

issues, and the new high record for the bank clearings of the country. But it goes without saying that recovery from a blow such as that dealt our industries by the earthquake disaster can not be completed in a brief period. Trade and industry still remain in a state of inactivity; and even if reasonable progress in general recovery has been made, it is too early to speak of business as completely rehabilitated.

Prices and wages are not yet sufficiently adjusted to permit sound management of various types of industry; a very large volume of capital remains tied up; bank advances still remain in excess of deposits; so that while business conditions during the year show some improvement, they do not warrant the painting of too rosy a picture.

ANNUAL REPORT OF THE NATIONAL BANK OF HUNGARY

The annual report of the National Bank of Hungary for 1925, submitted to the general assembly on February 15, 1926, contains the following summary of the operations of the bank, and the economic condition of the country.

The most important economic event of the past year was the final and complete stabilization of the international value of our currency.

During the early part of the year sterling continued to appreciate, until toward the end of April the process came to an end with the attainment of gold parity. The legal and economic measures taken since then have re-established sterling in the position among gold currencies which it had previously held. In consequence of the stabilization of our own currency on a sterling basis, Hungarian crowns also ceased to appreciate in value. How firmly the international position of our currency is now established may be seen from the reserves of the bank in precious metal and foreign exchange, which increased by 861,000,000,000 crowns, from 2,479,500,000,000 to 3,340,500,000,000 in the course of the year. In these circumstances it became possible and opportune to proceed further with the reorganization of the Hungarian currency by introducing a new legal monetary unit with a suitable intrinsic value. After long discussions Act XXXV of 1925 was passed. This act establishes a new Hungarian monetary unit to be called the pengo, the value of which is expressed in relation to the paper crown by the ratio of 1 to 12,500, and in relation to gold by the ratio of 3,800 pengos to 1 kilogram of fine gold. The act came into force on November 21 last, and put an end to the stabilization of Hungarian crowns on a sterling basis at a fixed rate of exchange of 346,000 to the pound sterling. Since that date the rate of exchange of the crown has been left to develop freely in accordance with its intrinsic value. The value assigned by the new currency law to the paper crown is the value which it had attained as a

result of the gradual abolition of restrictions on dealings in foreign exchange and in Hungarian legal tender, and also of the impediments which had previously stood in the way of a free exchange of goods through imports and exports.

Now that the after-effects of the great war are beginning to pass, we can obtain a better insight into the economic life of the country and form a surer judgment of its real condition. This is particularly true of the balance of payments of Hungary which, compared with the preceding year, was distinctly favorable. As regards the international money market, the movement of capital and the fluctuation of interest rates, the most striking phenomenon has been an influx of capital into this country. Though the increased need of capital on the continent of Europe compels Hungarian borrowers to face formidable competition, the fact remains that the efforts made in Hungary to restore equilibrium to our finances have yielded fruit, and that foreign capital displays an interest in our affairs which the country has well deserved. In the course of the past year a loan of \$10,000,000 was obtained by a group of Hungarian cities, and quite recently the Hungarian Land Mortgage Institute has achieved great success with its issue of mortgage bonds abroad. These two instances represent the first steps taken toward inducing foreign capital to make investments in this country in the form of long-term loans. There has also been evidence of the willingness of foreign capitalists to offer short-term funds in Hungary, in addition to the usual seasonal credits granted to some branches of industry. While it may be desirable and even necessary that the capital engaged in production should be thus supplemented by help from abroad, we should not close our eyes to the dangers or ignore the damage which might result from a too liberal use of foreign credit, particularly on short term. The borrowing of Hungarian institutions needs to be fully justified by the condi-

tions of production and the possibilities of marketing the product. The experiences of the second half of last year induced the management of the bank to make use of all the means available to them in order to bring about more healthy conditions by a deliberate credit policy.

The doctrine that the consolidation of the public finances of a country is one of the most essential elements of confidence in currency stability has been proved once again in our case. The fact that the fiscal year 1924-25 closed with a surplus of some 63,000,000 gold crowns, and that the estimates for 1925-26 again present an absolute balance, has been and will continue to be one of the most powerful factors in the stabilization of the currency. Moreover the favorable development of the public finances has enabled the State to resume its capital investments, for which, in addition to the surplus of 63,000,000 gold crowns already mentioned, the Council of the League of Nations has agreed that 50,000,000 gold crowns may be appropriated out of the surplus of the League of Nations loan, both in the current and in the coming year. Altogether there are 182,000,000 gold crowns of money which will not be needed for the original purpose of covering budget deficits. The capital investments of the Government and the expenditure on public works to be carried out by the municipalities will probably not have their full effect until the spring of the present year; but they should result in a further strengthening of our economic position and in a consequent improvement of our balance of payments.

At the beginning of the business year now under review the prospects of private enterprises in this country did not seem particularly bright, on account of the unfavorable harvest of 1924. But during the spring the condition of the new crops steadily improved and the general temper of the country became more confident. The summer fully justified the hopes which had been entertained for the harvest of 1925. The harvests of the principal cereals yielded nearly 9,000,000 quintals more than in the previous year, and there was a proportionately large increase in the yield of the other chief agricultural products. But the advantages of a large crop were counterbalanced by a considerable decline in price, and the protective duties imposed by those States which are the natural markets for Hungarian flour and Hungarian wheat placed formidable obstacles in the way of the free

development of our export trade in agricultural products, especially as a variety of circumstances combined to delay the negotiations for the conclusion of commercial treaties.

Other developments also had a detrimental effect in several respects upon industrial production during the past year. The output of coal, which showed a decline as compared with that of the previous year, bears witness to the curtailment of industrial production. But it should not be forgotten that the same thing is true not only in this country but all over Europe. If the states of Europe should succeed in adopting an economic and commercial policy that would put an end to the attitude of extreme isolation still maintained in certain countries, there can be no doubt that there would be a favorable increase of production in Hungary as elsewhere. Yet this is not all that is required. It is also essential that the position of private enterprise should be strengthened by every influence that can be brought to bear. Further reductions of taxation would contribute to this end, and the productive investments to be made by the state, the municipalities and parishes should also prepare the way for an improvement in the condition of private enterprises.

Shortage of capital has been felt on the Bourse, even more severely than before. Very little business has been done and prices have declined.

An event of the first importance to the economic life of the country was the introduction during the past year of a Government measure intended to insure that balance sheets reflect accurately the true condition of affairs. It is equally important that the question of valorization or reconversion into gold values should be settled.

The situation described above dictated the credit policy which we had to pursue. We had to use every means at our disposal to overcome as far as possible the obstacles placed in the way of production by adverse credit conditions, and to enable the producer to obtain credit at a rate of interest not beyond his capacity. The attainment of this object was rendered possible by the fact that the volume of discounted bills in the portfolio of the bank, after shrinking as usual at the beginning of the year, expanded again only very slightly during the last six months of the year. At the end of 1924 our discounts amounted to 1,976,000,000 crowns. There followed a gradual decline to 1,326,000,000,000 in the middle of June. But the expansion which

came as expected during the autumn was far smaller than had been anticipated, partly because there were delays and interruptions in the marketing of the harvest, and partly on account of the foreign credits which were placed at the disposal of the mills. The highest point was reached at the end of September, when the value of our portfolio amounted to 1,734,000,000 crowns. During the month of October there was a considerable reduction, and since then the total of domestic bills discounted has varied from 1,500,000,000,000 to 1,700,000,000,000 crowns.

This circumstance, combined with the increase in metal reserves, which continued with only slight interruptions throughout the year, the gradual decline of commodity prices, and the situation on the money market, established the conditions under which it became possible progressively to reduce the bank rate. This was done in three stages during the course of the year.

The first opportunity presented itself in the month of March when the rate stood at 12½ per cent. Money appeared to be easy, though not in all the various branches of the market, and short credits were being freely offered. Although this abundance of funds was in any case only relative and was to some extent illusory, being due to the caution inspired by a general lack of confidence, and by the uncertainty which results from economic stagnation, the board of directors felt justified in reducing the bank rate, though for the time being only slightly, to 11 per cent. When it was seen that this reduction had no unfavorable influence on the reserve position of the bank, while in consequence of the corresponding reduction of open-market rates of interest it was definitely of advantage to production, a further reduction of 2 per cent was made on May 28 to 9 per cent. Yet another reduction was made in October. At that time it had become clear that the marketing of the harvest would not result in any great expansion of the bank's portfolio of discounted bills. This fact, and more especially the unusual fall in discounts during the month of October, suggested that there must be other influences at work besides the general economic depression and the delayed marketing of the harvest to reduce our stock of bills to such a remarkably low level. The primary cause appeared to be the extensive use of short credit offered and supplied by foreign capital. There was also some danger that the bank rate might lose any effective connection with the credit life of the country, and

that the quality of the bills brought to the bank for discount might deteriorate. Partly to guard against these disadvantages, and partly to insure that the whole field of production should reap the benefit of cheapened credit, the board of directors reduced the bank rate as from October 22 to 7 per cent.

The endeavors of the bank to lead back the credit life of the country into normal channels were not confined to the reduction of the official rate. The difficulties standing in the way of production were particularly evident in the Provinces, and we therefore tried through our branches to make arrangements for the standardization of interest rates on a lower level in the various provincial markets. These arrangements immediately resulted in a substantial improvement.

In spite of the difficulties and complaints voiced by producers, there is no mistaking the favorable tendency of monetary conditions. At the beginning of the year first-grade bills could only be placed at a rate of interest in the neighborhood of 20 per cent. In the last month of the year the rate had fallen to 9 or 10 per cent. The reduction of provincial discount rates is not less striking. Both the influx of foreign capital and the accumulation of capital at home have contributed to this result. It is worth remarking that in the course of the year there has been an increase of 94 per cent in the amount of savings and current account deposits.

A reduction in open-market rates of interest amounting to 50 per cent of the rates in force a year ago must certainly be described as a gratifying result. But at the same time, if we look at the absolute level of interest rates, we shall be compelled to admit that there is justification for the complaints which come from agriculture, industry, and commerce. The high rates which still prevail undoubtedly involve a serious burden on producers, and one of the most important problems for the economic life of Hungary is to devise means for further necessary reductions in the general level of interest rates. If it is true that there are serious obstacles in the way. Some of them arise from the exaggerated demands of savings depositors who have been encouraged by inflation to expect high rates. Others are the result of an unduly expanded credit organization, the expenses of which are out of all proportion to the relatively insignificant capital brought into use. All these things must be adjusted and proper proportions restored. We can not afford to wait until the slow processes

of capital accumulation have achieved the desired result. It is necessary that there should be a reasonable increase in share capital, and also some amalgamation of existing institu-

tions, which is one of the most effective means of promoting a sounder and healthier development of credit conditions.

ANNUAL REPORT OF THE NATIONAL BANK OF THE KINGDOM OF SERBS, CROATS, AND SLOVENES

The annual report of the National Bank of the Kingdom of Serbs, Croats, and Slovenes for 1925 contains the following summary of the bank's operations and activities, and of the economic situation of the country.

Business with the State.—During the past year the State has incurred no new debts at the national bank and has floated no new foreign loans. The State debt to the bank remains, therefore, unchanged at 2,966,000,000 dinars. The repayment of this debt is closely bound up with the revaluation of the dinar, which has not yet been undertaken. There has been some steady improvement in State finances, but it is useless to attempt the stabilization of the value of the dinar until the finances of the State are in order.

Movement of the dinar.—There has been a gradual rise in the value of the dinar during the past two years. To avoid a speculative rise, the bank undertook the purchase of all bills which came on the market and tended to push up the value of the dinar. It succeeded in checking the rise and in stabilizing the dinar by the end of the year.

The bank's check policy.—Business in checks is steadily becoming a more important part of the bank's work; thus the bank is becoming a more powerful factor in determining the rate of the dinar and its stabilization. By agreement with the minister of finance the bank bought with its bank notes a third of all the export bills, and having received the equivalent of the bills in dinars, used the bills for State payments abroad or turned them over to the ministry of finance for State payments at home, while the surplus was sold on the exchange. To maintain the value of the dinar, bills were sold when there was a great demand for them; and bills were bought and dinars were put into circulation when the supply of bills was large, especially during the export season. This policy of stabilization was successful, owing to the fund of bills which has been created in the course of the last few years.

Mention must be made of the inaccurate and malicious rumor that the national bank buys bills with some reserve notes of its own,

the amount of which is not included in the report of the circulation issued weekly. We may state that all notes which the bank issues, whether for its own or for State business, are included in the circulation as regularly announced.

The rate of interest.—The discount rate of the bank remained steady at 6 per cent, while the rate on secured loans was 8 per cent. The private discount rate remained high, although not nearly so high as in the preceding year, and varied between 8 and 16 per cent. Money is especially dear outside the large centers. This is due, not to money scarcity, for there is certainly a sufficient supply, but to high taxes, the high cost of living, high running expenses, and the uncertainty of business. In 1924 the national bank took measures to fix the private rate of interest by agreements among the commercial banks. This policy was successful; competition for savings deposits was reduced to a minimum, which allowed the banks to decrease their interest charges on loans. A general reduction in money rates can come about only from a uniform system of State and local taxation throughout the kingdom and from lowered costs of living.

The corn yield.—The corn yield was better than the previous year, both as regards quantity and quality. The area sown was greater and the yield was higher. But in spite of this the year saw no greater income than in 1924. Prices for agricultural products were low because of large crops throughout the world. Exports of wheat, flour, prunes, hops, and tobacco increased considerably, while exports of cattle and stock-raising products declined. Export business was fairly good, but import trade encountered many difficulties. Prices were high as a result of the high customs duties. Sales of commodities were reduced among the general public because the price of agricultural products was low on the world market while prices for manufactured goods were rising. Thus, there is a large surplus of goods on hand for 1926, and goods will not be ordered in as large quantities as formerly.

The liabilities side of the new balance sheet calls for only two comments. The amount of the amortization account has been absorbed into the amortization of the advances of the bank to the Government. It will continue to exist, however, until August 1 next, the bank having undertaken on May 21 last to pay into it the interest on foreign exchange acquired from January 1 to August 1, 1928, to be credited to the Government, preliminary to arranging the conversion loan.

On the other hand, since the gold reserve of the bank must henceforward always amount to at least 35 per cent of the combined note circulation and liabilities on current account, it has seemed necessary to group under the same inclusive caption the various items of the balance sheet which come under this definition—that is, notes in circulation, the current account of the Treasury, that of the autonomous sinking fund (which has been shown under a separate caption), and, last, current deposits of individuals and other demand liabilities (arrears of securities on deposit, dividends to be paid, promissory notes, checks in circulation, etc.). The total of the liabilities thus given in detail on the balance sheet is shown in a special table at the bottom of the balance sheet, together with the ratio of the gold reserve to this total, so that the difference between this ratio and the legal ratio of 35 per cent can be seen at a glance.

Finally, in the interest of simplicity and precision, the bank has decided henceforth to make uniform for both the head office and the branches the dates on which the statement of accounts shall be reported. Hitherto the balance sheet issued each Thursday was made up by compiling the condition statement of the head office as of Wednesday evening and of the branches as of the preceding Friday. This method has been given up. From now on the balance sheet, which will be published each Thursday, will give the condition statement of the Paris office and of the branches for the same date as of the preceding Saturday morning.

As a single exception to the above arrangement the balance sheet of Thursday, June 28, was compiled for the head office, as well as for the branches, as of Monday, June 25, the date on which the measures giving effect to the monetary reform came into force.

CONDITION STATEMENT OF THE BANK OF FRANCE
(Amounts in francs)

	June 25, 1928
ASSETS	
Gold reserve (coin and bullion).....	28,934,885,268.85
Silver and copper coins.....	233,164.27
Postal current accounts.....	699,822,920.51
Funds available at sight abroad.....	15,984,600,741.32
Foreign exchange loaned.....	9,777,767,643.00
Advances on gold bullion and coin.....	37,258,500.00
Bills:	
Commercial bills discounted in France.....	2,955,453,811.32
Commercial bills discounted abroad.....	16,968,789.89
Negotiable bills bought in France.....	
Negotiable bills bought abroad.....	10,544,906,332.68
Advances against securities.....	1,846,774,369.43
Negotiable bonds of the autonomous sinking fund.....	5,930,000,000.00
Loans without interest to the Government.....	3,200,000,000.00
(Law of June 9, 1857; convention of Mar. 29, 1878; law of June 13, 1878, extended; laws of Nov. 17, 1897, Dec. 29, 1911, Dec. 20, 1918, and June 25, 1928.)	
Rentes earmarked for special purposes.....	112,980,750.14
(Law of May 17, 1834; decrees of Apr. 27 and May 2, 1848; law of June 9, 1857.)	
Bank buildings and equipment.....	219,327,419.32
Silver coins demonetized for reminting.....	784,824,534.42
Miscellaneous assets.....	1,239,422,613.32
Total.....	82,285,226,858.46
LIABILITIES	
Capital.....	182,500,000.00
Profits in addition to capital.....	272,696,110.93
(Laws of June 9, 1857 and Nov. 17, 1897.)	
Legal liquid reserves.....	22,105,750.14
(Law of May 17, 1834; decrees of Apr. 27 and May 2, 1848; law of June 9, 1857.)	
Nonliquid reserve.....	4,000,000.00
Demand liabilities:	
Notes in circulation.....	58,772,461,105.00
Current account of the Treasury.....	5,078,688,970.25
Current account of the autonomous sinking fund.....	1,934,117,189.24
Other current accounts and deposits.....	5,471,052,901.62
Other demand liabilities.....	273,389,659.84
Liabilities arising from foreign exchange loaned.....	9,777,767,643.00
Miscellaneous liabilities.....	496,447,528.44
Total.....	82,285,226,858.46
Total demand liabilities.....	71,529,709,825.95
Ratio of gold reserve to demand liabilities.....	40.45

ANNUAL REPORT OF THE NATIONAL BANK OF HUNGARY

The annual report of the National Bank of Hungary was made to the board of directors on February 6, 1928. Part of the English version of the report furnished by the bank is as follows:

Economic situation.—The international movement of capital and goods, and the factors affecting these, deserve particular consideration because during the second half of the year the weakness in our otherwise favorable economic situation was due to our foreign balance of merchandise and of payments. The chief concern of the National Bank of

Hungary, which is responsible for the stability of the currency, is the effect of these balances on the value of the monetary unit. Since there are many possible ways of restoring equilibrium to the balance of payments, and since every nation holds large assets on which in an emergency it can realize in the international market, we believe that only a long-continued and radically unfavorable development of the balance of payments is likely to affect the stability of the currency. Nevertheless we need to be cautious not only in availing ourselves

of foreign loans and in restricting their employment to productive uses, but also in adjusting our consumption more nearly to our present production. We should also use every means at our disposal to further the accumulation of capital at home, and to afford private enterprise greater opportunities for activity.

Credit conditions.—The relief experienced in the credit market during 1926 continued during the opening months of 1927. During April the rates of interest sank to their lowest level; in May, however, partly under the influence of events abroad and partly in consequence of the increased demand for capital, the tendency was reversed. During the remainder of the year rates showed a rise, which in the case of prime commercial bills amounted to about 1 per cent as compared with the lowest rates touched. This movement was also furthered by the increase in economic activity, and by the difficulty of placing Hungarian mortgage bonds abroad as the result of the temporary reserve of the American money market. The accumulation of domestic capital was insufficient to offset these adverse factors. For although the increase in deposits makes a favorable showing, the fact that, despite a relatively brisk course of business, only a few joint-stock companies increased their share capital, even these increases being effected to a very considerable extent with the aid of foreign funds, and more particularly the fact that the amount of fixed interest-bearing securities which could be placed in the home market was insignificant, leads to the conclusion that the process of accumulation of domestic capital is a very slow one. Nor can we expect any improvement in this respect to result from the efforts to mitigate credit conditions by extending the bases of credit.

Under the circumstances outlined above, foreign capital has to be resorted to on an increased scale in order to meet the credit demands of our productive enterprises. During the year foreign capital to the amount of some 240,000,000 pengö entered the country in the form of long-term bond loans. Of this amount the greater part was taken up by municipalities and other public corporations; the remainder, which served predominantly agricultural purposes, being negotiated by private enterprise.

Not only these long-term loans but our short-term foreign indebtedness also increased. In addition to the direct credits granted to our importers—the amount of which has in all probability expanded as the result of the growth of our imports—increase in the amount of our other short-term credit during the year under review may be estimated at between 150,000,000

and 200,000,000 pengö. This is a phenomenon by no means desirable from the point of view of the stability of our economic position; we may, however, note as a favorable circumstance the fact that this abundance of offers of credit, and more particularly the favorable terms on which the offers are made, indicate that foreign capital has confidence in the country and in its banking organization.

During the year our banking organization in general showed a further development. The half-yearly balance sheets issued by the several institutions bear witness to an increase of business opportunities. Embarrassments experienced in some instances were the result of excessive participation in industrial and commercial transactions, so that reduction of investments along certain lines on the part of weaker banking institutions must be regarded as a healthy process.

During the year, too, the National Bank continued, as it will do in the future, to concentrate its efforts on developing in the credit market such a situation as would lead to a reduction in rates of interest. Unfortunately, the circumstances outlined above—in particular the increased demand for credit and the insufficiency of the capital accumulated in the country—raised obstacles in the way of a realization of this purpose.

Stock exchange.—The change which took place during the spring in the money market was reflected in the volume of transactions on the stock exchange. During the opening months of the year the upward tendency which began in the summer of the preceding year continued. The turnover reached its culmination in the month of April; subsequently, however, there was a considerable decrease; while during the closing months of the year the course of business in the securities market was quiet, at relatively favorable prices. The introduction of the quotation of market prices in terms of pengö, and also the contraction of shares following on the revaluation of the balance sheets, was effected without the slightest disturbance.

Prices.—The upward tendency characteristic of the first half of the year was reflected in the development of prices. Wholesale prices continued to follow the upward movement which had set in during the autumn of the previous year; and reached their peak in August, being then about 10 per cent in excess of those prevailing a year earlier. A corresponding advance was in evidence in the cost of living, to which the gradual abolition of restrictions governing house rent, etc., contributed.

Discounts.—The renewed briskness of production and trade outlined above could not

fail to affect the condition of the National Bank; the effect found expression first in the advance of the amount of discounts. The average amount for the whole year represented by bills and warrants discounted was 57.6 per cent in excess of that of the preceding year. During the opening months of the year the usual seasonal decline did indeed take place; however, even this decline was of a comparatively limited character. From March until October the rise in discounts was unbroken, this being followed in November by a slight decline and in December by a slight increase, so that the amount of discounts reached its highest level for the year on December 31, when it stood at 332,100,000 pengö.

The cause of the expansion must, therefore, be sought primarily in the general resumption of business activity which was independent of seasonal factors, and in the demand for credit—or rather in the increased demand for means of payment—resulting therefrom. Under such circumstances it did not seem justifiable to restrict credit, particularly in view of the fact that the expansion of production had created a larger supply of eligible bills. There were no signs of any such growth of speculation as might have rendered it advisable to make credit dearer; nor did any such growth seem probable even during the later stages of the recovery, for there had been a considerable setback on the German exchanges at the beginning of May. Apart from the legitimate increase of the demands of production, it was impossible to ignore the fact that the gradual repayment of the State debt due to the bank, and the increase of the State deposits concentrated in the hands of the bank would tend to reduce the note circulation. It appeared a justifiable procedure to counteract this effect by an elastic issue of notes based on discounts, particularly so since the expansion of the amount of discounts does not in itself affect the purchasing power of the currency, but affects it only indirectly through the amount of means of payment in circulation. The amount of the means of payment expressing actual purchasing power did not exceed the limits justified by the conditions of production and trade. These considerations guided the management of the bank in leaving the official bank rate unchanged throughout the year at the original level of 6 per cent, though several central European banks of issue raised their rates, and though here and there signs of excess were perhaps in evidence in the general economic recovery of the country.

In taking this decision the management of the bank was guided further by the considera-

tion that although raising of the bank rate would check the endeavors to obtain bank credit, it would, nevertheless, increase the number of those persons in quest of credit who would be able to obtain loans abroad on more advantageous terms; and that would in its turn have only had the still less desirable result of increasing short-term foreign loans and weakening the control of the money market by the bank.

Metal and foreign exchange reserve.—During the first half of the year under review the metal and foreign exchange reserve of the bank declined somewhat. The metal reserve fell from 290,800,000 pengö at the close of 1926, to less than 260,000,000 pengö in March, remaining at or about this level until the second half of July, when it sank to the lowest point—253,400,000 pengö—recorded during the year. In the second half of the year, however, it began to increase once more, so that at the close of the year it figured in the bank's balance sheet at the amount of 317,500,000 pengö. The relatively slight fluctuations of the metal and foreign exchange reserve recorded during the year prove that our international payments were cleared throughout the year without difficulty. The introduction of the new monetary unit was effected without disturbing international relations; and no complications whatsoever accompanied the introduction of the quotation of the pengö in foreign markets. During the year our business in foreign means of payment was on a larger scale than in the previous year, as a natural consequence of the revived activity of trade and of credit transactions.

The ratio of gold in our metal and foreign exchange reserve continuously increased. The stock of gold gradually increased until August 7, rising from 168,800,000 to 196,800,000 pengö, the highest figure attained during the year, and remaining near that level until the close of the year. The proportion of gold in the aggregate metal and foreign exchange reserve rose during the year from 58 to 62 per cent.

State debt to the bank.—The agreement concluded during 1926 relative to the State debt to the bank—intended to hasten the repayment of the said debt—resulted in a further reduction from 134,700,000 to 111,400,000 pengö, the sum extinguished being therefore 23,300,000 pengö during 1927.

Note circulation.—In judging the volume of note circulation and comparing it with that of the previous year, we must allow for the fact that part of our note circulation has been gradually replaced by token coins during the course of the year 1927 and therefore take

account of the note and token-coin circulations combined. The aggregate yearly average amount of actual means of payment in circulation was during the year 1927 15.9 per cent in excess of the note circulation of the previous year, whereas, if we leave out of account the token coins, the difference is only 6.6 per cent.

We shall find a somewhat larger increase, if we also take into account the item of the so-called virtual note circulation—i. e., the current accounts and other liabilities payable on demand. For the yearly average aggregate amount of the actual and virtual note circulation showed an increase of 13.7 per cent or, including the circulation of token coins, of 19.7 per cent, as compared with that of the previous year. We must, however, not ignore the fact that this relatively greater increase of the virtual note circulation is to be attributed mainly to the increase of State deposits. These credit balances of the State, although the rules relating to cover are identical, can not be regarded as means of payment in the same sense as are bank notes or current account credit balances of private individuals, since they play a comparatively slight rôle in the work of effecting payments and are therefore of far less importance as a factor in the purchasing power of the currency.

During the course of the year 1927 the proportion of cover of our note circulation prescribed by the statutes was on a lower level than in the previous year; indeed, as from the end of April it sank below 50 per cent. As compared with the proportion of 50.17 per cent recorded at the beginning of the year, its lowest point was reached on October 31, when it was 46.15 per cent; while on the last day of the year it stood at 46.41 per cent. This decline

is to be attributed not only to increase of the actual and virtual note circulation but also to the fact that the State debt to the bank—the amount of which is to be deducted from that of the note circulation requiring cover—was considerably reduced during the course of the year.

The new pengö currency.—The replacement by our new pengö notes of the State currency, notes expressed in terms of crowns, which was begun on December 27, 1927, was effected with a rapidity that exceeded all expectations. A year's experience has established the fact that people very soon accustomed themselves to calculating in terms of pengö and to the use of the means of payment expressed in terms of pengö currency.

The various kinds of token coins also, as well as the pengö notes, were in general favorably received. For some months past our circulation of token coins has amounted to about 40,000,000 pengö, a fact which seems to show that that amount is sufficient for present requirements.

Cooperation of banks of issue.—The cooperation of banks of issue of the world, which is becoming closer every year and has played no small part in the work of remedying the disastrous financial situation resulting from the Great War, yielded beneficial results during the past year. As in the case of reconstruction of the public finances of Belgium, the stabilization by law of the Polish and Italian currencies afforded an opportunity for cooperation of banks of issue, and it is gratifying to be able to record that the National Bank of Hungary cooperated with its fellow institutions in foreign countries in the work of giving effect to these two stabilization schemes.

ANNUAL REPORT OF THE BANK OF NORWAY

Director N. Rygg addressed the annual meeting of the Bank of Norway on February 20, 1928. Part of the address is as follows:

The year which has passed since the board of directors made their last annual report has been in many respects a difficult one, although developments have been of more than usual interest. At this time last year depression was the keynote, and prospects in many of our major industries were far from encouraging. The year 1927, also, must be characterized as a bad year. But it is not sufficient to emphasize this fact. It is of great importance that we examine the tendencies that have been manifested and determine their direction. Depression in our chief industries a year ago weighed with equal pressure on agriculture, forestry,

and shipping. There are still adjustments to be made not only in specific lines of production, but as well in the interrelations of different branches.

The fishing industry.—During the spring one could discern several bright lights in the dark picture. Of the industries that had been particularly depressed one may mention fishing. The price of "klipfisk" reached its lowest level in April, and improved gradually thereafter, with the exception of one slight setback, reaching a satisfactory level toward the close of the year when storage supplies were diminishing. Taken as a whole the year has proved more favorable than had been anticipated for producers and exporters. Profit has been fair and the situation has improved. Salmon fish-

BALANCE SHEET OF THE BANK OF ITALY AS OF DECEMBER 31, 1928

	Lire (in thousands)	Dollars ¹ (in thousands)		Lire (in thousands)	Dollars ¹ (in thousands)
RESOURCES			RESOURCES—continued		
Reserve:			Bank premises.....	140,463	7,388
Gold at home.....	5,051,944	265,732	Unpaid capital.....	60,000	3,156
Other gold assets—			Other resources.....	642,693	33,806
Balances abroad.....	4,383,184	230,555	Total resources.....	22,143,471	1,164,747
Foreign Treasury bills.....	1,635,721	86,039	LIABILITIES		
	6,018,905	316,594	Notes in circulation.....	17,295,393	909,738
Total reserve.....	11,070,849	582,327	Demand drafts outstanding.....	716,086	37,666
State debt to the bank on account of gold deposited as collateral abroad.....	1,836,187	96,583	Public deposits (Treasury accounts).....	300,000	15,780
Other cash.....	102,322	5,382	Other demand deposits.....	1,525,213	80,226
Domestic bills.....	3,720,305	195,688		19,836,693	1,043,410
Items for collection.....	36,413	1,915	Capital.....	240,000	12,624
Advances to customers.....	1,761,897	92,676	Statutory reserve.....	48,000	2,525
Government securities.....	1,080,357	56,827	Extraordinary reserve.....	12,025	633
Due from domestic banks:			Undivided profits (net for the year).....	57,366	3,017
Clearing houses.....	173,676	9,135	Current accounts.....	70,709	3,719
Others.....	81,315	4,277	Fixed Treasury deposits.....	824,775	43,383
	254,992	13,413	Treasury deposit for account of "Istituto di Liquidazioni".....	60,000	3,156
Interest due from Treasury for account of "Istituto di Liquidazioni".....	276,982	14,569	Other liabilities.....	993,902	52,279
Credit with "Istituto di Liquidazioni".....	1,160,012	61,017	Total liabilities.....	22,143,471	1,164,747

¹ Conversion at par: 1 lira = \$0.0526.

ANNUAL REPORT OF THE NATIONAL BANK OF HUNGARY

The annual report of the National Bank of Hungary for 1928, as presented to the meeting of shareholders on February 4, 1929, contains the following sections dealing with financial and economic conditions during the past year: ¹

International situation.—During 1928 the restoration and legal reestablishment of currency values based on the gold standard was put into effect in several additional countries as a prerequisite for regulated economic activities. Of chief importance was the stabilization of the French franc, since it largely influenced the international flow of gold. Owing to our geographical location, however, it is essential for us to note particularly the steps of similar character taken by some of the Balkan countries, which have either already adopted measures, as Bulgaria and Greece, or have indicated that they are about to introduce them.

The greatest economic accomplishment of the first decade following the World War has been the almost world-wide stabilization of currency values. Primarily as a result of this achievement interrupted international economic relations are being once more resumed on a sound basis, and speculation is giving place to honest work.

¹ The full report, available in German and in official English translation as well as in Hungarian, contains in addition sections dealing with bank operations, personnel, etc. For earlier reports see FEDERAL RESERVE BULLETIN, August, 1928, June, 1926, etc.

The undoubtedly great achievements of the postwar period have not been accomplished without interruption. More and less favorable years have succeeded one another, and in order to get a true perspective for the whole period one has to look back over several years. This must be borne in mind in reviewing the events of 1928 which, in comparison with the preceding year, hardly present a favorable picture. Dark clouds hang in the horizon of international politics, where negotiations are in process aimed at the solution of problems growing out of the World War and still awaiting adjustment. On the great international exchanges waves of speculation have risen once more, and the consequent demand for funds has increased the difficulties of furnishing credit to those countries which depend for their supply of capital upon foreign nations. The growth of western European markets, especially England and France, has not been sufficient to offset the refusal of American capital to undertake further engagements in Europe. As a natural consequence some decline has been perceptible in the business activity of those countries whose requirements, owing to the insufficient supply of domestic capital, must be met largely from foreign sources. In all this the increasing dependence of the economy of nations with limited capital upon foreign investment becomes apparent.

General features of Hungary's economic situation.—The cardinal problem of our economic life, therefore, as is being recognized more and more clearly, is that of building up domestic capital. Its solution can be brought about only through the greatest possible increase in the production of actual values, by sacrificing the gratification of present wants, and through the employment of the greatest possible portion of such values produced and saved for the promotion of future welfare, or, in other words, for purposes of further production. While chief responsibility in this connection must rest with industry which must develop a higher degree of initiative, we can not refrain from renewing our appeal, addressed in last year's report to the proper authorities, that freer scope be given to private enterprise. Our tax system is in urgent need of reform in various respects. The budget surpluses of past fiscal years could be set aside as a reserve for such possible losses in revenue as might be incidental to such reform. Salutory effects in the direction indicated would be obtained through a more precise definition of the scope of governmental functions and, following administrative and fiscal reforms at the earliest possible moment, fixation of the legal basis of commerce and industry, since confidence in the permanent character of legal regulation is a most vital prerequisite for the free development of economic activity.

From a statistical point of view the economic outcome of the year 1928 can not be regarded as unfavorable. Compared with the preceding year the figures for total production show no substantial changes either in agriculture or in industry. Examination of the indexes of consumption, although these figures are of somewhat doubtful reliability, might justify the assumption that there has been an increase in prosperity. Traffic figures also indicate progress.

In considering apparently favorable figures, however, we must not lose sight of those phenomena which can be expressed in figures either not at all or with difficulty, and which give to the economic history of Hungary for 1928 a somewhat more gloomy aspect.

There has been no improvement in the unfavorable status of our international balance of payments. Owing to the continued importation of foreign capital our interest charges have increased from year to year; during the past year we may estimate that they have reached the amount of approximately 120,000,000 pengös (\$20,988,000). The unfavorable balance of our foreign trade, according to tenta-

tive figures, amounts to 366,000,000 pengös (\$64,013,000), and is therefore larger than in 1927. Since, however, other items in our balance of payments, although they are of smaller importance, tend nevertheless to increase the debit total, the amount by which our outstanding debits increased, or our outstanding credits decreased during the year 1928, may be estimated at approximately 500,000,000 pengös (\$87,450,000).

It is evident that the keen competition offered by foreign industries, of greater financial power and producing in some instances at lower costs, has been a factor in bringing about the conditions described. Money is dear or unavailable altogether, with the result that trade is restricted to the use of mercantile credits in the granting of which domestic manufacturers find difficulty in competing with foreign industries. The increase in our imports may be attributed partly to this circumstance. In their struggle for foreign markets the difficulties of Hungarian industries, particularly of agriculture, have been aggravated by lack of opportunity to sell at a profit. The undoubtedly heavy losses from which our agricultural industry suffered, in consequence of the fact that grain stocks could not be marketed at the opportune time, must also be greatly deplored from the point of view of the general public, because the purchasing power of the country was thereby diminished.

While the rural communities have been depressed by the farmers' difficulties, the urban population has complained of restricted means of earning a livelihood. These phenomena, which doubtless merit serious consideration, are, however, overestimated by our easily influenced public opinion, which inclines to pessimism. This mass psychology, which is an essential factor in economic development, can not be disregarded. Superficial encouragement will not cure it; there is no way out, except to weather the storm. We refer to the inadequacy of our capital resources, to the deficiencies in competitive power of our industries, and to the lack of judgment displayed in the marketing of our commodities, only for the purpose of pointing out the sources of our difficulties. We, may, however, derive comfort and encouragement from the fact that not one of these conditions is of such a nature that it could not be remedied by our own efforts through the exercise of determination and a spirit of public service.

Agriculture.—Taking up the separate factors of our economic life, we may note that the hopes

which the farmers were justified in entertaining during the spring months have materialized both in the volume and the quality of crops. There was little inducement for sales, however, owing to the decline of wheat prices caused by the exceptionally abundant world crop; consequently, liquidation of grain stocks was extremely slow, and this, owing to the farmers' lack of working capital, necessitated an increased resort to the use of credit. Thus, the profits expected by the farmers from an increase in the harvest have been in large measure offset on the one hand by interest charges, which as the year advanced tended to become heavier, and on the other by the constant recession of grain prices. The cattle raising industry has offered no compensation for this. The drought during the summer months affected several ground vegetables and fodder, so that the keeping of cattle became more difficult, and cattle prices did not keep pace with the rising prices of fodder. Measures taken by the Government—including modifications of the sales tax and of railroad freight rates, introduction of the import permit system, and extension on favorable terms of credits for fattening cattle—and favorable autumn weather, while affording some relief, did not offer a permanent solution of the problem of rendering cattle raising profitable. Under the conditions described, it was not surprising that the indebtedness of Hungarian farmers, who suffer under the burden of production costs which have handicapped them in world competition and in many instances have consumed all the profits of their work, should have increased rather rapidly. It should be noted, however, that this indebtedness, as may be seen from the official real-estate register, has until now amounted on the average to barely 8 per cent of realty values. On the other hand, the fact that, compared with the preceding year, the consumption of artificial fertilizers has increased by 12 per cent, while the import of tractors has almost tripled since the autumn of 1926, is reassuring since these facts seem to prove that in agriculture scientific methods are being used in the struggle for prosperity. Further encouragement may be derived from enactment of laws and regulations which are intended to bring into effect, as well as to regulate financially the agrarian reform, and which will enable the farming industry to obtain a substantial amount of capital from abroad.

How to secure for our agricultural surplus an outlet abroad has become a matter of increasing concern. The hopes which had been enter-

tained regarding a revival in exportation of farm products as a result of recently concluded commercial treaties have not materialized. The sale of our grain requires the conclusion of preferential tariff agreements; our cattle exports are declining, and removal of the obstacles causing this decline is one of the most important tasks of our commercial policy. The policy of adjacent industrial countries aims avowedly at an expansion of their agricultural production to such a degree as to make them self-sufficient. Sooner or later, therefore, we shall be compelled to take our products to more remote markets, although in these markets it will be even more difficult to compete with overseas nations, whose industries, free of regulation, are better able to take advantage of technical progress and are constantly lowering their manufacturing costs. Greater attention must, therefore, be given to the development of such an adaptable foreign-trade policy as will enable us to meet the constantly changing demand, and will supply consumers with our marketable goods in the quickest and least expensive way.

Industries.—Among the several branches of production our manufactures present the most favorable picture. Our textile industry, as is true of this industry in most foreign countries, must look back on a year which has been, in comparison with previous years, less successful. In the other branches of industry, however, with few exceptions, no substantial change is to be noted over the year; in some instances, especially toward the end of the year, a distinct improvement was perceptible. In particular the gradual increase in the production and consumption of coal indicates that our industrial activity continues to be a material factor in the economic reconstruction of the country. The process of concentration continued, especially in the iron and machinery industries, in the chemical industry, and also in the brick industry; from these developments, as well as from the formation of new companies in the textile, chemical, and paper industries, a further increase in the value of industrial production—a factor of constantly increasing significance in our national income—may be expected. Exports of Hungarian manufactures, furthermore, showed a gratifying increase of 33 per cent for the first nine months of 1928, compared with the corresponding period of the preceding year. The fact, however, must not be overlooked that, in this field also, we are still in the initial stages of the work to be done, since the possibilities of export for our industrial products have not yet been properly developed.

Mercantile business.—It can not fairly be said that 1928 was a good year for trade. That stratum of society which, through the operation of the peace treaty, was dislodged from its former position, can only gradually accommodate itself to the changed conditions. The difficulties of finding suitable employment for the intellectual classes tend to force individuals in constantly increasing number into the mercantile business. Lack of operating capital induces overextension of mercantile credits; the lack of purchasing power, as well as the relatively large volume of stocks on hand, causes an increasing number of commercial failures in Hungary. The number of such cases where arrangements with creditors were made during 1928 exceeded the number of the preceding year by 42 per cent, and for total liabilities involved the excess amounted to 80 per cent. Of the different branches of business, failures are still most numerous in the textile trade, about 50 per cent of the total number of insolvencies occurring in that branch of mercantile business.

The credit situation.—In respect to the supply of credit, conditions in the first half of the year differed greatly from those prevailing later on. During the first few months money was distinctly easier and money rates declined by one-fourth to one-half per cent. This may be attributed partly to the usual seasonal decline in the demand for credit during the first months of the year, and partly to the circumstance that the inflow of foreign credits, including long-term and short-term credits, continued unabated until the end of the spring season. The increase of rates in the American market, causing dollar credits to become dearer all over central Europe, was felt more keenly in the early summer months. In the domestic market the effect of these higher rates was apparent in the rates on "Lombard" credits as early as July. On the discount market and in fixing interest rates for provincial credits, the effect of this factor was for a time compensated by the bank, which in order to lower rates for credits in the provinces, temporarily extended the credit facilities of the provincial banks. At the beginning of autumn, however, the interruption of the inflow of foreign capital, as well as the demand for credits resulting from the accumulation of our grain stocks, began to be increasingly felt. The bank was unable to avoid raising the discount rate—we shall come back to this point later—as a result of which interest rates in general rose, although by an amount less on the whole

than the 1 per cent official increase in the bank rate, so that interest rates generally quoted at the end of 1928 were only one-fourth to one-half per cent higher than at the close of the preceding year. Although the total volume of capital accumulation showed no increase for the year, credit requirements were met without more than temporary strain. This was due partly to the liberal credit policy pursued by the bank of issue as to the eligibility of the paper accepted under the statutory requirements. Adoption of this policy was the more necessary for furnishing an adequate supply of funds because foreign capital was used on a more limited scale during 1928 than during the preceding year.

The stringency in foreign money markets, particularly in the United States, increased steadily throughout the year and was especially noticeable in the case of short-term credits. Increase in the amount of such credits—not counting mercantile credits—may be estimated at approximately 100,000,000 pengös (\$17,490,000)—that is, hardly more than half the amount of the year before. The volume of short-term foreign loans, however, would probably not have been much larger even if foreign money rates had been more favorable, since any considerable increase would have been contrary to sound business principles and to that policy of caution which has established the reputation enjoyed abroad by our leading financial institutions that specialize in short-term credit.

During the year under review the granting of long-term credits also was effected largely with the aid of foreign capital. While foreign funds contribute in large measure to the increases of capital of our corporations, they are predominantly important in the arranging of long-term loans, for which domestic credit sources are of but minor importance. The nominal total sum of our foreign bond issues may be estimated at approximately 280,000,000 pengös (\$48,972,000), about equal to the volume of the preceding year. As to the distribution of these loans, however, an essential change is to be noted in comparison with the previous year, inasmuch as approximately 90 per cent of the loans went into private hands. Mortgage loans amounted to almost 120,000,000 pengös (\$20,988,000), as compared with only 100,000,000 pengös (\$17,490,000) the year before. As to bond issues for industrial purposes, their nominal value—including the loan for the construction of the trans-Danubian electric power station—may be estimated at nearly

130,000,000 pengös (\$22,737,000), while in the preceding year no issues at all were floated for industrial purposes.

From these figures it is evident that no change has taken place in the willingness of foreign nations to furnish our country with credit. Unfortunately, however, the development of the situation in the money and investment markets is reflected in the prices of our earlier bond issues, as well as in the terms of recent flotations. Also the terms on which our industries can obtain such loans through the respective sources have become more burdensome. From the point of view of the competitive power of Hungarian agriculture, handicapped as it is by the lack of operating capital, such an increase in the actual interest and sinking fund charges is to be the more regretted, as measures were taken during the year to make long-term credits available in more ample volume to the owners of small farms.

Our financial institutions showed signs of continued healthy development. The increase of deposits in Budapest has generally been equal to that of the preceding year, while in some places in the Provinces, especially during the second half of the year, the growth of deposits came to a standstill. It was unfortunate that the slowness with which capital accumulated through the building-up of deposits frequently led to excessive competition and to overexpansion of rediscount credits.

In connection with the outline of our credit situation mention should be made of some of the more important legislative measures enacted—first of all the law dealing with the revaluation of certain private debts, and those measures which provided for the assistance of war-loan bond holders with small incomes who had subscribed to these bonds in considerable amounts. There was some further legislation providing for the organization of an institution for the granting of long-term mortgage loans. These laws modify the previous legislation for the safeguarding of mortgage bonds and debentures and provide for the possibility of an issue of industrial mortgage bonds.

Stock exchange.—With the accumulation of domestic capital so inadequate, increased activity on the stock exchange was to be expected only in case foreign capital were attracted to our securities. But, as foreign funds were attracted rather to other countries by the greater opportunities for profit and the higher interest rates obtainable on stock-exchange loans, and as domestic capital was also invested in foreign securities, while sales effected abroad for do-

mestic account were in relatively small amount, the situation of the stock exchange throughout the year was depressed, and prices gradually declined.

Prices.—Our price indexes were on the whole above the level of the preceding year. The drought in the summer caused a sharp advance in prices of foodstuffs, under the influence of which retail prices as well as indexes of the cost of living increased, reaching their peak in September. Some alleviation of the cost of living was undoubtedly afforded by a measure taken by the Government providing, in contrast to the original plan, for a delay in the gradual advance of house rents. As a result of this measure, house rents during the year show an advance of only about 15 per cent.

Statistics of the development of trade—especially as reflected in clearings—indicate a further growth which, however, is relatively less than that of the previous year. For a proper interpretation of the statistics of clearings we must take into consideration not merely the natural tendency of trade to increase—which must similarly be considered in the interpretation of other economic statistics—but also the fundamental changes in the nature of clearings, since payments other than in form of actual cash are of growing importance.

As regards steamship traffic on the Danube, the opening of the free port at Csepel is an event worthy of note. It is to be hoped that the capital invested in this large-scale enterprise may lead to a revival of the Danube steamship service, which has shown but slight activity since the war.

Public finance.—In contrast with the incompleteness of economic recovery, financial reconstruction has made great progress. Surplus revenues amounted to approximately 95,000,000 pengös (\$16,616,000) in the fiscal year 1927-28, thus raising the total surplus realized since the beginning of the reform to nearly 400,000,000 pengös (\$69,960,000). This showing justified a liberalization of our tax policy which previously had to be determined entirely by our urgent fiscal needs. This change of policy has already been put into effect in the easing of certain sales and building taxes.

Condition of the bank, metal and foreign exchange reserve.—The factors influencing our credit situation have also brought about changes in the condition of the bank. As has been noted, during the first half of the year our industries were provided with foreign capital without difficulty. Our trade balance ran parallel with that of the preceding year. Under these circumstances the changes

in our metallic and foreign exchange reserve were in accordance with expectations. Consistently with the agricultural character of this country, exports customarily decline during the first half of the year, so that the decrease of the metallic and foreign exchange reserve during this period may be characterized as a regularly recurrent phenomenon. As against 317,500,000 pengös (\$55,531,000) shown for the end of 1927, the metallic reserve gradually fell off to 263,100,000 pengös (\$46,016,000) on July 23. While there was a moderate reaction in August, it was only temporary. Our exports of manufactures could not be increased. The advance of 1 to 1½ per cent in interest rates on foreign credits as against rates prevailing at the beginning of the year reversed the direction of flow for funds seeking short-term investments. In August and September the foreign placing of our long-term loans came to an almost complete standstill, so that in September our metallic and foreign exchange reserve began to sink once more, reaching its lowest point of 252,100,000 pengös (\$44,092,000) on September 30. Owing to the persistent recession of grain prices and the failure of our trade balance to improve, the increase in the bank rate had, during the remaining months of the year, only a limited effect upon the metallic reserve. During the last three months of the year our reserve fluctuated generally between 260,000,000 (\$45,474,000) and 270,000,000 pengös (\$47,223,000), and at the end of the year amounted to 263,600,000 pengös (\$46,104,000). The holding of gold in our reserve showed a further moderate increase, amounting on December 31 to 201,100,000 pengös (\$35,172,000), and giving a cover of 39.1 per cent even to our relatively high bank-note circulation on that date.

Increase in the discount rate.—Holdings of discounted bills and warehouse receipts from the beginning of the year were considerably above the level of the corresponding period in 1927. During the first three months of the year this increase—as figured from monthly averages of weekly statements—exceeded 50 per cent. . . . As a consequence of the decline in the inflow of foreign capital around the middle of the year, and of the decrease in exports, the greater demand for money during the autumn months was reflected in an increasing use of bank credit. After the end of July the holdings of discounted bills continued materially in excess of the volume of the preceding year, September figures being 25.6 per cent above those of the year before. At the end of September holdings of discounted bills

increased nearly to the 400,000,000 pengös (\$69,960,000) mark. From the character of the holdings of discounted bills and of the reserve, as described, it became apparent that while on the one hand the use of bank credit in proportion to the domestic demand for credit was excessively large, on the other hand, the inducement of the higher interest rates prevailing in foreign markets not only reduced the supply of available foreign short-term funds but also affected adversely the inflow to the bank of foreign exchange resulting from exports, and actively stimulated investment of domestic funds abroad. Under these circumstances the board of directors of the bank at its meeting on October 1 concluded that a 1 per cent increase in the bank rate—from 6 to 7 per cent—was unavoidable, as it became clear that it was more important to correct the financial situation than to give domestic trade the benefit of lower interest rates, even though they would reduce production costs.

During the period following the increase of the bank rate holdings of discounted bills continued on the whole in normal amount, reaching a high point for the year of 417,400,000 pengös (\$73,003,000) on the last day. This figure represents an increase of 19,000,000 pengös (\$3,323,000) over the total at the end of September, while the increase in the corresponding period of the preceding year had amounted to 22,400,000 pengös (\$3,918,000).

A notable development in the use of bank credit has been the evergrowing importance of bills discounted for the provinces and bills of agricultural origin. While the share contributed by the provinces in 1926 amounted, on an average for the year, to 48.7 per cent of the entire volume of bills, this ratio increased in 1927 to as much as 51.9 per cent, and in 1928 to 53.8 per cent. One development connected with the warehousing of grain stocks is found in the relative increase in volume of warehouse receipts. While the amount of such paper at the close of the previous year has risen to slightly less than 4,400,000 pengös (\$770,000), it amounted at the close of 1928 to as much as 7,900,000 pengös (\$1,382,000). It is worthy of note also that, during the second half of the year, the demand for liquid funds at the end of each month was on the whole covered by the discounting of bills at the bank of issue to a much greater extent than during the preceding two years. Our discounted bills were throughout the year of prime character, as shown by the fact that the bank has not suffered any

loss from its discount transactions. This is in itself the best sort of evidence of the efficiency of our examiners and of their thorough-going work, meriting the appreciation of stockholders and management alike.

Note circulation.—In our note circulation during the past year the underlying tendency of natural growth was again reflected. The annual average calculated from our weekly statements shows that the actual note circulation in 1928 was 5.3 per cent greater than in 1927. This underlying tendency, however, was less noticeable during the second half of the year. While the average monthly note circulation was higher, in March by 7.9 per cent and in June by 7.3 per cent, than in the corresponding months of the preceding year, beginning with August the average exceeded that of the corresponding month in the preceding year by only 3.7 to 4.4 per cent.

As token coins were only gradually put into circulation during the first quarter of 1927, a fairer comparison is for combined totals of the two kinds of actual money in circulation, namely, bank notes and token coins. In this comparison the tendency toward a slower rate of increase during the closing months of the year, as outlined above, becomes more obvious, inasmuch as, while the average aggregate circulation in January shows an increase of 8.8 per cent as compared with January, 1927, the rate of increase slowed down to from 3 to 3.7 per cent for the period August–December. The average aggregate circulation was 5.1 per cent higher than the average for 1927.

We get a slightly different picture if we take into account also the volume of demand deposits (current accounts) which, although subject to the same reserve requirements as bank notes, are less important from the point of view of purchasing power. In our discussion of public finance we have already noted that the balances in our favor in the State accounts declined in the second half of the year below the level of the preceding year. Since, however, these balances during the first half of the year were at their highest level, the average annual amount of State credit balances exceeded somewhat—by 0.5 per cent—the average of the preceding year. The so-called “other” demand deposits, much smaller in amount (private credit balances on current account), show an average annual volume greater by 16 per cent than in the preceding year, so that the total amount of demand liabilities (including those of the State and others) exceeded the annual average of the preceding year by 1.4

per cent. For the aggregate of bank-note circulation and all other demand liabilities, therefore, the relative increase was smaller than for the bank-note circulation alone, the average annual increase amounting to 3.7 per cent. Owing to change in the volume of State credit balances, the downward tendency in the total amount of the note circulation became still more pronounced toward the close of the year. While during the first three months of the year the aggregate note circulation was 11.6 per cent higher than in the previous year, the amount from September on declined below the level of the preceding year, the December average being 5.4 per cent lower than in the corresponding month of 1927.

The seasonal diminution of the note circulation at the beginning of the year was again observable in 1928. As in the preceding year the note circulation attained its lowest point on April 23 at 383,900,000 pengös (\$67,144,000). The aggregate volume of note circulation and demand liabilities however—owing to the decreasing trend of State credit balances—attained its low point on July 23, at 663,300,000 pengös (\$116,011,000).

State debt to the bank—Reserve ratio.—The increase in the note circulation and the decrease in the metal and foreign exchange reserve was reflected in the decline of the reserve ratio prescribed by the statutes. To a certain extent this effect was intensified by the circumstance that the amount of the State debt to the bank—under the agreement concluded between the State and the bank regarding amortizations—shows a further substantial decrease for the year, figuring in the balance sheet of the bank at 97,200,000 pengös (\$17,000,000), as against 111,400,000 pengös (\$19,484,000) the year before. Reflecting a substantial decrease in the note circulation, the reserve ratio, as compared with the ratio at the end of 1927 when it stood at 46.41 per cent, moved on a higher level during the first half of the year, the highest point of 49.46 per cent being attained on March 23. In the second half of the year, however, the ratio fell off gradually and reached its low points of 40.09 and 40.11 per cent on October 31 and December 31, respectively.

Cooperation among banks of issue.—During the past year we have taken a more active part in the cooperation of banks of issue. Particular mention should be made of the conference of directors of research bureaus of central banks, which was held in Paris last spring and devoted its attention to developing and making more useful the statistical and other information services.

BALANCE SHEET OF THE NATIONAL BANK OF HUNGARY AS OF DECEMBER 31, 1928

	Pengös (in thou- sands)	Dollars ¹ (in thou- sands)		Pengös (in thou- sands)	Dollars ¹ (in thou- sands)
RESOURCES			LIABILITIES		
Metallic reserve:			Capital.....	34,756	6,079
Gold coin and bullion, foreign and commer- cial gold coin (1 kilogram of fine gold=3,794 pengös).....	201,083	35,169	Surplus.....	6,951	1,216
Foreign bills of exchange and currencies in- cluded under art. 85 of the bank statutes.....	54,003	9,445	Note circulation:		
Silver.....	792	139	Pengö notes.....	511,172	89,404
Token coin.....	7,674	1,342	Crown notes.....	2,288	400
Total metallic reserve.....	263,552	46,095	Total note circulation.....	513,460	89,804
Domestic bills, warrants, securities.....	417,411	73,005	Current accounts, deposits and other liabilities payable on demand:		
Advances on securities.....	47	8	Public.....	209,698	36,676
State debt.....	97,244	17,008	Private.....	31,116	5,442
Bank premises.....	6,170	1,079	Total.....	240,814	42,118
Other resources.....	94,172	16,471	Other liabilities.....	66,942	11,708
Total resources.....	878,596	153,666	Profits carried forward to 1929.....	2,553	447
			Net profits for 1928.....	13,119	2,295
			Total liabilities.....	878,596	153,666

¹ Conversion at par: 1 pengö=\$0.1749.

ANNUAL REPORT OF THE CENTRAL BANK OF CHILE

The third annual report of the Banco Central de Chile, covering the year 1928, was submitted to the superintendent of banks on March 15, 1929. Sections of the report dealing with financial and economic developments during the year are given herewith:¹

General situation.—The year 1928 showed steady progress in the commercial situation of Chile, the principal products, nitrate and copper, have considerably increased their production, agriculture has had a satisfactory year, extensive building is going on in many parts of the country, and the Government finances are in good condition. Interest rates have fallen and money is plentiful for all sound business needs. The outlook for 1929 is good.

Discount rates.—Until October 22 the discount rates fixed by the bank on December 12, 1927—6½ per cent for operations with banks and 7½ per cent for operations with the public—remained unchanged. On that date these rates were reduced to 6 and 7 per cent, respectively, and they continued at those points until the end of the year.

The board of directors reduced the rates of discount in October in order to adjust the rates of the Banco Central to the prevailing interest rates for high-grade paper. Due to the steady increase in the deposits in the commercial

banks, interest rates have been showing a constant tendency to decline to lower levels.

It was also felt that it would be advisable to take advantage of the ease in the money market to put the discount rates of the Banco Central on a lower basis, so that if later it becomes necessary to raise them in order to correct an unfavorable situation, such as a crisis or a period of excessive speculation, the basic point would be lower, thus avoiding a rise to a rate injurious to the business interests of the country.

Interest rates on deposits.—For a long time past the banks of Chile have been paying excessively high rates of interest on deposits of all classes, and these rates did not decline in harmony with the general decrease in interest rates in the country. A number of efforts were made to obtain an agreement among the banks for a reduction of the rates of interest paid on deposits, but without success.

In view of the failure to obtain an agreement on this subject, Congress passed a law authorizing the Banco Central and the banking superintendent, acting jointly, to fix maximum rates which the banks can pay. The Banco Central and the banking superintendent issued a joint circular fixing these rates . . .

Exchange.— . . . Exchange rates have remained very steady at all times. The lowest point for 90-day sterling drafts during the year was 39.38 and the highest 39.708 pesos to the pound, the difference of about 33 points being less than 1 per cent.

Exchange ruled fairly low during the first half of the year, reaching its low point in March, and

¹ Taken with minor textual revisions from the full report, available in official English translation published by the bank; it contains in addition sections dealing with bank operations, personnel, etc. For earlier reports, see FEDERAL RESERVE BULLETIN, June, 1928, and September, 1927.