the approval of the Bank. Not more than 20 per cent of the total capital may be registered in the name of the State or State institutions. Shares may not be held by foreigners.

Profits and Reserve Fund

Art. 7. A Reserve Fund to be maintained to cover any eventual losses.

[1] Numbers refer to clauses of Law of the National Bank of the Kingdom of Yugoslavia, 17th June 1931, except when otherwise stated.

Five per cent of the net profits to be set aside for this purpose, but this charge may be reduced or abolished when the Reserve Fund reaches 300,000,000 dinars. If the Bank decides to increase the Reserve Fund beyond this amount, any charge on the profits for this purpose shall be divided equally between the State and the Reserve Fund.

Art. 37. Of the net profits :

(1) 5 per cent to be set aside for reserve as above ;
(2) from the balance a dividend of 6 per cent to be paid to the shareholders ;
(3) of the balance 30 per cent to be paid to the State ;
(4) the remainder to be distributed to the shareholders provided the dividend does not exceed 10 per cent ;
(5) any excess to be divided as follows :
  (*a*) one-half to the shareholders and one-half to the State provided the dividend does not exceed 14 per cent ;
  (*b*) one-third to the shareholders and two-thirds to the State provided the dividend does not exceed 17 per cent ;
  (*c*) one-quarter to the shareholders and three-quarters to the State provided the dividend does not exceed 20 per cent.
  Of the remainder one-tenth to the shareholders and nine-tenths to the State.

The State share of the profits to be used to pay off the existing advances to the State.

Branches

Art. 3. The Bank may establish branches and agencies throughout the Kingdom.

The opening and closing of branch and agencies to be determined by the Minister of Finance in agreement with the Bank.

Management

Art. 40. The Bank is directed by a Governor and two Deputy-Governors who with two other administrators form the Executive Committee.

The administration rests with an Administrative Council under the presidency of the Governor.

Supervision is maintained by the Supervisory Committee.

Control is effected on behalf of the Government by a Government Commissioner.

The General Meeting of Shareholders is the supreme body.

Governors and Deputy Governors

The Governor and Deputy-Governors must be subjects of the Kingdom of Yugoslavia and reside in Belgrade. During their term of office they may not fill any public office or take part in the administration of any bank or any joint stock company, or carry on any business or profession.

Art. 42. The Governor and Deputy-Governors are nominated by Royal Decree on the nomination of the Minister of Finance. They may be chosen from the Administrative Council.

Art. 43. The period of office is six years, and they are eligible for re-election. The salary will be fixed at the beginning of their term of office by the Administrative Council.

They may be deposed from their office by Royal Decree on the advice of the Minister of Finance.

Art. 44. The Governor directs the Bank and presides at the Executive Committee, the Administrative Council and the General Meeting.

He may suspend the execution of any decision of the Executive Committee and submit it to the Administrative Council. Any suspended decision will be put into force after a fortnight if not previously determined.

Executive Committee

Art. 46. The Executive Committee consists of the Governor and Deputy-Governors and two members of the Administrative Council chosen by that body at the beginning of each year.

The day-to-day management of the Bank rests with the Committee. Amongst its other functions it fixes the rates of discount and of advances and examines, accepts or refuses applications for discounts and advances; in the case of refusal it reports to the Administrative Council.

Administrative Council

Art. 48. The Administrative Council consists of the Governor as president, the two Deputy-Governors, and of other members

varying in number from twenty-one to twenty-four, according to whether the Governor and deputies have been chosen from amongst them or not.

The members are elected by the General Meeting for a period of six years and are eligible for re-election. Half their number are elected every three years (Art. 50). They must be subjects of the Kingdom of Yugoslavia, qualified by their knowledge of commercial, industrial, financial or agricultural matters. Twelve must reside in Belgrade ; the remainder in other parts of the Kingdom.

Art. 49. During their term of office the members may not fill a public appointment or take part in the management of any other bank.

They have a fixed annual salary.

Art. 51. Meetings of the Council are held monthly.

Art. 55. The Governor must hold 40 shares of the Bank, each Deputy-Governor 30, each member of the Administrative Council 20.

Supervisory Committee

Art. 53. The Supervisory Committee consists of seven members of Yugoslav nationality chosen by the General Meeting for three years.

All decisions taken by the Executive and Administrative Council are submitted to it, and it examines the annual balance sheet and reports to the General Meeting.

Discount Committees

Art. 59. Bills presented for discount are examined by Discount Committees, the formation of which is determined by the Statutes of the Bank.

The Discount Committee at the Head Office consists of nine members, and at the branches of the Manager and three or six members. The members are chosen from amongst the shareholders by the Administrative Council.

The Executive Committee at the Head Office and the Managers of the branches are not bound by a decision of the Discount Committee to grant a discount or loan (Arts. 64-66 of the Statutes).

General Meeting of Shareholders

Art. 60. The ordinary General Meeting of shareholders is held annually. Extraordinary meetings are held when considered necessary by the Administrative Council, or on the demand of the Supervisory Committee or of a number of shareholders representing at least one-quarter of the capital, or to fill any vacancies on the Council or Supervisory Committee (Statutes, Art. 69).

Ten shares give the right to a vote, but no one may have more than 100 votes.

NOTE ISSUE

Art. 2.[1] The Bank has the monopoly of note issue throughout the kingdom. The notes are legal tender. The form and denomination of the notes to be determined by law on the proposal of the Minister of Finance.

Art. 3.[1] Notes in quantities not less than 250,000 dinars are convertible on demand at the Head Office of the Bank, conversion to be at the option of the Bank either in gold ingots at the rate of 26·5 mg. fine gold per dinar or in foreign values freely convertible into exportable gold at a rate not exceeding the par rate of exchange plus the cost of exporting gold.

Art. 4.[1] The Bank must give notes in exchange for gold on demand at its Head Office at the rate of 26·5 mg. per dinar.

RESERVE

Art. 5.[1] The Bank must maintain a reserve in gold or foreign values legally or actually convertible into freely exportable gold. The amount of the reserve to be not less than 35 per cent of the Bank's sight obligations, of which at least 25 per cent must be covered by gold in the vaults of the Bank or deposited abroad and freely exportable.

Art. 23. The balance of the sight obligations to be covered by commercial paper obtained through operations authorised in Arts. 9-12. (See under General Business, below.)

GENERAL BUSINESS

Art. 8. The operations of the Bank are limited to those author ised under the following articles :

[1] Monetary Law, 11th May 1931.

Monetary Business

Art. 9. The issue of notes as above, of token coinage (limited by Art. 6 of the Monetary Law to 650 million dinars), sale and purchase of gold as above, sale and purchase abroad, for current account of devises, bank notes, telegraphic transfers, cheques and paper of not more than three months' maturity.

Provision and Control of Short-Term Credit

Art. 10. (1) Discount, rediscount, purchase and sale of commercial paper with at least three signatures of known solvency of a maturity not exceeding three months. A pledge of merchandise, warrants or securities eligible as a basis for loans, may be accepted in the place of one signature, up to the value of the paper presented.

Exceptionally, on conditions determined by the Administrative Council, two signatures may be accepted.

(2) Discount of State bonds or bonds guaranteed by the State of not more than three months' maturity.

(3) Discount, rediscount, purchase and sale of agricultural paper with at least three signatures of known solvency of a maturity not exceeding nine months, provided they represent genuine agricultural operations and not mortgages, and are presented by the Banque Agricole Privilégiée or the Federation of Agricultural Co-operative Societies. The total of such paper not to represent more than 25 per cent of the total portfolio of the Bank.

(4) The issue of cheques, bank orders, letters of credit payable to order or bearer at the head office or branches.

(5) Transfers by telegram or letter.

(6) Reception of deposits without interest as current or deposit account. The Bank may, however, pay interest to the State on Treasury funds arising from foreign loans.

(7) Acting as agent and correspondent for any Yugoslav or foreign bank.

(8) Advances for periods not exceeding three months on the following :

(*a*) gold, coined or in ingots at a rate of interest to be fixed by the Bank ;

(*b*) Government and other securities quoted on any Yugoslav stock exchange provided the loan does not exceed 75 per cent of the quoted value of the security. The rate of interest to be 1 per cent above the discount rate ;

(*c*) warrants of general warehouses in Yugoslavia reckoned in dinars with two signatures of known solvency and payable within the Kingdom within three months. The warehouses recognised and the nature of the goods acceptable as security to be selected by the Administrative Council. Advances not to exceed 60 per cent of the value of the goods. The Council to determine the rate of interest for each class of goods, but it may not be less than the official rate of discount for three months bills.

The total of advances under (*b*) and (*c*) not to exceed 20 per cent of the portfolio of the Bank.

The total accommodation given to any one person, whether by way of discount or advances, not to exceed one-twentieth of the total discount and advances of the bank.

(9) The care of money, securities and other articles of value.

(10) Collecting the value of paper whether at home or abroad.

Art. 11. Service for the State. See under Relations with the State, below.

Other Operations

Art. 12. The Bank may :

(1) Buy State or other securities with fixed interest eligible as a basis for loans, up to the amount of its capital and reserve ;

(2) realise, in order to control the volume of sight obligations, the whole or part of the Treasury obligations representing the old credits granted to the State ;

(3) open accounts abroad for the purposes of operations recognised under Art. 9 ;

(4) take part in any international body created for co-operation between Banks of Issue, participate in the capital of the Bank for International Settlements, and rediscount commercial paper with these bodies for the purposes of the previous section ;

(5) receive deposits from foreign Banks of Issue and the B.I.S., and invest them in commercial paper and other short-term securities and deposit them at interest with other Yugoslav banks. No operation of this kind to have more than six months' maturity ;

(6) rediscount according to the law the paper and securities enumerated in Section 5, and guarantee any operations executed under that section.

Art. 13. All operations not enumerated under Articles 9-12 are prohibited. In particular the Bank may not :

(1) guarantee Treasury bonds or other obligations of the Government or public institutions ;

(2) make advances to the State other than those authorised in Art. 11 ;

(3) make advances, directly or indirectly, to provinces, municipalities and other administrative entities ;

(4) discount paper not representing genuine commercial operations ;

(5) take part in agricultural, commercial or financial enterprises excepting for the manufacture of bank notes ;

(6) make loans on mortgages or make advances for periods longer than that stipulated in Art. 10 ;

(7) buy immovable property, excepting in so far as it is necessary for its own establishment or (Art. 14) in cases where it is taken as guarantee for doubtful debts, when it must be sold as soon as possible, and within three years at most.

Relations with the State

Government Commissioner

Art. 56. A Government Commissioner is appointed by Royal Decree on the proposal of the Minister of Finance. He has the right to oppose any measure which he considers contrary to the laws, statutes or interests of the Bank or to the general interests of the country. He is a State official, paid by the Bank.

Art. 57. The Commissioner has the right to be informed of the state of the Bank's finances. The Governor must give him at his request a certified statement of the position. All decisions of the Executive must be submitted to him in writing, with the

exception of matters connected with the granting of credit, which are only communicated at his demand and under the pledge of secrecy.

He attends meetings of the Administrative Council, the Supervisory Committee and General Meeting, and has the right of taking part in their discussions. All decisions of the Council and Committee must be communicated to him.

He may suspend the execution of any decision he considers contrary to the law, statutes or interests of the Bank or the State. The Minister of Finance to be informed, and if he takes no action within a fortnight the Bank may carry out its decision.

Representative of Ministry of Commerce and Industry

Art. 58. The Ministry of Commerce and Industry has the right to demand any information with regard to the Bank's credit policy, a special representative, who must be a State official, being nominated for this purpose.

State Service and Loans

Art. 11. The Bank to act as bankers to the State free of charge, and to deal with the debt service at home and abroad and carry out the issue loans for the State and other public bodies.

During the months when the State expenditure exceeds the receipts the bank may advance to the Treasury without interest a sum not exceeding 600 million dinars. These advances to be repaid as soon as possible, and at least before 31st December of the current year.

For State share of profits see Art. 37, under Profits.

For State share of money paid to Reserve Fund see Art. 7, under Reserve Fund.

For State powers with regard to :

Branches see Art. 3, under Branches.

Appointments see Arts. 42 and 43, under Management.

Increase of capital see Art. 5, under Capital.

Form and value of notes see Art. 2 of Monetary Law, under Note Issue.

RETURNS

Art. 32. A statement to be published in the prescribed form four times a month, showing amongst other things the reserve

in gold and foreign values and the total sight liabilities for the Bank, and the rates of exchange and advances.

Art. 33. A quarterly report to be published on the developments of the principal items in the balance sheet and the financial and economic condition of the country.

Art. 34. A balance sheet to be published within twenty days of the 30th June and 31st December.

Art. 36. The weekly statement and annual balance sheet and profit and loss account to be published in the official *Gazette*. The reports of the Council and Supervisory Committee to be published for the benefit of the shareholders.

Term of Charter

Art. 4. The duration of the privilege of the National Bank is fixed for thirty years from 28th June 1931. If no Act is passed before the end of this period the privilege will be continued for another five years, and similarly for later dates.

Art. 61. The Bank may not dissolve itself before the end of its privilege except with the consent of a Royal Decree on the proposal of the Minister of Finance, and with the agreement of three-quarters of a Special General Assembly representing at least half the capital.

APPENDIX II

I

GOLD STANDARD ACT, 1925

[15 & 16 GEO. V.] [C. 29.]

Issue of gold coin suspended and right to purchase gold bullion.

1. (1) Unless and until His Majesty by Proclamation otherwise directs:

(*a*) The Bank of England, notwithstanding anything in any Act, shall not be bound to pay any note of the Bank (in this Act referred to as "a bank-note") in legal coin within the meaning of section six of the Bank of England Act, 1833, and bank-notes shall not cease to be legal tender by reason that the Bank do not continue to pay bank-notes in such legal coin;

3 & 4 Will. IV. c. 98.

(*b*) *Repealed by Currency and Bank Notes Act*, 1928;

(*c*) Section eight of the Coinage Act, 1870 (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him), shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect.

33 & 34 Vict. c. 10.

(2) So long as the preceding subsection remains in force, the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds, seventeen shillings and tenpence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.

Power for Treasury to borrow for exchange operations.

2. (1) Any money required for the purpose of exchange operations in connection with the return to a gold standard may be raised within two years after the passing of this Act in such manner as the Treasury think fit, and for that purpose they may create and issue, either within or without the United Kingdom and either in British or in any other currency, such securities bearing such rate of interest and subject to such conditions as to repayment, redemption or otherwise as they think fit, and may guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose as aforesaid:

Provided that any securities created or issued under this section shall be redeemed within two years of the date of their issue, and no guarantee shall be given under this section so as to be in force after two years from the date upon which it is given.

(2) The principal and interest of any money raised under this Act, and any sums payable by the Treasury in fulfilling any guarantee given under this Act, together with any expenses incurred by the Treasury in connection with, or with a view to the exercise of, their powers under this section shall be charged on the Consolidated Fund of the United Kingdom or the growing produce thereof.

(3) Where by any Appropriation Act passed after the commencement of this Act power is conferred on the Treasury to borrow money up to a specified amount, any sums which may at the time of the passing of that Act have been borrowed or guaranteed by the Treasury in pursuance of this section and are then outstanding shall be treated as having been raised in exercise of the power conferred by the said Appropriation Act and the amount which may be borrowed under that Act shall be reduced accordingly.

Short title.

3. This Act may be cited as the Gold Standard Act, 1925.

II

CURRENCY AND BANK NOTES ACT, 1928

1. (1) Notwithstanding anything in any Act:

(*a*) the Bank may issue bank-notes for one pound and for ten shillings;

(*b*) any such bank-notes may be issued at any place out of London without being made payable at that place, and wherever issued shall be payable only at the head office of the Bank;

(*c*) any such bank-notes may be put into circulation in Scotland and Northern Ireland, and shall be current and legal tender in Scotland and Northern Ireland as in England.

(2) Section six of the Bank of England Act, 1833 (which provides that bank-notes shall be legal tender), shall have effect as if for the words " shall be a legal tender to the amount expressed in such note or notes and shall be taken to be valid as a tender to such amount for all sums above five pounds on all occasions on which any tender of money may be legally made " there were substituted the words " shall be legal tender for the payment of any amount ".

(3) The following provisions shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force:

(*a*) notwithstanding anything in the proviso to section six of the Bank of England Act, 1833, bank-notes for one pound or ten shillings shall be deemed a legal tender of payment by the Bank or any branch of the Bank, including payment of bank-notes;

(*b*) the holders of bank-notes for five pounds and upwards shall be entitled, on a demand made at any time

during office hours at the head office of the Bank or, in the case of notes payable at a branch of the Bank, either at the head office or at that branch, to require in exchange for the said bank-notes for five pounds and upwards bank-notes for one pound or ten shillings.

(4) The Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast *Gazettes*, to call in the bank-notes for one pound or ten shillings of any series on exchanging them for bank-notes of the same value of a new series.

(5) Notwithstanding anything in section eight of the Truck Act, 1831, the payment of wages in bank-notes of one pound or ten shillings shall be valid, whether the workman does or does not consent thereto.

2. (1) Subject to the provisions of this Act the Bank shall issue bank-notes up to the amount representing the gold coin and gold bullion for the time being in the issue department, and shall in addition issue bank-notes to the amount of two hundred and sixty million pounds in excess of the amount first mentioned in this section, and the issue of notes which the Bank are by or under this Act required or authorised to make in excess of the said first-mentioned amount is in this Act referred to as " the fiduciary note issue ".

(2) The Treasury may at any time, on being requested by the Bank, direct that the amount of the fiduciary note issue shall for such period as may be determined by the Treasury, after consultation with the Bank, be reduced by such amount as may be so determined.

3. (1) In addition to the gold coin and bullion for the time being in the issue department, the Bank shall from time to time appropriate to and hold in the issue department securities of an amount in value sufficient to cover the fiduciary note issue for the time being.

(2) The securities to be held as aforesaid may include silver coin to an amount not exceeding five and one-half million pounds.

(3) The Bank shall from time to time give to the Treasury such information as the Treasury may require with respect to the securities held in the issue department, but shall not be required to include any of the said securities in the account to

be taken pursuant to section five of the Bank of England Act, 1819.

4. (1) As from the appointed day all currency notes issued under the Currency and Bank Notes Act, 1914, certified by the Treasury to be outstanding on that date (including currency notes covered by certificates issued to any persons under section two of the Currency and Bank Notes (Amendment) Act, 1914, but not including currency notes called in but not cancelled) shall, for the purpose of the enactments relating to bank-notes and the issue thereof (including this Act) be deemed to be bank-notes, and the Bank shall be liable in respect thereof accordingly.

(2) The currency notes to which subsection (1) of this section applies are in this Act referred to as " the transferred currency notes ".

(3) At any time after the appointed day, the Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast *Gazettes*, to call in the transferred currency notes on exchanging them for bank-notes of the same value.

(4) Any currency notes called in but not cancelled before the appointed day may be exchanged for bank-notes of the same value.

5. (1) On the appointed day, in consideration of the Bank undertaking liability in respect of the transferred currency notes, all the assets of the Currency Note Redemption Account other than Government securities shall be transferred to the issue department, and there shall also be transferred to the issue department out of the said assets Government securities of such an amount in value as will together with the other assets to be transferred as aforesaid represent in the aggregate the amount of the transferred currency notes.

For the purpose of this subsection the value of any marketable Government securities shall be taken to be their market price as on the appointed day less the accrued interest, if any, included in that price.

(2) Any bank-notes transferred to the Bank under this section shall be cancelled.

(3) Such of the said Government securities as are not transferred to the Bank under the foregoing provisions of this section

shall be realised, and the amount realised shall be paid into the Exchequer at such time and in such manner as the Treasury direct.

6. (1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the issue department, including the amount of any bank-notes written off under section six of the Bank Act, 1892, as amended by this Act, but less the amount of any bank-notes so written off which have been presented for payment during the year and the amount of any currency notes called in but not cancelled before the appointed day which have been so presented.

(2) For the purposes of this section the amount of the profits arising in any year in the issue department shall, subject as aforesaid, be ascertained in such manner as may be agreed between the Bank and Treasury.

(3) For the purposes of the Income Tax Acts, any income of, or attributable to, the issue department shall be deemed to be income of the Exchequer, and any expenses of, or attributable to, the issue department shall be deemed not to be expenses of the Bank.

(4) The Bank shall cease to be liable to make any payment in consideration of their exemption from stamp duty on bank-notes.

7. Section six of the Bank Act, 1892 (which authorises the writing off of bank-notes which are not presented for payment within forty years of the date of issue), shall have effect as if, in the case of notes for one pound or ten shillings, twenty years were substituted for forty years, and as if, in the case of any such notes being transferred currency notes, they had been issued on the appointed day and, in the case of any such notes not being transferred currency notes, they had been issued on the last day on which notes of the particular series of which they formed part were issued by the Bank.

8. (1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary note issue shall be increased to some specified amount above two hundred and sixty million pounds the Treasury may authorise the Bank to issue bank-notes to such an increased amount, not exceed-

ing the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.

(2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner :

Provided that, notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.

(3) Any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament.

9. (1) For the purpose of any enactment which in the case of a bank in Scotland or Northern Ireland limits by reference to the amount of gold and silver coin held by any such bank the amount of the notes which that bank may have in circulation, bank-notes held by that bank or by the Bank on account of that bank, shall be treated as being gold coin held by that bank.

(2) A bank in Scotland or Northern Ireland may hold the coin and bank-notes by reference to which the amount of the bank-notes which it is entitled to have in circulation is limited at such of its offices in Scotland or Northern Ireland, respectively, not exceeding two, as may from time to time be approved by the Treasury.

10. The form prescribed by Schedule A to the Bank Charter Act, 1844, for the account to be issued weekly by the Bank under section six of that Act may be modified to such an extent as the Treasury, with the concurrence of the Bank, consider necessary, having regard to the provisions of this Act.

11. (1) With a view to the concentration of the gold reserves and to the securing of economy in the use of gold, the following provisions of this section shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force.

(2) Any person owning any gold coin or bullion to an amount exceeding ten thousand pounds in value shall, on being required so to do by notice in writing from the Bank, forthwith furnish to the Bank in writing particulars of the gold coin and bullion owned by that person, and shall, if so required by the Bank, sell to the Bank the whole or any part of the said coin or bullion,

other than any part thereof which is *bona fide* held for immediate export or which is *bona fide* required for industrial purposes, on payment therefor by the Bank, in the case of coin, of the nominal value thereof, and in the case of bullion, at the rate fixed in section four of the Bank Charter Act, 1844.

12. If any person prints, or stamps, or by any like means impresses, on any bank-note any words, letters or figures, he shall, in respect of each offence, be liable on summary conviction to a penalty not exceeding one pound.

13. (1) This Act may be cited as the Currency and Bank Notes Act, 1928.

(2) This Act shall come into operation on the appointed day, and the appointed day shall be such day as His Majesty may by Order in Council appoint, and different days may be appointed for different purposes and for different provisions of this Act.

(3) In this Act, unless the context otherwise requires—

The expression " the Bank " means the Bank of England :

The expression " issue department " means the issue department of the Bank :

The expression " bank-note " means a note of the Bank :

The expression " coin " means coin which is current and legal tender in the United Kingdom :

The expression " bullion " includes any coin which is not current and legal tender in the United Kingdom.

(4) The enactments set out in the Schedule to this Act are hereby repealed to the extent specified in the third column of that Schedule.

SCHEDULE

Enactments Repealed

Session and Chapter.	Short Title.	Extent of Repeal.
7 & 8 Vict. c. 32.	The Bank Charter Act, 1844.	Sections two, three, five and nine, in section eleven the words from "save and except that" to the end of the section, sections thirteen to twenty, and section twenty-two, and, so far as relates to England, sections ten and twelve.
24 & 25 Vict. c. 3.	Bank of England Act, 1861.	Section four, so far as unrepealed.
4 & 5 Geo. V. c. 14.	The Currency and Bank Notes Act, 1914.	The whole Act, except subsection (5) of section one and section five.
4 & 5 Geo. V. c. 72.	The Currency and Bank Notes (Amendment) Act, 1914.	The whole Act.
5 & 6 Geo. V. c. 62.	The Finance Act, 1915.	Section twenty-seven.
15 & 16 Geo. V. c. 29.	The Gold Standard Act, 1925.	Paragraph (*b*) of subsection (1) of section one.

III

GOLD STANDARD (AMENDMENT) ACT, 1931

An Act to suspend the operation of subsection (2) of section one of the Gold Standard Act, 1925, and for purposes connected therewith. A.D. 1931.

[21st September 1931.]

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :

Suspension of right to purchase gold bullion. 15 & 16 Geo. V. c. 29.

1. (1) Unless and until His Majesty by Proclamation otherwise directs, subsection (2) of section one of the Gold Standard Act, 1925, shall cease to have effect, notwithstanding that subsection (1) of the said section remains in force.

(2) The Bank of England are hereby discharged from all liabilities in respect of anything done by the Bank in contravention of the provision of the said subsection (2) at any time after the eighteenth day of September, nineteen hundred and thirty-one, and no proceedings whatsoever shall be instituted against the Bank or any other person in respect of anything so done as aforesaid.

(3) It shall be lawful for the Treasury to make, and from time to time vary, orders authorising the taking of such measures in relation to the exchanges and otherwise as they may consider expedient for meeting difficulties arising in connection with the suspension of the gold standard. A.D. 1931.

This subsection shall continue in force for a period of six months from the passing of this Act.[1]

Short title.

2. This Act may be cited as the Gold Standard (Amendment) Act, 1931.

[1] Continued by the Financial Emergency Enactments (Continuance) Act, 1932, until 20th March 1933.

SELECTED BIBLIOGRAPHY

ON

CENTRAL BANKS

Laws and Charters of the Banks of Issue.

Annual Reports of Banks of Issue.

League of Nations: Memorandum on Currency and Central Banks, 1913–24 and 1913–25.

League of Nations: Selected Documents on the Distribution of Gold. Submitted to the Gold Delegation of the Financial Committee.

First Interim Report of the Committee on Currency and Foreign Exchanges after the War, 1918; Cd. 9182.

Final Report of the Committee on Currency and Foreign Exchanges after the War, 1919; Cmd. 464.

Report of the Committee on the Currency and Bank of England Note Issues, 1925; Cmd. 2393.

Report of the Committee on Finance and Industry, 1931; Cmd. 3897.

Banking Commission (Irish Free State) First Interim Report on Banking and Currency, 1926.

Royal Commission on Indian Currency and Finance, 1926, Report and Volumes of Evidence.

Report of the Committee of Experts on Reparation (Paris Conference), 1929.

United States National Monetary Commission: Publications of 1910–11.

Stabilisation: Hearings before the Committee on Banking and Currency. House of Representatives 70th Congress, 1st Session on H.R. 11806.

Report on the Resumption of Gold Payments by the Union of South Africa (E. W. Kemmerer and G. Vissering).

Federal Reserve Board. Annual Reports and Bulletins.

The International Gold Problem (Royal Institute of International Affairs), 1931.

The Banker.

The Economist.

The Economic Review.

The Statist.

Reviews of British Joint Stock Banks.

ALLEN, G. C. Currency and Exchange Policy in Japan, Economic Journal, 1925.

ANDREADES, A. History of the Bank of England, 1924.

BADIN, L. La Politique Bancaire des Banques de Réserve Féderale, 1931.

BAGEHOT, W. Lombard Street.

BASTER, A. S. J. The Imperial Banks, 1929.

BURGESS, W. R. The Reserve Banks and the Money Market, 1927.

CANNAN, E. The Paper Pound of 1797–1821, 1919.

CASSEL, G. The World's Monetary Problems, 1921.
Money and Foreign Exchange after 1914, 1922.

CONANT, C. A. History of Modern Banks of Issue, 5th ed.

DIERSCHKE, K., and MÜLLER, F. Die Notenbanken der Welt, 1926.

EINZIG, P. International Gold Movements, 1929.
The Bank for International Settlements.

GREGORY, T. E. The Present Position of Banking in America, 1925.

GREGORY, T. E., and CASSEL, Sir E. Select Statutes, Documents and Reports relating to British Banking, 1832–1929, 1929.

HARDING, W. P. G. The Formative Period of the Federal Reserve System, 1925.

HAWTREY, R. G. Monetary Reconstruction, 1923.
The Gold Standard in Theory and Practice, 1927.

INOUIYE. Problems of the Japanese Exchange, 1931 (English version, E. H. de Bunsen).

KATZENELLENBAUM, S. S. Russian Currency and Banking, 1914–24. 1925.

KEMMERER, E. W. The A B C of the Federal Reserve System, 1926.

KEYNES, J. M. Monetary Reform, 1923.
A Treatise on Money, 1930.

LEAF, W. Banking (Home University Series), 1926.

MLYNARSKI. Gold and Central Banks, 1929.

STRAKOSCH, Sir H. South African Currency and Exchange Problems, 1920.

WILLIS, H. P. The Federal Reserve, 1915.

WILLIS, H. P., and STEINER, W. H. Federal Reserve Banking Practice, 1926.

WILLIS, H. P., and BECKHART, B. H. Foreign Banking Systems, 1929.

INDEX[1]

Advances by Central Banks, 129; collateral for, 136 *et seq.*; duration of, 136; renewal of, 136, 139; to business undertakings, 110, 111; to State, 35 *et seq.*, 58, 133; unsecured, 149

Auditors of Central Banks, 66, 68, 69

Australia, crisis in, 24; exchange rates in, 166

Australia, Commonwealth Bank of, advances by, security for, 136; banking business, general, of, 16, 147; board of directors of, 23, 60; capital of, 45; clearing house, functions as, 144; crisis and, 24; debentures, power of, to issue, 45; directors of, appointment of, 23; directors of, qualifications for, 61; governor of, declaration by, 60; not a true Central Bank, 14, 16, 147; note issue, monopoly of, 78, 80; note-issue, department of, 81; reserve of, 85; State and, 16, 23; *see also* Appendix I. 179

Austria, crisis in, 112, 175

Austria, National Bank of, 14; advances of, against securities, 137; advances of, against warrants, 139; board of directors of, 58, 59, 62; board of directors, chairman of, 59; capital of, 43; deposit accounts of, interest on, 142; discounts, amount of, 175; discounts by, paper admissible for, 131, 132, 134, 135; foreign exchange dealings and, 125; gold exchange standard and, 125; Government Commissioner and, 32, 70; liquidation of, 54, 79; notes of, expenditure in connection with, 68; notes of, failure to redeem, 102; notes of, redemption of, 121; note issue, monopoly of, 79; rates of discount and interest of, 140; reserve of, against notes and other liabilities, 82; reserve of, regulations concerning, 87, 94, 155; reserve of, suspension of, 97; reserve fund of, 48; shareholders of, 65, 66; State, advances to, by, 35; State and independence of, 17; State and liquidation of, 54; taxation of, 40; *see also* Appendix I. 184

Bagehot, *Lombard Street* quoted, 1

Bank Act (Peel's), 1, 18; and privileges of Bank of England, 28; suspension of, 82, 98

Banking activities of Central Banks, 114, 119, *see also* Advances, Discounts, Deposits, etc.

Bank rates, 169

Belgium, stabilisation of currency in, 154

Belgium, National Bank of, advances of, against its own shares, 143; advances of, against Government securities, 137; board of censors of, 67; board of directors of, 63; board of regents of, 67; borrowing by, 150; changes in, 2; commercial commitments and, 146; discount committees of, 135; discounts by, paper admissible for, 131, 132, 134, 135; executive committee of, 63; gold holdings of, 172; investments by, 67, 149; liquidation of, 54; notes of, redemption of, 123; real estate and, 148; reserve of 87, 94, 95, 156; shares of, purchase of, 150; summary of Statutes, 193

Bills of exchange, acceptance of, by Central Banks for third parties, 149; advances against, by Central Banks, 138; characteristics of, 129, 140; eligible for discount by Central Banks, 130, 131

[1] This index covers the text pp. 1-178 and specifies the pages in the Appendices where the summaries of the relevant Acts and Charters are to be found.

Borrowing by Central Banks, 150 *et seq.*
Bradbury Committee, 79
Branches of Central Banks, 114; redemption of notes at, 101
Brussels, International Financial Conference, resolutions of, *re* establishment of Central Banks, 2; *re* independence of Central Banks, 17
Bulgaria, National Bank of, 14; administrative council of, 24, 26, 63; advances by, against bills, 138; advances by, unsecured prohibited, 149; commercial commitments and, 146; Council of, 63; discount committees of, 135; discounts of, paper admissible for, 131, 132; executive committee of, 24; foreign exchange operations and, 126; Government Commissioner and, 25; governors of, appointment of, 24; investments by, 149; note issue, privilege of, 28, 55; reserve of, against notes and other liabilities, 82; reserve of, 95; State, advances to, by, 36; State, relations of, with, 24, 25, 26; token coinage and, 145; *see also* Appendix I. 200
Business, general, of Central Banks, 47, 119-120; comparison of, on Continent and in U.S.A., 113 *et seq.*
Business prohibited for Central Banks, 146 *et seq.*

Canada, note issue in, 6, 11, 77, 89
Capital of Central Banks, 13, 42 *et seq.*; decrease in, 43; held by State, 43, 44; holdings by foreigners, 66; increase in, 43; subscribed by member banks, 7, 8, 45; unpaid, 46
Central America, Central Banks in, 2, 8, 17, 45, 114, 126, 141
Charters of Central Banks, 53; duration of, 28, 29; renewal of, 53
Chile, suspension of gold standard in, 165
Chile, Central Bank of, advances by, against bills, 138; advances by, against securities, 138; advances by, against shares of Bank, 149; advances by, unsecured, 149; board of directors, constitution of, 31, 60, 61, 62, 63; business of, 114; capital of, increase in, 43; capital of, subscription of, 8, 46; charter of duration, 29; deposit accounts of, private, 140; directors of, qualifications for, 61; discounts of, paper admissible for, 131, 132, 134; fiduciary coins and, 145; member banks of, balances of, 115, 116; member banks of, capital subscribed by, 8, 46; notes of, denomination of, 103; notes of, legal tender of, 101; notes of, redemption of, 102; note issue, monopoly of, 78; precious metals and, dealings in, 123; president of, election of, 31, 60; real estate and, 148; reserve fund of, 49; reserve of, against notes and deposits, 82; reserve regulations of, 85, 95; reserve regulations of, suspension of, 97; returns of, weekly, 69, 72; shareholders of, 64; State and capital of, 46; State influence and (Commission of Financial Advisers quoted), 21; stock of, purchase by bank, 150; supervision of, 70, 116; *see also* Appendix I. 212
Clearing arrangements and Central Banks, 143, 144
Colombia, Bank of the Republic of, 14; board of directors of, 64; capital of, 8, 45; clearing house, functions as, 144; deposit accounts of, private, 140; member banks of, balances of, 115; member banks of, subscription of capital by, 8; note issue, monopoly of, 78; reserve requirements of, 85; reserve requirements, suspension of, 97; shareholders of, 64; *see also* Appendix I. 224
Commercial Banks, foreign exchange transactions of, and Central Banks, 125, 126; note issue by, 75, 76, 79, 80; relations of, with Central Banks, 9, 46, 61, 63, 105 *et seq.*; reserves of, with Central Banks, 105-107, 115, 140; *see also under* Member Banks
Commercial commitments of Central Banks, 110, 146
Commission business of Central Banks, 145; for other Central Banks, 142
Commissioner, Government or Royal, 69; method of appoint-

ment of, 32; powers of, 32; salary of, 70
Co-operation between Central Banks, 13, 153 *et seq.*, 176 *et seq.*
Copenhagen, National Bank of, deposit accounts of, interest on, 142; loan raised in U.S.A. and, 151; Minister of Finance and, 32; reserve requirements of, suspension of, 97; Royal Commissioner and, 32, 33; shareholders of, voting rights for nationals only, 66; State and, 32; *see also* Appendix I. 254
Credit-Anstalt für Handel und Gewerbe, 175
Credit policy of Central Banks, 9, 106 *et seq.*
Crisis of 1931, 126, 154, 164 *et seq.*, 175 *et seq.*; in Australia, 24; in Austria, 112, 175; in Germany, 19, 112, 163, 175, 178; in United Kingdom, 99
Cunliffe Committee, recommendations of, *re* excess issue of banknotes, 98; *re* Treasury notes, 79
Currency authority, Central Banks as, 5, 6, 9, 76, 77, 78
Currency and Bank Notes Act, 1928, 1, 18, 40, 83, 86, 93, 98, 101, 106, 454
Currency notes, *see* Treasury Notes
Czechoslovakia, stabilisation of currency in, 125
Czechoslovakia, National Bank of, audit committee of, 65; banking department of Ministry of Finance replaced by, 26; bills, acceptance of, for third parties, 149; capital of, 44; commercial commitments and, 146; directors of, 61; discounts of, paper admissible for, 131, 134; discount committees of, 135; foreign exchange dealings and, 121, 125; gold exchange standard and, 125; Government Commissioner and, 34; governor of, 59; notes of, failure to redeem, 102; notes of, reissue of, 103; note issue, monopoly of, 79; rates of discount and interest of, 140; real estate and, 148; report, annual, of, 68; reserve fund of, 49; reserve of, against notes and other liabilities, 82; reserve regulations of, 95; reserve regulations of, suspension of, 97; shareholders of, powers of, 65; shareholders of, votes of, 65, 66; shares of, advances on and purchase of, 150; State, advances to, by, 36; State and capital of, 44; State powers and, 34, 44; token coinage and, 145; *see also* Appendix I. 235

Danzig, Bank of, gold exchange standard and, 125; notes of, and sterling exchange standard, 124; shareholders of, 65; *see also* Appendix I. 245
Darmstadter and National Bank, 175
Dawes Scheme and reorganisation of Reichsbank, 2
Debentures, issue of, by Central Banks, 45
Denmark, stabilisation of currency in, 151; *see also* Copenhagen, National Bank of
Deposits with Central Banks, commercial banks and, 114-116; Government, 37-39, 140; interest on, payment of, 141, 142; of other Central Banks, 141; private, acceptance of, 111, 140
Directors, board of, *see under* Governing Body
Discount committees of Central Banks, 135
Discount operations of Central Banks, paper eligible for, 130 *et seq.*; Government securities, 132, 133; renewal of paper for, 139
Discount rate, changes in, 22, 32; changes in, effects of, 4, 5; comparison with rate of interest, 140; publication of, 129; suspension of reserve requirements and, 97
Dividends of Central Banks, 48 *et seq.*; limitations on, 40, 47, 50 *et seq.*, 65
Dollar exchange, reserves in, 156; stabilisation of currency and, 125

Ecuador, Bank of, capital of, subscribed by member banks, 8; note issue of, 78; reserve requirements of, 85
England, Bank of, banking operations of, 113, 119; bank rate of, 169; Belgian stabilisation and, 154; commercial banks and, 107, 109, 131; court of directors of,

58, 61; credits in U.S.A. and, 151; credit policy of, 107; deposits of, 141; deposits of, interest on, 143; dividends of, 52; Federal Reserve Bank of New York and, 127; foreign exchange business and, 127; gold dealings of, 121; gold holdings, private, and, 106; gold reserve of, drain on, 157; gold standard and reintroduction of, 92, 151; Government loan in U.S.A. and, 151, 152; Governor of, 31; loans raised abroad by, 150; note issue of, against silver, 93; note issue, fiduciary, 82, 83; note issue, fiduciary, increase over legal maximum, 99-100; note issue, department of, 80; note issue, monopoly of, 1, 79; notes, legal tender of, 101; open market operations of, 109, 110; privileges of, duration of, 28; reserve fund of, 49; reserves of, comparison with American system, 86 *et seq.*; returns of, weekly, 68; shareholders, votes of, 65; State and payments to, 40; State, relations of, with, 13, 18, 58, 99; treasury committee of, 64; *see also* Appendix I. 262 and Appendix II.

England, Bank of, Governor of, quoted, 105

Estonia, Bank of, capital of, 27, 44; discounts of, renewal of, 139; loans of, 147; reserve requirements of, suspension of, 97; returns of, weekly, 69, 71; State, advances to, by, 36; State and relations of, with, 17 (footnote), 26, 97; *see also* Appendix I. 266

Exchange, control of, 126, 163, 166

Exchange rates, table of, 165

Executive Committee of Central Banks, 63

Expenses of Central Banks, 68

Federal Reserve Act, 14, 29, 30; Strong amendment to, 159; summary, 396; *see also* Federal Reserve Banks and Board

Federal Reserve Bank of Chicago and Federal Reserve Board, 8

Federal Reserve Bank of New York, Belgian stabilisation and, 155; gold standard in U.K. and, 151; relations of, with Bank of England, 127

Federal Reserve Banks, accounts of abroad, 127; advances by, against bills, 138; advances by, against merchandise prohibited, 139; advances by, against silver prohibited, 137; advances by, to member banks, 136 (footnote); banking activities of, 114; board of directors of, constitution of, 60, 61, 62; board of directors of, disqualifications for, 61; capital of, subscription of, 7, 45; capital of, unpaid, 47; charters of, duration of, 29; commercial banks and, 7, 114, 141; commission business and, 146; deposits of, 7, 111, 117, 140; discounts of, paper admissible for, 130, 131, 134; dividends of, 50, 51; gold holdings of, 171; member banks and, advances to, 136; member banks and, balances of, 8, 115; member banks and capital of, 7; member banks and, rediscounts for, 136; Government funds and, 38, 39; notes of, printing of, 103; notes of, relation to total note circulation, 77, 78; open market operations of, 109, 118; precious metals and, dealings in, 123; premises of, cost of, 148; profits of, distribution of, 51; relation to Federal Reserve Board, 8, 55, 70; reserves of, 76, 82, 87, 96; reserve of, comparison with British system, 86 *et seq.*; reserve requirements of, suspension of, 97; reserve funds of, 49, 51; State and payments to, 51; stock of, advances against, and purchase of, 150; supervision of, 70; suspension of, 55

Federal Reserve Board, annual reports of, 68; bank rate of, 169; credit policy of, 76, 107, 158; constitution of, 29, 30, 61; expenses of, 30; governor of, 31; relation to Federal Reserve Banks, 8, 55, 70, 97, 127; relation to Federal Government, 30, 60; relation to member banks, 8, 112

Federal Reserve system, 7, 38, 141; effects on clearing of cheques, 144; effects on reserves of commercial banks, 117; State influence and, 60; *see also* Federal Reserve Banks and Federal Reserve Board

Fiduciary currency; *see* Token Currency
Finland, Bank of, capital of, 44; reserve of, against notes and other liabilities, 82; reserve of, regulations, 95; State, relations of, with, 20, 23; *see also* Appendix I. 278
Foreign assets of Central Banks, holdings of, 142, 150; inclusion of, in reserves, 93-96, 128, 156
Foreign exchange, operations and Central Banks, 123 *et seq.*, 139
France, monetary reform in, 1928, 83, 154; prices in, 168
France, Bank of, 13; annual report of, 68; bank rate of, 169; Belgian stabilisation and, 155; branches of, 114; censors of, 67; commercial banks and, 114, 115, 118; directorate of, 58; discounts of, paper admissible for, 134, 135; foreign banks and, 151; foreign loans of, 150; general assembly of, 67; general council of, 67; gold holdings of, 171; gold purchases by, 90, 122; governor of, 59; note issue of, 21, 78, 83; regents of, 67; reserves of, 83, 87, 96; shareholders of, general meeting of, 65; State, advances to, by, 21, 22, 40; State payments to, by, 40, 52; sterling depreciation and, 172; taxation of, 40; *see also* Appendix I. 283
Functions of Central Banks, 12, 105, 119 *et seq.*

Genoa Conference on co-operation between Central Banks, 153; on gold standard, 3
Germany, crisis in, 19, 112, 163, 175, 178; note issue in, 80; prices in, 168; *see also under* Reichsbank
Glass-Steagall Act, 101, 175
Gold as collateral for advances by Central Banks, 136; dealings in, by Central Banks, 121 *et seq.*; distribution of, 157, 171; drain of, 4; holdings of, table of, 171; holdings of, U.S.A. (1907), 7; movements of, 4, 153; private holdings of, 106; output of, 160
Gold Discount Bank (Germany), 147
Gold exchange standard, 4, 95, 96, 121, 123, 125
Gold market, in London, 1, 89, 90, 93
Gold standard, 3, 6, 36, 155, 156, 165, 167; Genoa Conference on, 3; reintroduction of; in Netherlands, 156; in United Kingdom, 92, 151, 156
Gold standard, suspension of, 166, 169; in Chile, 165; in Greece, 165; in United Kingdom, 2, 4, 18, 40, 99, 121, 157, 167, 171
Gold Standard Act, 1, 121, 122, 407
Goodenough, F. C., 2 (footnote)
Governing body of Central Banks, 13, 31, 57, 58 *et seq.*; banking representation on, 46, 61; shareholders and, 65
Government securities, advances by Central Banks on, 137; discounting of, by Central Banks, 132-133; investments in, by Central Banks, 148
Governor of Central Banks, *see under* President
Greece, suspension of gold standard in, 163
Greece, Bank of, deposits of commercial banks and, 142; discounts of, Government paper, 133; Government Commissioner and, 32, 70; governor of, appointment of, 31; investments of, 149; National Bank of Greece and, 31, 147; profit-sharing in, prohibited, 52; State, advances to, by, 36, 133; State, relations of, with, 17 (footnote), 31; taxation of, 40; *see also* Appendix I. 294

Holland, *see* Netherlands
Hungary, National Bank of, 14; advances of, against securities, 137; advances of, against warrants, 139; capital of, increase in, 43; deposits of, payment of interest on, 142; discounts of, paper admissible for, 131, 132, 134, 135; executive committee of, 63; foreign exchange dealings of, 125; gold exchange standard and, 125; Government Commissioner and, 32, 70; liquidation of, 79; notes of, expenditure in connection with, 68; notes of, failure to redeem, 102; notes of, redemption of, 121; note issue, monopoly of, 79; rates of discount and interest of, 140; reserve, against notes and other

liabilities, 82; reserve regulations of, 87, 95, 156; reserve requirements of, suspension of, 97; shareholders of, 66; State, advances to, by, 35; State note issue and, 79; State, relations of, with, 17; taxation of, 40; *see also* Appendix I. 308

India and institution of central banking system, 12
India, Imperial Bank of, 147
India, Reserve Bank of (proposed), advances by, against silver, 137; gold, purchase of, by, 123; note-issuing department of, 81; note issue, monopoly of, 78; reserves of, 81; rupees and, issue of, 145
Indian currency and finance, Royal Commission on, evidence of Governor of Bank of England before, 105; on capital of Central Banks, 42; on Central Bank for India, 147
Inflation, effects of, 2; multiple note issue and, 75; State borrowing and, 36; State control of Central Bank and, 22, 74
Interest, payment of, on deposits of Central Banks, 141, 142; rate of, on advances by Central Banks, 140
International debts and Central Banks, 153, 170
International Settlements, Bank for, 161 *et seq.*
Investments of Central Banks, 148, 149
Irish Banking Commission on State control of note issue, quoted, 74; recommendations of, 11
Italy, Bank of, 14; Administrative Council of, and Ministry of Treasury, 32; capital of, unpaid, 47; discounts of paper admissible for, 134; foreign exchange transactions of commercial banks and, 126; not a true Central Bank, 13; note issue of, 84; note issue, monopoly of, 11, 78; note issue, redemption of, 123; note issue, supervision of, 32; reserve of, 84, 85, 95; State and, powers of, 32; *see also* Appendix I. 317

Japan, Bank of, advances by, renewal of, 139; auditors of, 67; Belgian stabilisation and, 154; capital of, 44; commercial banks and, 10, 112; crisis of April 1927 and, 10, 112; discounts of, admissible paper for, 132, 134, 135; discount committee of, 135; governor of, 59; liquidation of, 54; notes of, denomination of, 103; notes of, legal tender, 101; note issue of, maximum fiduciary, 83; note issue of, excess over legal maximum, 98; shareholders of, general meeting, 65; silver reserve of, 93; State and capital of, 44; State and, powers of, 34, 44, 98, 132; *see also* Appendix I. 326

Kemmerer, Professor E. W., 21, 118

Latvia, Bank of, advances by, against goods and warrants, 139; capital of, 44; discounts of, renewal of, 134; reserve of, 85; State, relations of, with, 23; *see also* Appendix I. 335
League of Nations, 17, 69, 177; and Bank of Bulgaria, 24, 26, 146; and Bank of Greece, 31, 147; and co-operation of Central Banks, 154; and independent banks, 17
Liquidation of Central Banks, 51 *et seq.*; in case of note issue by State, 79
Lithuania, Bank of, advances by, against bills, 138; advances by, against goods and warrants, 139; advances by, against platinum, 136 (footnote); borrowing by, 150; capital of, holdings by foreigners, 66; commercial commitments, 146; discount committee of, 135; discounts of, renewal of, 134; investments of, 149; liquidation of, 54; platinum, dealings in, 123; profits of, share of management in, 52; shareholders of, 65, 66; shares of, purchase of, by bank, 150; *see also* Appendix I. 340
Loans, *see* Advances of Central Banks and Borrowing by Central Banks
London, money market, 89, 90, 93

McFadden Act, 291
McKenna, 2 (footnote)

Management of Central Banks, 13; *see also* Governing Body, Governor, Shareholders
Member Banks, advances to, 136 (footnote); balances of, with reserve banks, 115; board of Central Banks and, 62; borrowing by, 136; capital, subscription by, 7, 8, 45, 46, 115; rediscounting for, 130; reserves of, 115
Merchandise as security for advances by Central Banks, 139
Midland Bank Review, 92
Mint, purchase of gold by, 121
Municipal bonds, advances against, 137

National Debt Act and Bank of England, 28
Nationalisation of Central Banks, 174
Netherlands, Bank of, 13; advances of, against goods and warrants, 139; advances of, to State, 36; board of directors of, 58; Commissioner, Royal, and, 32, 70; discounts of, paper admissible for, 131, 134; gold holdings of, 172; investments of, 149; note issue of, 79, 80; notes of, redemption of, 102; profits of, share of management in, 52; profits of, State share in, 79; reserve funds of, 48, 49, 149; shareholders of, 65, 66; sterling depreciation and, 172; *see also* Appendix I. 348
New Zealand, banks of issue in, 77; exchange rates in, 166
Norway, Norges Bank, 14; capital of, 35; changes in, 2; note issue of, 83; note issue, increase over legal maximum, 98; report, annual, of, 68; shareholders of, 35; State, relations of, with, 35; *see also* Appendix I. 332
Note issue of Central Banks, 5, 6, 12, 39, 53, 74 *et seq.*; expenditure in connection with, 68; increase over normal maximum, 97-100; maximum fiduciary fixed, 83, 84; maximum of, fixed, 83; privilege of, duration of, 28, 54; monopoly of, for Central Bank, 11, 74, 77, 78, 79; taxation on, 40, 50, 97, 103; securities for, 100
Note issue by commercial banks, 6, 73, 75, 76, 77, 80
Note issue by State, *see under* State
Note-issuing department of Central Banks, 80, 81
Notes of Central Banks, denomination of, 103; failure to redeem, 54, 102; form of, 103; legal tender of, 101; printing of, 103; redemption of, 101, 121, 123-125

Officers of Central Banks, term of appointment, 31; *see also* Governing Body
Open market operations of Central Banks, 108, 109
Overdrafts with Central Banks, 149

Peru, Central Reserve Bank of, Board of, 31; capital of, 46; President of, election, 31; Reserve Bank of, 8; State and, 31; *see also* Appendix I. 360
Platinum, advances against, 136 (footnote); dealings in, 123
Poland, depreciation of zloty in, 9; stabilisation scheme (1927), 154
Poland, Bank of, 14; advances of, against merchandise, 139; advances of, against securities, 137; capital of, increase in, 43; commercial banks and, 9, 125; directors of, qualifications for, 61; discounts of, paper admissible for, 131, 135; foreign exchange and, 125; gold exchange standard and, 121; Government Commissioner and, 32, 33; investments of, 149; notes of, denomination of, 103; notes of, expenditure in connection with, 68; notes of, legal tender of, 101; notes of, redemption of, 121; president of, power of veto of, 33, 59; real estate and, 148; reserve of, 95; reserve fund of, 48, 49, 149; shares of, advances against and purchase of, 150; silver reserve of, 93; State relations of, with, 32, 33; *see also* Appendix I. 346
Portugal, Bank of, Appendix I. 380
Precious metals, as collateral for advances by Central Banks, 136; dealings in, by Central Banks, 121 *et seq.*
Premises of Central Banks, 148
President (or governor) of Central Banks, appointment of, 19, 31, 59, 60, 69; pledges of, 59; powers of, 33, 59

Prices and Central Banks, 177; fall in, 167, 168, 170; in U.S.A., 158
Private accounts, holding of, by Central Banks, 111, 140
Privileges of Central Banks, forfeiture of, 54; *see also* Note Issue, privilege of, and Charters of Central Banks
Profits of Central Banks, 50; determination of, 48; distribution of, 13, 39, 50-52; State share in, 39, 50, 51, 52, 97, 104
Profit-sharing in Central Banks, 52

Real estate, holdings of, by Central Banks, 147
Rediscounts with Central Banks, 112
Reichsbank, advances by, against securities, 138; advances by, against bills, 138; advances by, against merchandise, 139; annual report of, 68; bank rate of, 169; Belgian stabilisation and, 154; bills, acceptance for third parties by, 149; branches of, 114; capital of, increase in, 43; charter of, duration of, 29; commercial banks and, 114, 118; commercial business, connection of, with, 146; commission business of, 146; crisis, 1931, and, 175; deposits with, payment of interest on, 142; discounts of, paper admissible for, 131, 134, 135; dividends of, 50, 52; General Council of, 62; gold, purchase and sale by, 123; gold discount bank and, 147; international debts and, 153; liquidation of, 55; loans, raised abroad by, 150; notes of, expenditure in connection with, 68; notes of, legal tender of, 101; notes of, proportion to total circulation, 80; notes of, redemption of, 101, 124; notes of, reissue of, 103; notes of, securities held against, 94; objects of, 143; president of, election of, 31, 60; profits of, distribution of, 52; real estate and, 148; reorganisation of, 2, 13, 60; reserve fund of, 52; reserve of, 85, 94; reserve requirements of, suspension of, 97, 173; shareholders of, 66; State, advances to, by, 35; State and, before the war, 17; State and independence of, 18, 19; State and profits of, 52; taxation of, 40; *see also* Appendix I. 287
Reparations, International Committee of, Experts on, 160
Reports of Central Banks, 68
Reserve fund of Central Banks, 48; amount of, 49; division of, in case of liquidation, 56; profits and, 50, 51, 52; purpose of, 48
Reserves of Central Banks against notes and other liabilities, 80-83, 171-174; foreign assets and, 93-96, 149; ratios of, 171; regulations concerning, 83-85, 93, 94; silver in, 93; suspension of regulations concerning, 97-100; of Bank of England, comparison with American system, 86 *et seq.*; of Federal Reserve Banks, amount of, 76
Returns of Central Banks, 57, 67 *et seq.*
Roumania, National Bank of, capital of, 44; Government Commissioner and, 34; monetary reform and, 155; State, relation of, to, 34; *see also* Appendix I. 387
Russia, Imperial Bank of, 25
Russia, State Bank of Russian Socialist Federal Soviet Republic, platinum and, advances against, 136 (footnote); platinum, dealings in, 123; State, relations of, with, 19, 20, 23; *see also* Appendix I. 398

Shareholders of Central Banks, 17; general meeting of, 64, 65; powers of, 57, 64 *et seq.*; share in profits of, 13, 50-52; votes of, limitation, 65; votes of, and foreigners, 66
Silver, as collateral for advance by Central Banks, 137; dealings of Central Banks in, 123; issue of notes against, 93
South Africa, Reserve Bank of, 8, 14; advances of, against bills, 139; advances of, against merchandise prohibited, 139; advances of, against silver prohibited, 137; advances of, unsecured, prohibited, 149; auditors of, 67; board of directors of, 58, 61, 62, 63, 90; capital of,

increase in, 43; commercial banks and, 115, 116; commercial commitments and, 146; deposits of, payment of interest on, 142; discounts of, admissible paper for, 131, 134, 139; investments of, 148; dividends of, 52; inspection of, by Treasury, 67; liquidation of, 56; note issue, monopoly of, 78, 80; notes of, denomination of, 103; notes of, legal tender of, 102; profits of, defined, 48; profits of, distribution of, 52; real estate and, 148; reserve fund of, 48, 52; reserve requirements of, suspension of, 97; State and profits of, 52; stock of, advances against and purchases of, 150; *see also* Appendix I. 404
South America, Central Banks in, 2, 8, 17, 45, 114, 126, 141; *see also under separate countries*
Spain, Bank of, 14; board of directors of, 61; Council of, 31; note issue of, 83; note issues of, tax on excess, 99; silver reserve of, 93; State, relations of, with, 21, 31; *see also* Appendix I. 410
Specie payments, suspension of, 27
Stabilisation of currency, 2; in Belgium, 154; in Czechoslovakia, 125; in Denmark, 151; in Poland, 154
State, advances to, by Central Banks, 35 *et seq.*, 58, 132; capital of Central Banks and, 35, 43, 44; deposits of, with Central Banks, 37, 53; foreign loans and, 151; liquidation of, Central Banks and, 53, 54, 55; note issue and, 5, 6, 27, 74, 75, 77, 78; powers of, in relation to Central Banks, 12, 17 *et seq.*, 27, 32 *et seq.*, 57, 58; profits of Central Banks and, 39, 50, 51, 52, 97, 104; purchases of gold by, 122; responsibility of, for Central Banks, 16; services for, performed by Central Banks, 37 *et seq.*; token currency and, 123, 144
State banks, 19, 20, 23 *et seq.*, 44, 58
Sterling exchange standard and Bank of Danzig, 124
Stock of Central Banks, advances against and purchase of, 149
Strong, Governor, 159, 160
Strong amendment, 159
Supervision of Central Banks, 31, 57, 70
Sweden, Sveriges, Riksbank, 14; advances by, 136 (footnote), 139; board of directors of, appointment of, 24; board of directors of, disqualifications for, 61; borrowing by, 150; capital of, 44; commercial banks and, 141; deposit accounts of, 142; deposit accounts of, payment of interest on, 142; discounts of, paper admissible for, 131, 135; note issue and reserve of, 83; report, annual, of, 68; State, relations of, with, 16, 23, 24, 25, 26; *see also* Appendix I. 415
Switzerland, National Bank of, Belgian stabilisation and, 154; capital of, unpaid, 47; charter of, duration of, 29; council of, 59; gold holdings of, 172; governing bodies of, and members of Legislatures, 61; *see also* Appendix I. 420

Taxation of Central Banks, 39, 50, 103
Token currency and Central Banks, 123, 145
Treasury notes, 1, 78, 79, 86

United Kingdom, foreign credits and, 150, 152, 167; gold in, 157; gold standard, reintroduction in, 18, 92, 151, 155; gold standard, suspension in, 2, 4, 18, 40, 99, 121, 157, 167, 171; payments of, to U.S.A., 127; prices in, 168; *see also* England, Bank of
United States of America, crisis of 1907 in, 6, 76; gold in, 171; gold certificates of, 75; gold, purchase of, in, 122; gold, supply of, in, 90, 156; Government funds in, 38–39; money rates in, 153; note issue in, 76, 77, 78, 100; payments to, by United Kingdom, 127; prices in, 158, 168; Stock Exchange boom in, 175; *see also under* Federal Reserve Act, etc.

Warehouse warrants, as security for advances by Central Banks, 139; discount of, by Central Banks, 132

Young Plan, 124, 163

Printed in Great Britain by R. & R. Clark, Limited, *Edinburgh.*

BY SIR CECIL H. KISCH

THE PORTUGUESE BANK NOTE CASE

THE STORY AND SOLUTION OF A FINANCIAL PERPLEXITY

8vo.

This book is divided into three parts. The first deals with the remarkable plot of which the late Sir William Waterlow—formerly Chairman of Messrs. Waterlow & Sons, Limited—was in 1925 the victim and which led to the printing for, and delivery to, unauthorised parties of a large supply of Bank of Portugal notes without the knowledge of the Bank itself. When the frauds were detected, the notes were recalled by the Bank, which exchanged them for other notes of a different design. Subsequently the Bank instituted proceedings against Messrs. Waterlow & Sons, Limited, in respect of the loss which it claimed to have suffered.

The second part of the book gives the substance of the judgments delivered by the three Courts which dealt with the case in London in the years 1930-32. There was a striking diversity of opinion among the Judges on the perplexing question of the measure of the Bank's legal loss, the figure in the awards varying from over £600,000 to under £10,000.

Apart altogether from the juridical issues, now settled in the Bank's favour, the case revealed points of great economic interest arising from the exceptional position of a Bank of Issue managing an inconvertible currency with no legally defined monetary policy. The study of these financial problems is the theme of the third and principal part of the book. The discussion conducts the reader into the wonderland of paper money where, with the help of statistical and other material not before the Courts, the perplexities are resolved in an unexpected conclusion that cannot fail to interest bankers, lawyers and economists as well as the many others who have been intrigued with the story and complications of an unprecedented case.

MACMILLAN AND CO., LTD., LONDON

NEW AND RECENT WORKS ON ECONOMICS

ECONOMIC TRACTS FOR THE TIMES. By G. D. H. COLE, Reader in Economics in the University of Oxford. 8vo. 12s. 6d. net.

BRITISH TRADE AND INDUSTRY: Past and Future. By G. D. H. COLE. 8vo. 16s. net.

FINANCE AND POLITICS. Being a Sequel to "Behind the Scenes of International Finance". By Dr. PAUL EINZIG. 8vo. 7s. 6d. net.

THE BANK FOR INTERNATIONAL SETTLEMENTS. By Dr. PAUL EINZIG. *Third Edition, revised and enlarged.* 8vo. 10s. 6d. net.

AN ESSAY ON THE NATURE AND SIGNIFICANCE OF ECONOMIC SCIENCE. By LIONEL ROBBINS, Professor of Economics in the University of London. 8vo. 7s. 6d. net.

ECONOMIC PROGRESS AND ECONOMIC CRISES. By JOHAN AKERMAN, Ph.D., formerly Professor of Economics in Lund University. Translated by ELIZABETH SPRIGGE and CLAUDE NAPIER. 8vo. 8s. 6d. net.

AN ECONOMIC HISTORY OF SOVIET RUSSIA. By LANCELOT LAWTON, Author of "The Russian Revolution, 1917–1926". 2 Vols. 8vo. 25s. net.

THE NATIONAL INCOME, 1924–1931. By COLIN CLARK, M.A., University Lecturer in Statistics in Cambridge University. 8vo. 8s. 6d. net.

THE SCIENCE OF PUBLIC FINANCE. By G. FINDLAY SHIRRAS, Author of "Indian Finance and Banking". *Third Edition.* 8vo.

THE THEORY OF WAGES. By J. R. HICKS, M.A., B.Litt. (Oxon.), Lecturer in Economics, London School of Economics. 8vo. 8s. 6d. net.