Ukrept. on
Port. War Trade

III-4/1

No. 28 Lisbon, April 20, 1945.

TOP SECRET

Subject: Transmitting a copy of a report by the Financial Adviser to the British Embassy, Lisbon, entitled, "Portugal-Some Financial Consequences of the War".

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to enclose as of interest to the Department and possibly also to the Treasury a copy of a report entitled, "Portugal-Some Financial Consequences of the War", prepared last month by Sir Stanley Wyatt, then Financial Adviser to the British Embassy in Lisbon.

Shortly after completing this report, Sir Stanley Wyatt returned to London to reenter private business, having completed his work here. This report may accordingly be viewed somewhat in the light of his "swan song" written as he was rounding out and bringing to a close his duties in this country.

Sir Stanley Wyatt requested that the report be given top secret classification, in part because he voices certain opinions of his own in it. In view of Sir Stanley's own standing in British financial circles and his intimate knowledge of the subject, it is thought that the report may have special interest. Prior to his departure, the Embassy indicated to him its appreciation of his courtesy in making the material available to it.

Respectfully yours,

For the Ambassador:

Charles E. Dickerson, Jr.
First Secretary of Embassy

Enclosure:

Report of Sir Stanley Wyatt regarding financial consequences of war in Portugal.

RG84, Port., Lisbon
Sub. Files of the Fin. Att.
James E. Wood, 1943-45
D-6, Box 2 of 3

C.E.D:map

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TOP SECRET

PORTUGAL - SOME FINANCIAL CONSEQUENCES OF THE WAR.

I INTRODUCTORY.

It was natural and inevitable that Portugal as a neutral country should benefit financially during the war by the sale of certain of her products to the two groups of belligerents at competitive and consequently high prices, as well as in other ways. Portugal, for several of whose traditional exports there was little or no demand in war-time, had the good fortune to find more than compensation in the production in large quantities of two particular commodities for which there was a large market, sardines and wolfram one from her seas and the other from her land, and for which she was able to get her own prices. Shipping was made available by the Allies, the Axis Powers having railway and road transport facilities through Spain and France.

On the other hand, war conditions involving blockade control, the scarcity of shipping, as well as the switch-over in belligerent countries of raw materials and manufactures to their war requirements, all had the effect of restricting Portugal's imports. To the extent that this restriction applied to raw materials, machinery and other industrial imports, it affected adversely Portugal's economic position while improving her financial situation.

The combination of sharply increased exports and, until quite recently, of stationary imports (in value) had the effect, early in 1941, of turning the Commercial Balance from an unfavourable into a very favourable one.

The following official figures of a few exports give no more than an indication, up to the end of 1943, of some of the reasons for the improvement in the Commercial Balance, to which further reference is made later:

	1939		1940	1941	1942		1943	
	Tons	Contos	Contos	Contos	Tons	Contos	Tons	Contos
Wolfram	3077	28651	68785	541612	4801	1283483	6792	844960
Sardines in oil	36127	198092	172[illegible]35	448923	13270	135020	22585	445123
Tin bars	-	-	-	90121	1792	224068	2100	332142
Tin ore	1600	17800	10141	7141	10	1147	172	3585
Resin	46541	67295	39185	921166	33563	161254	27395	106803

In 1944, wolfram official exports for the first eleven months fell to 2,765 tons valued at 322 thousand contos but sardines were maintained in quantity and value. The rise in the average price of wolfram from just over nine escudos a kilo in 1939 to two hundred and sixty-seven escudos a kilo in 1942 and one hundred and twenty-four in 1943 will be noted. It was at the end of 1941 and early in 1942 that wolfram reached fantastic prices, up to £5,000 and £6,000 a ton for a time. Later on, as from the 1st March 1942, the official price was fixed at £1,200 a ton plus £300 a ton export duty.

Apart

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Apart from the improvement in trade, Portugal has been a home during the past five years for many foreigners, officials and others, many of them well to do, who have spent in one way or another a lot of money in this country. Last but not least amongst the windfalls has been the heavy expenditure during five years by the British, American, German, Italian, Japanese and other Diplomatic Missions in various ways.

Most of this has been reflected, through the Commercial Balance or the Balance of Payments, in the situation of the Portuguese Banks, and, through them, in that of the Bank of Portugal, the Central Bank, though a good deal remains in the pockets of a, generally speaking, non-banking public.

II THE PORTUGUESE BANKS AND SAVINGS BANKS

In order to see the effect of this prosperity upon the Banks, and as a short cut to that end, we have amalgamated into one the Balance Sheets of all the Banks (except the Bank of Portugal), together with those of the recognised Banking Firms and the Savings Banks. The difference in their amalgamated situation at the end of 1939 and at the end of 1943 is shown below:-

	1939	1943		1939	1943
Escudo deposits	5,405,913	13,416,463	Cash in hand	249,771	507,396
Creditors	1,004,844	2,182,228	Cash with other banks	927,578	6,962,600
				1,177,349	7,469,996
Bills payable	39,221	108,434	Investments	870,104	2,306,510
			Bills	1,504,466	2,187,730
			Advances	2,347,094	2,867,890
			Debtors	1,132,929	1,827,325
	6,449,978	15,707,125		7,031,942	16,659,451
Foreign Currency Creditors	834,623	838,457	Foreign notes &c.	19,252	65,095
			Foreign Bills	58,726	72,532
			Correspondents abroad	656,248	930,509
			Installations etc.	248,764	233,579
Other credit balances	1,821,620	1,985,904	Other debit balances	1,952,049	1,781,006
Capital, Reserves and Profits	860,760	1,210,686			
Contos	9,966,981	19,742,172	Contos	9,966,981	19,742,172

(Unless otherwise stated, all figures are given in Contos, i.e. thousands of Escodus, to which the addition of one "0" gives the equivalent in sterling.)

The above amalgamation includes the following more important Banks, Banco Nacional Ultramarino, Banco Espirito Santo, Banco Lisboa and Azores, Banco Fonsecas, Santos &

Viana,

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Viana, Banco de Angola, Banco Borges & Irmao, Banco Pinto & Sotto Mayor, Bank of London & South America (Lisbon), Credito Franco-Portuguese, Banco Burnay and, last but not least, the State Savings Bank (Caixa Geral de Depositos) and so it may be said to represent the liabilities and assets position of Portuguese financial establishments. It does not include the Bank of Portugal(to which detailed reference is made later) because, to the extent that the deposits of the Bank of Portugal include cash deposited by the other Banks and the State Savings Bank, there would be a duplication of deposits.

The development of the above liabilities and assets during the four years may be shown in a more condensed form as follows:

Liabilities		Contos	Assets		Contos
Increased	Deposits	8,010,551	Increased	cash in hand	257,625
do.	Creditors	1,177,383	do.	Cash with other banks	6,035,022
do.	Other credit balances	237,331	do.	Investments	1,436,406
do.	Capital and reserves	349,926	do.	Bills	683,264
			do.	Loans and advances	520,796
			do.	Debtors	968,657
					9,901,770
			Decreased	other debit balances	126,579
		9,775,191			9,775,191

This indicates an accretion up to the end of 1943 of between nine and ten millions of contos (between £90,000,000 and £100,000,000 sterling) to the assets of the financial establishments. This means that these assets were doubled in the first four years of the war, by far the greater part of the increase remaining in the form of cash which cannot be employed remuneratively. The rise in Investments also represents surplus funds, though not entirely unremunerative. It is only to the extent of the increases in Bills, Advances and Debtors that the Banks have been able to employ their additional funds in their ordinary banking business and such increases were relatively small.

The indications are that during 1944 the increase in Deposits, on the one hand, and in Investments and Cash on the other, continued. For example, the deposits of the Banco Espirito Santo rose in that year by 412,700 contos, the chief counterpart-asset increases being Cash 126,000, Bills 111,000 and Investment 92,000 contos.

Altogether, it may be estimated that the deposits of all the Banks and Savings Banks increased by another two million contos during 1944.

Despite their inability to employ all their deposits remuneratively, the Banks have made increased annual net profits during the war, as the following examples (in contos) show:-

1939

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	1939	1940	1941	1942	1943	1944
Espirito Santo	7,600	9,658	10,519	12,866	14,827	15,000
Banco de Angola	6,443	6,528	7,038	11,940	13,466	?
Fonsecas, Santos & Viana	2,792	3,933	5,456	6,692	7,472	8,863
Banco Lisboa & Azores	3,458	4,027	4,281	4,331	4,362	4,540
Borges & Irmao	2,482	3,503	4,034	5,071	6,060	6,445
Pinto & Sotto Mayor	2,027	?	?	3,527	3,005	3,518

There is good reason to believe that in some cases, notably Espirito Santo, the real net profits were very substantially greater during the past three years than the above published figures indicate.

III THE BANK OF PORTUGAL.

1. EXPANSION OF ASSETS &C.

In the attached Annex "A" are shown in columnar form the Bank of Portugal's published Balance Sheets from the 31st December 1939 to the 27th (not 31st) December 1944, both inclusive. These show the year-by-year development in the Central Bank's assets and liabilities but a clearer appreciation of that development during the war is perhaps obtained from the following summarised comparison of 1939 with 1944.

ASSETS	1939	1944	LIABILITIES	1939	1944
	Contos	Contos		Contos	Contos
Gold	920,497	1,412,243	Deposits	870,860	9,776,795
Gold Agio balance	396,590	-	Note Issue	2,550,411	7,503,605
Gold-backed assets abroad etc.	869,048	5,772,881			
Reserve-assets	2,186,135	7,185,124		3,421,271	17,280,400
Other Funds in various currencies	230,183	9,109,439	Creditors in foreign currency	398,787	259,333
	2,416,318	16,294,563			
Bills	420,444	256,332			
Investments	116,159	397,452	Other credit balances	746,841	635,542
Loans & advances	32,200	200	Capital, Reserves and Profit & Loss Balance	196,773	189,804
Coin	8,559	3,672			
State Debt	1,035,733	1,022,851			
Buildings and installations	35,498	30,111			
Other debit balances	698,761	359,898			
	4,763,672	18,365,079		4,763,672	18,365,079

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The expansion of the Central Bank during the war may be shown otherwise, as follows:-

Increases in Assets		Increases in Funds and Liabilities	
Reserve-Assets	4,999,000	Bank deposits	6,260,000
Other Funds in Various Currencies	8,879,000	Government deposits	2,433,200
Investments	281,000	Other deposits	212,800
			8,906,000
		Note Issue	4,953,000
	14,159,000		13,859,000
less Decrease in Bills and Other Debit balances etc.	558,000	less Decrease in other items	258,000
	13,601,000		13,601,000

The outstanding features are, on the liabilities side, that the escudos deposits, mainly by the Banks and the Public Treasury, have been increased by over eleven times their 1939 figure and the Note Issue has been trebled. On the assets side, the increase has been almost entirely in the first three items of the published Balance Sheets, namely Gold, Gold-backed Assets and other Reserves, (which two compose the reserve-assets earmarked against escudos sight liabilities) and Other Funds in Various Currencies. Otherwise, the only notable increase is in Investments, for the Bills and other assets show decreases. The relatively small increase in the asset described as "Gold" is no indication of the real increase which has taken place in the Bank's holding of the metal, the war-time acquisition of gold having been spread, for the sake of secrecy, over the three above-mentioned main assets.

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2. SOME EARLIER BALANCE SHEETS.

Before considering to any further extent the Bank of Portugal's expansion during the war and its present situation, it may be well to refer shortly to the 1939 and 1940 Balance Sheets.

The Balance Sheet at 31st December 1939 may be looked upon as representative of the Issue Bank's normal pre-war situation, which had undergone very little change since 1935. That Balance Sheet was not only a clear and frank publication in itself but it constitutes a useful basis from which to survey those of subsequent years with their abnormally large figures of certain assets and liabilities.

The Bank's Statutes of June 1931 had provided that particular assets were to be considered as a reserve against the sight liabilities including the Note Issue and such reserve was not to be less than 30%. At the end of 1939, the position in that respect was the following:-

Escudo sight liabilities:-

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		Contos
Escudo sight liabilities:-		
Notes in circulation		2,550,410
Deposits and current accounts -		
Banks and Bankers	602,981	
Public Treasury	160,733	
Public Credit Committee	37,859	
Sundry	69,287	870,860
		3,421,270

Reserve-assets:-		
Gold (61274.759112 kilogrammes valued at 15.022 escudos per gramme, which was then equivalent to about 85 shillings per fine ounce)		920,497
Gold-backed assets abroad etc:-		
Funds in foreign currencies	626,811	
less		
100% reserve for foreign currency liabilities	332,739	
	294,072	
3% Portuguese External Debt	242,236	536,308
		1,456,805

This gave a ratio of reserve-assets to escudo sight liabilities of 42.58%, even with the gold at a low valuation.

In the 1940 Balance Sheet some important changes, as compared with previous years, were noticeable as to the information given about the three main assets. For the first time the quantity of the gold stock was withheld and no details were given of the composition of the second asset "Gold-back assets abroad etc.". Moreover, the item Gold Agio was no longer shown separately but had been merged, presumably, in the asset described as "Gold".

There appears to have taken place something of a reshuffle of the component parts of the three main assets, whilst conserving their traditional headings.

Consequently, it has no longer been possible since 1939 to establish from the published Accounts and Report either the quantity or the valuation price of the Bank's gold stock, nor the exact nature of the other assets held as a reserve against the sight liabilities. This camouflage of assets, started in 1940 and continued to the present day, has been effective in so far as shareholders and the Public are concerned.

It is true that the Bank continues to publish a weekly Balance Sheet which shows the percentages of reserve-assets to sight liabilities but the component parts of such assets are no longer given or known.

At the 31st December 1940 the only details published in this respect were the following:-

Escudo sight liabilities:-

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Escudo sight liabilities:-		Contos
Notes in circulation		2,903,438
Deposits and current assets:-		
Banks and Bankers	851,098	
Public Treasury	247,160	
Public Credit Committee	63,901	
Sundry	155,519	1,317,678
		4,221,116
Reserve-assets:-		
Gold (no quantity given)		1,239,496
Gold-backed assets abroad etc.	869,208	
less:		
Foreign-currency liabilities reserve	235,716	633,492
		1,872,988

(Ratio = 44.37%)

On the 10th October 1940 a Decree-Law (No. 30,783) provided that, although the moment was not yet opportune to value the Bank's gold stock at its current market price, nevertheless the stock should no longer be shown at less than cost price. The Bank, therefore, was authorized to value its gold at 15.022 escudos per gramme, as hitherto, but plus the balance of the Agio Account, which consisted of the accumulated differences between that value per gramme and the real cost prices of the various parcels of gold purchased to that date. The agio balance had been shown separately, hitherto, in the Balance Sheet but it had not been taken into consideration in calculating the ratio of reserve-assets to sight liabilities.

It may be worth while to reproduce here (in summary form) the following explanation which appeared in the Bank's Annual Report for 1933 as to the then method of calculating the gold stock and of the nature of the Gold Agio Balance.

"The Bank is obliged for Balance Sheet purposes to value its gold at 110 escudos per gold pound. In fact, however, all the purchases of gold since the fall of sterling have been made at a higher rate than this and the surplus cost of each purchase is debited to Agio account. The Agio, therefore, is a cumulative figure composed of the difference in price between gold at 110 escudos per gold pound and the actual cost of each successive purchase. For example, the Agio Balance at 31st December 1933 was 223,202,000 escudos. If, however, all the gold purchased since the fall in sterling were valued at the market price ruling at the end of 1933, the excess of that valuation over that of 110 escudos per gold pound would be 270,698,000 escudos, i.e. 47,496,000 escudos more than the Agio Balance shown in the 1933 Balance Sheet. The Agio contains nothing but those excesses of cost prices over the fixed valuation price."

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That was the position in 1933 and the explanation remained good until the end of 1939 when the gold stock, on the old value-basis, was 920,497 contos and the Agio Balance, which was not treated as a reserve-asset, was 396,590 contos and would have been much larger had it been based on the market price then ruling.

Between the 9th and 16th October 1940 the ratio, which for some months had fallen to about 35, suddenly recovered to about 44. This recovery was obviously due to a revaluation of the gold stock in the terms of the Decree-Law.

A little light was intended to be thrown upon the present composition of the so-called reserve-assets in an explanatory statement published in the Official Gazette of the 17th July 1943 and which was evidently meant to be of a reassuring nature.

After giving reasons for the rise in the Note Issue and pointing out that the increase in the ratio of reserve-assets to the Note Issue was greater in 1942 than in 1941, it explained that not all of the foreign-currency assets acquired by the Bank were included in the reserve-assets, the remainder being included in the third asset called "Other Funds in Various Currencies". The statement then went on to say "What is shown in the Balance Sheet under the two heads composing the reserve-assets represents exclusively gold metal, whilst under the head of "Other Funds in Various Currencies", amounting at 31st December 1942 to 6,068,310,021 escudos, is included, besides gold metal, certain funds in foreign currencies which might properly (or legally) be employed for the reserves against the Note Issue and other sight liabilities".

This may have referred to the sterling balance on the Portuguese Special Account and to dollar holdings etc.

3. GOLD STOCK AND FOREIGN-CURRENCY BALANCES.

According to the last published weekly Balance Sheet of the Bank, that of the 27th December 1944, the values of the three main assets were:-

	Contos
1. Gold	1,412,242
2. Gold-backed assets abroad and other reserves	5,772,881
Reserve-assets	7,185,123
3. Other Funds in Various Currencies	9,109,440
	16,294,563

As already explained, we have no exact knowledge of any one of the three above assets but, as a whole, they must consist largely of the gold stock, the balances of foreign-currency current accounts and the balances of the Clearing Accounts due to Portugal.

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(The only item which can be located in any one of the above assets is the escudo equivalent of the sterling balances on the Portuguese Special Account in London which, according to the Bank of Portugal's books at 27th December 1944, amounted to 6721,538 contos and which must be included in Asset No.3 because it is too large to be included in either of the other two. From this fact we may deduce that the Special Account sterling balance is not included in the reserve-assets notwithstanding the terms of a Decree-Law (No. 33,045) of the 15th September 1943 which was passed for that specific purpose.)

Nevertheless, from such information as is at our disposal, the following statement has been prepared of the probable contents of the three main assets, taking them as a whole, as at the 27th December 1944:-

(a) GOLD.	Grammes
In Portugal and abroad - estimated amount	320,852,000

(The Bank of Portugal holds for account of the Portuguese Government 15,477,312 grammes of gold held against the Floating Debt situation, but as we do not know whether this is included in the above quantity of 320,852,000 grammes or not, our following estimates of value have been made on the two alternative suppositions.)

The question arises - at what prices is the gold valued in the Bank's present Balance Sheet?

In attempting to answer this, we have assumed that, for book-keeping purposes, the practice is still followed of valuing the gold, in the first instance, at 15.022 escudos per gramme but that, in accordance with the terms of the Decree-Law No. 30,783 of the 10th October 1940, to such nominal valuation is now added the accumulated Agio balance.

What was that Agio balance at 27th December 1944? To estimate that we have taken as the Agio on the gold acquired since the 31st December 1939 the difference between 28 escudos, the approximate cost price per gramme, and 15.022 escudos, the old valuation figure. The addition of the Agio balance to the "Gold" asset below at the 31st December 1939 gave an average value of 21.5 escudos at that date, whereas our calculation gives an average value of about 26.7 escudos as at the 31st December 1944. (The price of 168 shillings a fine ounce is equal to 27.01 escudos a gramme.)

On this basis, our alternative figures of the book value of the gold stock at the 27th December 1944 are as follows:-

(a) On the assumption that the Portuguese Government's gold is not included in our quantity-figure of 320,852,000 grammes - Escudos 8,583,874,600. (b) On the alternative assumption - Escudos 8,150,518,600.

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(b) FOREIGN-CURRENCY BALANCES.

The Bank of Portugal's foreign-currency Current Account balances abroad on the 27th December 1944 were:-

Sterling	£67,215,381	i.e. according to the Bank's books.
Dollars	$23,304,094	Early in January 1945 fifteen million of these dollars were employed for the purchase of more gold from the Federal Reserve Bank.

Swiss francs	8,055,304
Swedish Kroner	2,770,137
French francs	3,403,852

and small quantities of Pesos, Lira, Norwegian, Danish and Czech Crowns, Belgian francs, Florins, Pesetas, Cruzeiros, but no Reichsmarks.

The equivalent of all these balances, at the rates of exchange applied by the Bank, was 7,488,062 contos.

The rise in the total of foreign-currency balances from 4,150,000 contos at the end of 1942 to 7,488,000 contos two years later was largely due to the increase in the balance of the Portuguese Special Account, though there were also increases in dollars and Swedish kroner holdings and decreases in Reichsmarks and Pesos.

(c) CLEARING BALANCES.

On the 27th December 1944 the debit balances in foreign currencies of international Clearing Accounts were:-

Luso-German	3,634,262 Reichsmarks
Luso-Italian	54,289,869 Lira
Luso-Finnish	5,209,586 Finnish Marks

all of which are, temporarily at any rate, frozen and of which the escudo equivalent is 106,706 contos.

There is also the Luso-Spanish Clearing, which is in escudos, of which the volume during 1944 was about 150 million escudos debit and about 115 millions credit and of which the debit balance at the end of 1944 may be estimated at about 40 million escudos.

SUMMARY:

	Assuming that the Government's holding of gold is not included in our quantity figures	Assuming that it is included
	Contos	Contos
a) Gold Stock	8,583,875	8,150,519

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	Contos	Contos
a) Gold Stock	8,583,875	8,150,519
b) Foreign currency balances	7,488,062	7,488,062
c) Clearing accounts	146,706	146,706
Unknown elements	16,218,643 75,920	15,785,287 509,276
Total of the 3 main assets	16,294,563	16,294,563

The "unknown elements" may include escudo advances to certain Foreign Governments, the unconverted remnants of the 3% Portuguese External sterling Loan and a few other foreign securities, such as shares in the State Bank of Morocco and Swedish 3% Loan which securities, until the end of 1939, had been shown under Sundry Investments. If to the above valuation of the Bank's three main assets be added the amount (1,022,851 contos) of the State Debt to the Bank, the total is 17,317,414 contos, against which there is the counterpart-liability of 17,539,733 contos composed of the Note Issue and the Bank and other sight escudo deposits. It is the great increase in these two counterpart totals which has been the outstanding feature of the Balance Sheet during the war.

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4. THE NOTE ISSUE.

Of all the Portuguese economic phenomena during the war-years, the great abundance of money, as indicated to some extent by the large increase in the Note Issue, is the most notable and important.

Early in 1925, i.e. before the Bank Note frauds of December of that year, the note circulation was 1762 million escudos (exchange about 98) of which 1701 were on State account and 61 million represented the issue for the Bank's commercial and other requirements, the fiduciary (i.e. maximum) issue then being 195 millions.

By a decree of July 1926 the fiduciary figure was increased and at the end of 1929 the Note Issue was 2045 millions of which 1751 represented the Government's Debt and 294 the Bank's own circulation.

By a decree of 24th February 1930 the Bank was authorized to

> issued Notes against "Gold securities or foreign currency purchases by the Bank for the purpose of enabling the State to acquire foreign exchange resulting from Portuguese exports and also for the purpose of forming a reserve to strengthen the currency position. Notes issued against these gold assets were to be cancelled when the securities against which they were issued were transferred to the State on payment to the Bank of their value in escudos at the rate of the Day."

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It is not only the increase in the Note Issue which is interesting but also the change which has taken place in the ratio of the Issue to the other escudo sight liabilities.

From 1932 to 1938 the Note Issue was from 2000 to 2200 million escudos with other sight liabilities (Bank and other deposits) gradually rising from 500 to 1000 millions only. In 1939 the Issue rose to 2900 millions and the other sight liabilities to 1300 but in 1941 the former jumped to 4500 and the latter to 3100 millions. In the Spring of 1942, however, the other sight liabilities caught up and overtook the Issue and this has been the relative position ever since. In fact, at the end of 1944 the other sight liabilities were 9776 and the Note Issue was 7503 millions.

The Bank of Portugal maintains, in its annual Reports, that the great increase whichhas taken place in the money potential does not constitute currency or monetary inflation such as would result from a Note increase without cover or an extension of internal credit. That claim is well justified, for the Bank's Notes are well covered by gold and first-class foreign currencies.

As a consequence of a very favourable Balance of Payments during the past four years, the Bank's stock of gold and holdings in foreign currencies has shown a continuous excess of incomings over outgoings. In other words, it is claimed by the Bank that the causes of the increased Note Issue are purely economic, being due to increased economic activity (exports of wolfram, fish, etc. at high prices) together with an internal rise in prices.

The Bank of Portugal's Report for 1943 states that the fundamental causes of the currency expansion have been:-

a) The very favourable Balance of Payments in which the favourable commercial balance was especially large.

b) The conversion of the greater part of the Balance of Payments into national currency created by the Issuing Bank in the form of Notes and deposits, at the request of the interested parties.

c) The rise in prices of imported goods which, in the case of raw materials, is also reflected in the prices of national products based on such raw materials, a rise which was aggravated in certain cases by speculation.

d) The lack of international operations consequent upon the war situation and conditions.

e) A greater employment of labour, which extinguished unemployment and especially by the expansion of labour in connection with certain imports. Hence a greaterneed of currency for wages.

f) A rise in wages, earned by but lagging behind the increased cost of living, the lag being a useful factor in the fight against too great a note circulation.

g) An

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g) An increase in State expenditure, not only in Defence but also in Public Services.

h) An increase in commercial cash payments, obliging buyers to hold larger sums of cash than formerly.

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5. THE BANK OF PORTUGAL'S PROFITS.

The Profit and Loss Accounts for the six years to the end of 1944 are summarised below in contos, to which the addition of one "0" gives the equivalent in sterling, except for 1939 when the exchange was 108.25 to the pound.

	1939	1940	1941	1942	1943	1944
PROFITS.						
Interest and Discounts Bills and acceptances	18,213	18,217	13,834	10,204	7,005	6,208
Interest on Investments, etc.	15,730	14,720	14,276	14,340	14,164	12,921
Interest on State Debt	2,590	2,583	2,577	2,570	2,564	2,557
Premiums and interest	1,631	1,725	1,550	1,337	1,140	1,210
Sundry profits	5,446	12,185	16,830	28,714	49,325	54,322
Contos	43,610	49,430	49,067	57,165	74,198	77,218
EXPENSES.						
Staff salaries and wages	17,355	17,565	18,204	19,102	21,254	23,342
Expenses of administration	3,348	3,744	3,842	4,195	5,589	6,395
Commissions	177	185	183	168	164	182
Taxes	2,813	2,755	2,747	2,795	2,817	3,116
Cost of notes	3,612	3,734	4,239	8,350	10,856	6,893
	27,305	27,983	29,222	34,610	40,680	39,928
PROVISIONS.						
Depreciation	904	5,540	1,620	3,693	8,389	11,185
Provisions	1,659	2,200	4,500	5,100	11,400	12,500
	29,868	35,723	35,342	43,403	60,469	63,613
ALLOCATION.						
To Reserves	1,374	1,371	1,372	1,376	1,373	1,360
To Pension Fund	300	300	300	300	300	300
Dividends to Shareholders	6,000	6,000	6,000	6,000	6,000	6,000
Government's Percentage	6,000	6,000	6,000	6,000	6,000	6,000
	43,542	49,394	49,014	57,079	74,142	77,273
Balance	68	36	53	86	56	55
Contos	43,610	49,430	49,067	57,165	74,198	77,218

The most noticeable features of these figures are:-

a) The great fall in 1943 and 1944, as compared with 1939 or 1940, in what was previously the chief source of the Bank's profits, namely, interest and discounts on Bills and Acceptances. This fall was due partly to the reduced volume in the business, as will be seen from a comparison of the asset "Bills Discounted" in 1939 and 1940 with those of 1942 and 1943 (see Annex "A") and partly owing to the reduction in the Bank rate of discount and re-discount from 4½% and 4% respectively in the earlier period to 3½% in 1942 and to 3% and 2½% in 1943.

b) The

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b) The increase in "Sundry profits" which were nearly eleven times as large in 1944 as in 1939. This is due presumably to exchange and gold operations and is the consequence not only of the larger business during the war years, but also of the wider margin of profit on exchange earned by the Bank. In 1938 the Bank of Portugal's buying rate was 110.17 and the selling rate 110.19 escudos to the pound and in 1939 they were 108.15 and 108.35 respectively, leaving but a small margin. During subsequent years, however, the rates have been 99.50 and 100.50, with a margin of one escudo and a resultant benefit to the Bank.

c) The fall in Interest and Discounts was much more than compensated by the increase in "Sundry Profits", as a consequence of which the gross profits rose from 43,610 contos in 1939 to 74,198 contos in 1943 and 77,218 in 1944. Against this, the staff and administrative expenses show a moderate increase, while Taxes have, rather strangely, remained stationary.

The result of all this was a net profit, before depreciation and provision, of 33,518 contos in 1943 and 37,290 in 1944, as compared with less than half that amount in 1939. These increased profits, however, were absorbed by substantial additions in 1943 and 1944 to depreciation and provisions (possibly to some extent by way of a secret reserve), leaving the subsequent allocations and distributions as usual.

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6. THE BANK OF PORTUGAL'S EXCHANGE OPERATIONS.

Reference has been made above to the great increase during the war-years in the Bank's "Sundry profits", which we assume to consist largely of exchange profits.

The substantial turnover of the Exchange Department during 1943 and 1944 in the various currencies is shown in the following statement, the figures for 1943 being exact and those for 1944 being exact for the first eleven months, with an estimate for December :-

	1943.		1944.	
	Incomings	Outgoings	Incomings	Outgoings
Sterling	24,204,900	7,205,450	19,000,000	3,225,000
Dollars	44,723,400	20,610,360	70,000,000	73,000,000
Swiss francs	44,952,000	42,803,210	64,000,000	59,000,000
Reichsmarks (free)	29,995,300	33,474,400	15,475,000	15,660,000
do. (Clearing)	105,387,400	94,975,100	38,600,000	35,700,000
Swedish Kroner	15,591,400	19,543,200	40,000,000	36,000,000
Pesos	10,101,400	11,186,200	7,200,000	8,100,000
Lira (Free)	49,600	133,590	-	-
do. (Clearing)	35,630,700	17,932,200	-	1,246,000
French francs	2,554,900	978,950	2,785,000	3,000,000
Pesetas	2,400	9,850	-	2,000
Finnish Clearing Fmk. (Marks & Escudos)	535,600	E.8,325,000	Fmk, 59,000	E. 124,000
Spanish Clearing (Escudos)	145,924,100	111,941,040	150,000,000	115,000,000
Escudos	1861,086,600	1854,734,740	1166,000,000	1220,000,000
Sterling equivalent of all above currencies	£73,155,000	£49,149,000	£61,330,000	£45,788,000

(A few explanatory remarks about the above currencies are given in Annex "B".)

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IV PORTUGAL'S COMMERCIAL BALANCE.

In a recent speech (22nd February 1945) to the National Assembly, Mr. Araujo Correia, the distinguished Head of the Caixa Geral de Depositos (Government Savings Bank) quoted figures of Bank deposits and of import and export trade with the object of showing that, if one takes into account the imports which were impossible during the war and the using-up of internal reserves, Portugal has not gained financially or economically from the war.

In the first part of his speech he explained that the increase in the Bank and Savings Bank voluntary deposits from the end of 1939 to the end of 1944 was nearly nine million contos and that the sight escudo availabilities at the latter date were thirteen and a half million contos. He also referred to the Bank of Portugal's Foreign-currency availabilities ("Other Funds in Various Currencies") of about nine million contos, i.e. over and above the reserve-assets.

Those are the two resources, one in national currency and the other in foreign exchange, he said, which can be taken into consideration in drawing up any plan of national reconstruction.

> He added that "Those who believe that the war has been very good business for Portugal will be surprised to learn that the deposits in the Banks and Savings Banks amount to less than £140,000,000 sterling".

Mr. Correia then asked - what about the figures of our Trade Balance during the war?" and in that connection he selected and quoted the following official statistics, in thousands of contos:-

	Imports	Exports	Commercial Balance: Minus	Commercial Balance: Plus
1939	2,077	1,336	741	
1940	2,441	1,619	822	
1941	2,468	2,972		504
1942	2,477	3,941		1,464
1943	3,323	4,035		712
1944	3,921	3,176	745	
			2,308	
Net favourable balance in six years			372	
			2,680	2,680

Basing himself upon those figures, Mr. Correia stated to the Assembly that:-

> There were only three years in which the Trade balance was favourable to Portugal and in 1944 it showed a high deficit of 745 thousand contos. If we take into consideration the decrease in the purchasing power of previous consumers of our national products, such as Port, for example, and the necessity of re-stocking ourselves with so much which we lack, we cannot look to our future Trade Balance with much optimism."

Mr. Correia

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Mr. Correia told me a few days afterwards that his speech was intended not only for his own countrymen but especially for the British and American people, because he fears that the Allies imagine that Portugal has benefitted very materially from the war. (I do not know whether he made this speech on his own initiative.)

It would not have occurred to us, of course, to consider to what extent Portugal has benefitted by the war or to make any calculations about it, but the question having been raised by a Portuguese financial expert and having been answered by him categorically in the negative, it does not seem altogether out of place for us to examine the statistics from which he drew his conclusion.

There is some truth in the old tag that figures can be made to prove almost anything and I am inclined to think that Mr. Correia's official figures - although of course he employed them in the utmost good faith for his purpose - fall under that description.

The first criticism I venture to make is that he took a period of six years, which included the whole of 1939, for his "war period". The inclusion of that year, which was virtually a pre-war year and which showed a high negative Trade Balance, had the effect of showing a much worse net Trade result than was the case for the real war period. Had he taken the five years ending the 31st December 1944, which would have more exactly and fairly represented the war period, he would have arrived at a net favourable Trade Balance of 1,113,000 contos instead of his result of only 372,000 contos.

1943 Escudos 1000 escudos = 1 conto State Library. 1,113,000,000 or 1,113 mill escudos × .0425 (excl. rate before war, 44 est.) $47.7 mill.

An alternative method of presentation, which seems reasonable, would have been to compare the five immediately pre-war years with the five war years, in which case the former would have shown a net negative balance of 2812 thousand contos whereas, by way of comparison, the latter would have shown a net positive or favourable Balance of 1,113 thousand contos, a difference of no less than 3,925 contos to the advantage of Portugal.

My next criticism is as to Mr. Correia's figures themselves, which I am bound to say seem to me to require qualifications and correction before they can be accepted with confidence as data from which to draw a conclusion such as that presented to the National Assembly and possibly with repercussions outside the confines of Portugal.

For example, in his recently published report on the Government Accounts for 1943, Mr. Correia stated that in past years the official value-figures of the Country's exports had been understated, but that for the ten years 1929 to 1938 they had now been corrected, as far as possible, by the National Statistical Institute. He indicated too that the export figures for the years 1939, 1940 and 1941 also needed correction, adding the qualifying remark that those for 1940 and 1941 were not much understated. He then gave the following figures

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(in thousands of contos) to illustrate the extent to which past years had needed correction and to show the effect of those corrections upon the Commercial Balance, which effect, it will be seen, was important:-

	IMPORTS	EXPORTS		COMMERCIAL BALANCE	
		Original	Corrected	Original	Corrected
1929	2,528	1,073	1,744	- 1,455	- 784
1930	2,405	945	1,537	- 1,460	- 868
1931	1,673	811	1,300	- 862	- 373
1932	1,707	791	1,266	- 916	- 441
1933	1,905	802	1,291	- 1,103	- 714
1934	1,965	909	1,458	- 1,056	- 507
1935	2,294	923	1,481	- 1,371	- 913
1936	1,994	1,026	1,644	- 968	- 350
1937	2,353	1,202	1,923	- 1,151	- 430
1938	2,300	1,139	1,822	- 1,161	- 478
1939	2,077	1,336	-	- 741	?
1940	2,441	1,619	-	- 822	?
1941	2,468	2,972	-	+504	?
1942	2,477	3,941	-	+1,464	?
1943	3,323	4,035	-	+712	?
1944	3,921	3,176	-	- 745	?

Another and a quite separate indication that the original export figures of 1941 and even those of 1942 are lower than reality was given in the Report on the Public Accounts for 1942 which states, under Foreign Trade, that:-

> " In 1941 the favourable Commercial Balance shown, which must be smaller than the real Balance owing to the low valuation placed upon certain exports, was 504 thousand contos. The official figures for 1942, however, should be nearer to reality since certain important corrections have been made and for this reason the real difference between the favourable balance of 1941 (504,000) and that of 1942 (1,462,000 contos) should be less than the official Table shows."

Finally, the U,K.C.C. (Lisbon), who are in a position to know the values which should have been declared for certain important exports, inform me that the official export values for wolfram in 1943 seem to be approximately correct but that those for 1942 are definitely on the low side.

Thus there is undeniable evidence that the original export figures of value for 1939, 1940, 1941 and to a smaller extent for 1942, are less than reality and need to be corrected as those up to 1938 have already been done.

That this is broadly the situation is evident from a verbal enquiry we made at the Statistical Institute who, however, gave us to understand that they have no present intention of attempting to correct the figures subsequent to 1938, although they did not say why, except to indicate that it involves a lot of research work.

It will

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It will be seen from the above figures that the result of the Institute's corrections for the three immediately pre-war years 1936, 1937 and 1938 was to increase each year's export values by about 60%, reducing the adverse Balance accordingly.

If 1939 requires a corresponding correction, as is possible, the effect would be to turn the adverse Balance of 741,000 for that year into a positive one of 60,000 contos, while obviously the necessary corrections to later years would lessen the adverse Balance of 1940 and increase the favourable Balances of 1941 and 1942, to an unknown extent.

For all these reasons, there seems to be no doubt that Portugal's net Commercial Balance for the war years was very much more favourable than that indicated by Mr. Correia to the National Assembly and that it would not support the conclusion which he drew.

My remaining observation about Mr. Correia's presentation of his case is that, even had his figures been reliable, they would not have given anything like a complete picture of the commercial and financial benefits to Portugal during the war years, or the best basis from which to assess them.

For that picture, surely one must look to the Balance of Payments, of which the Commercial Balance is an important but by no means the only factor.

In his book "Portugal Economico e Financeiro", which was published in 1938, Mr. Correia refers to the then positive Balance of Payments which he had investigated. He explained that no exact calculation of the Balance had been made but that, after consideration of the factors at his disposal, he had come to the conclusion that, at any rate from 1932 to 1936, it was favourable to Portugal and he estimated that in the year 1936 it had been so to the extent of about 139,000 contos, notwithstanding that in the same year the Commercial Balance was highly unfavourable.

If a negative Commercial Balance of 350,000 contos was transformed into a positive Balance of Payments of 139,000 contos in 1936, as was estimated by Mr. Correia to be the case, this meant that the various factors, other than exports and imports, of the Balance of Payments showed a net credit balance of 489,000 contos. The Bank of Portugal's Annual Report for 1936 confirmed that the Balance of Payments was "strongly positive".

The year 1937 was not very different from the previous year as to the Balance of Payments but for 1938 it was rather less favourable.

So far as we are aware, no attempts have been made to calculate, or even to estimate, the Country's Balance of Payments for any of the war-years. In any case, no information on the subject appears to have been published.

We can

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We can only indicate very generally some factors which undoubtedly have varied in amount as a consequence of war conditions and, of these, our appreciation is as follows:

Remittances from Portuguese emigrants have declined, as has also the past (favourable) net figure of interest and dividends. Postal and telegraphic receipts show no great change. As to Portuguese shipping receipts, the portion of them which influences the Balance of Payments is probably rather larger than before the war, owing to the rise in freights (two and a half times) and in passenger rates (twice for first class and five times for third class fares), the relevant receipts from insurance brokerages and commissions having been maintained. It is under the heads of what were formerly called Tourist receipts, the Expenditure in Portugal of Diplomatic and Consular Missions that a great increase has taken place. This increase is thought to have much more than compensated for the falling off in other receipts. A favourable, if small, feature is that during the war Portuguese have not travelled and spent money abroad.

Finally, receipts have not been negligible from contraband imports of Foreign Currency notes, Bonds, etc. and they have been really substantial from the contraband export of metals and foodstuffs &c. during the past five years. In fact, smuggling out of the country was done by train and lorry and by small boats on an extensive and organised scale impossible to estimate.

For these and other reasons, such as the considerable financial benefit to Portugal in arms and munitions etc. which resulted from the Azores Agreement, it may be considered with confidence that the factors which transform the Commercial Balance into the Balance of Payments have been much more favourable to Portugal in their net result during, than before, the war. Our conclusion is that these factors, on the top of a favourable Commercial Balance, have given an extremely favourable Balance of Payments during the past five years.

Against all this must be set, of course, the wear and tear of Portuguese shipping and industrial machinery and the shortage of certain raw materials which has handicapped Portuguese industries, but even when full allowance is made for the future cost of renewal and replacement, Portugal is well on the right side financially. I cannot agree either with Mr. Correia's presentation of his case or with the pessimistic conclusion at which he arrived.

As to trade in 1944. For the first half-year there was a favourable Commercial Balance and the first seven months finished all square. Thereafter exports fell, and in August stopped, owing to the wolfram prohibition and, although during October, November and December other exports (sardines, tin, cotton tissues, woollen blankets, etc.) had begun to compensate wolfram, the heavy imports in December (wheat, cotton, sugar &c.)

turned

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turned the twelve months into a deficit of 741 thousand contos.

Even if Wolfram exports had kept up for the second half of 1944 at the same rate as for the first half, there would still have been a deficit of about 470 thousand contos, most of which would have been the consequence of the exceptionally heavy December imports which were so necessary for the Country's economy. A satisfactory tendency in the exports was a gradual recovery during the last quarter of 1944 to a figure approaching, in December, that of April which included substantial Wolfram exports.

To sum up. During the war Portugal has had the financial advantages of a favourable Commercial Balance with the economic disadvantages of a shortage of certain essential imports. She cannot expect to have it both ways and her increased imports at the end of 1944, while improving her economic situation, naturally had an adverse effect upon her Trade Balance, though not to the extent of making her Balance of Payments unfavourable.

V. PORTUGUESE GOVERNMENT REVENUE.

The following is a summarised comparison of the Government revenue for the year 1939 (which was practically the same as 1938) with the year 1943, in contos:-

		1939		1943
Direct Taxes:-				
General		727,900		923,400
War profits		-		236,700
Indirect Taxes:-				
Export	10,800		360,800	
Import	543,000		437,100	
Stamp Duties &c.	314,200	868,000	315,100	1,113,000
		1,595,900		2,273,100
Other ordinary receipts		580,800		995,500
Total Ordinary Revenue		2,176,700		3,268,600
Extraordinary Receipts		354,000		779,100
		2,530,700		4,047,700

The figures of Government revenue during the first four years of the war, as compared with 1939, were:-

	Ordinary Revenue Contos	Total Revenue Contos
1939	2,176,700	2,530,700
1940	2,223,400	2,598,700
1941	2,446,500	3,015,400
1942	2,967,800	3,081,500
1943	3,268,600	4,047,700

The increases

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The increases each year as compared with the 1939 revenue were:-

	Contos
1940	68,000
1941	484,700
1942	500,800
1943	1,517,000
1944	?

The increase in 1943 as compared with the pre-war year was 43.6%.

The only falling off was in Import Duties but the receipts from General Direct Taxes and other Ordinary Receipts showed substantial annual increases, while Export Taxes and War Profits Tax accounted for the bulk of the increases in 1942 and 1943.

Details of the Export Tax are not published but a guess of the composition of that for 1943 is as follows:-

	Contos
Wolfram	225,000
Tin	76,000
Tinned fish	20,000
Sundry	24,000
	345,000
Unknown	13,000
	358,000

With the cessation of Wolfram exports in the summer of 1944 the Government's Ordinary Revenue will obviously suffer to the extent of the Wolfram Export Tax and the Metal Commission's profits on their wolfram sales, plus (a little later) the wolfram portion of the War Profits Tax. On the other hand, it seems reasonable to suppose that, during the immediate post-war years, the demand for certain Portuguese exports will be considerable and that, even if prices fall, export taxes generally will increase and bring in a higher revenue than in pre-war years.

The termination of the Wolfram Tax, which was inevitable, may be looked upon not so much as a loss to the Government as a "manque a gagner".

In 1943, when the receipts from Export Taxes were their highest, the revenue from Import Taxes was some 106,000 contos less than in 1939. It is likely, however, that, when Portugal is again able to import her requirements, revenue from this source will not only equal but will exceed that of pre-war years. In fact, the tendency has already started in 1944.

From these two sources, therefore, there should be substantial, if not complete, compensation for the loss of Government revenue from wolfram.

This is not the place to refer to Government expenditure except for one general comment which, owing to its connection with the economic situation of the country, may be permitted. That comment is in the form of a regret that, for Portugal's sake, a much larger proportion of State expenditure is not employed to better the health, education and living conditions of the

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of the people. It would be a very good long-term economic and social investment and sooner or later it will have to be made.

W.

12th March 1945.

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ANNEX "A"

THE BANK OF PORTUGAL'S BALANCE SHEETS (IN STERLING)

LIABILITIES.

	31/12/39 (at 108.25)	31/12/40 (at 100)	31/12/41 (at 100)	31/12/42 (at 100)	31/12/43 (at 100)	27/12/44 (at 100)
	£	£	£	£	£	£
Note Issue	23,560,000	29,034,000	44,882,000	54,811,000	69,098,000	75,036,000
Escudo deposits:						
Banks	5,570,000	8,511,000	24,333,000	41,890,000	52,577,000	68,630,000
Treasury	1,485,000	2,472,000	3,254,000	19,330,000	22,808,000	25,313,000
Credit Committee	350,000	639,000	744,000	861,000	617,000	1,005,000
Sundry	640,000	1,555,000	2,676,000	3,298,000	2,849,000	2,820,000
Escudo sight liabilities	31,605,000	42,211,000	75,889,000	120,190,000	147,949,000	172,804,000
Foreign Currency liabilities	3,684,000	3,324,000	2,647,000	2,392,000	2,511,000	2,593,000
Sundry balances	6,899,000	7,737,000	5,832,000	6,907,000	7,915,000	6,355,000
Total liabilities	42,188,000	53,272,000	84,368,000	129,489,000	158,375,000	181,752,000
Capital	924,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Reserves	766,000	843,000	857,000	871,000	884,000	898,000
Profit & Loss	128,000	138,000	138,000	138,000	138,000	-
	44,006,000	55,253,000	86,363,000	131498,000	160,397,000	183,650,000

ASSETS.

	31/12/39 (at 108.25)	31/12/40 (at 100)	31/12/41 (at 100)	31/12/42 (at 100)	31/12/43 (at 100)	27/12/44 (at 100)
	£	£	£	£	£	£
Gold	8,503,000	12,395,000	13,427,000	13,907,000	13,994,000	14,122,000
Gold Agio	3,664,000	-	-	-	-	-
Gold-backed assets abroad, etc.	8,028,000	8,692,000	17,980,000	33,782,000	44,408,000	57,729,000
	20,195,000	21,087,000	31,407,000	47,689,000	58,402,000	71,851,000
Other Funds	2,126,000	7,849,000	31,930,000	60,683,000	78,921,000	91,094,000
	22,321,000	28,936,000	63,337,000	108,372,000	137,323,000	162,945,000
Coin	79,000	242,000	57,000	68,000	39,000	37,000
Bills discounted	3,884,000	3,861,000	3,127,000	2,357,000	2,374,000	2,563,000
Investments	1,073,000	3,296,000	3,546,000	3,991,000	3,970,000	3,975,000
Loans and advances	298,000	562,000	239,000	89,000	2,000	2,000
State debt	9,568,000	10,332,000	10,306,000	10,280,000	10,254,000	10,228,000
Buildings etc.	328,000	367,000	358,000	346,000	321,000	301,000
Sundry balances	6,455,000	7,657,000	5,393,000	5,995,000	6,114,000	3,599,000
	44,006,000	55,253,000	86,363,000	131,498,000	160,397,000	183,650,000

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ANNEX "B".

- 3 -

THE BANK OF PORTUGAL'S EXCHANGE OPERATIONS.

Sterling.

The net amount of sterling acquired in each year approximates to the increase in the balance of the Portuguese special account in London. There is always a small difference between the balance as shown in the books of the Bank of Portugal and that shown by the Bank of England, the former balance being the smaller, which is but natural as the bulk of the operations originate in London.

Dollars.

The Bank's holdings, which had amounted to seventeen million dollars early in 1943, fell to half that amount in the spring but thereafter mounted steadily to thirty-six millions by the end of that year. By the middle of March 1944, the balance held had risen to forty-seven millions, then fell to [illegible] millions [illegible] after which it gradually recovered to 23 millions by the end of 1944. The bulk of the dollars were acquired by the Bank of Portugal from Portuguese Banks who had themselves purchased the dollars against escudos required for American war-time expenditure in Portugal. The Bank of Portugal also made substantial direct purchases. Of the outgoings, ten million in 1943 and as much as sixty-four million dollars in 1944 were expended in the purchase of gold from the Federal Reserve Bank of New York.

Swiss Francs.

The Bank's holdings in this currency [illegible] circulation [illegible] during 1943 and 1944 resulted [illegible] operations on behalf of other Banks. The volume of operations in this currency showed a distinct [illegible] during the last two months of 1944. [illegible]

[illegible] Portuguese exports to Sweden, the remainder being conversions and cover. At the end of 1943 the Sweden sold to the Bank of Portugal [illegible]

Free Reichsmarks.

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~~Free Reichsmarks~~ ,000 escudos which latter the Swedes paid to the Banco Nacional Ultramarino. The increased operations of the Bank of Portugal has two aspects reichsmark accounts free and clearing, the volume of transactions [illegible] 17,100,000 having been transferred from Free to Clearing and 21,702,000 vice versa in 1943. Consequently, to the extent of such transfers, the volume of operations in reichsmarks as shown in the table of Exchange Operations is duplicated.

During 1943 the debit balance showed a gradual [illegible] The Bank's holding in free marks, which had been between two and three millions during the first nine months of 1943, fell away early in September to a very small balance and remained so until January 1944, when it rose again to three or four million until April 1944 when it again fell away to practically nothing during the rest of that year, conforming to the course of the war.

Of the reichsmarks acquired during 1943, 8,291,000 [illegible] against the sale of gold by the Bank of Portugal [illegible] in the last three months of the year. [illegible] gold operations to the extent of 6,400,000 reichsmarks took place during 1944.

~~Luso-Spanish Clearing (Escudos).~~
~~[illegible] (Clearing) Account~~

The [illegible] acquired and paid through the Clearing for [illegible] the Bank of Portugal showed a debit balance which varied between fourteen and twenty-seven millions of reichsmarks. During 1944 it fell from twenty-seven to about seventeen millions until the second week in September from which date it dropped suddenly to nine million and subsequently to three and a half million at the end of 1944. This drop was due to the cancellation of various orders for canned fish and other Portuguese exports which could not be despatched to Germany owing to the liberation of France. The German firm of Wimmer (Lisbon) alone had orders cancelled to the value of [illegible] and a half million reichsmarks. Of the Clearing reichsmarks acquired during 1943, 88,249,000 resulted from Portuguese exports to Germany. Of the outgoings, about [illegible] were for imports [illegible] purchase [illegible] Paid for the Portuguese War Ministry [illegible] etc. from Germany, the rest (in and out) representing "Conversions" for account of other Banks. In 1944, of the incomings, 23,700,000 resulted from Portuguese exports and, of the outgoings, about [illegible] were for imports and [illegible] were paid [illegible] 40,027,000 from the sale of gold to Spain. Of the outgoings, 552,732,000 [illegible] the purchase of gold and about 50 millions on imports.

The Bank's operations in this currency showed a [illegible] increase during the latter half of 1943 and [illegible] 1,401,000 reichsmarks for the Portuguese War Ministry [illegible] gold [illegible] being conversions and barter. At the end of [illegible] Sweden sold to the Bank of Portugal [illegible] Swiss [illegible] transfers to the Banco Espirito Santo and to the Banco Lisboa and Azores and which those Banks paid out for Germany account.

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The [illegible] transferred to Spain to [illegible] alone francs for 20,600,000 escudos which latter the Swedes paid to the Banco Nacional Ultramarino. The increased operations which had started in 1943 were maintained during 1944 when, although the bulk of the transactions resulted from "Cover" and "Conversions", kroner were also acquired by the Bank of Portugal against escudos and gold.

Luso-Italian Clearing (Liras).

During 1943 the debit balance showed a gradual increase from 62 to 67 millions of lire until October, after which it fell to 59,719,000 at the end of that year. The year 1944 showed a steady decline to about 54 millions in May, that balance then having become stabilised until the present time.

Luso-Finnish Clearing (Finnish Marks).

The debit balance on this account in February 1943 amounted to 19,126,000 marks, which fell subsequently until in January 1944 it was 5,300,000, at which figure it has remained ever since.

Luso-Spanish Clearing (Escudos).

The escudos acquired and paid through the Clearing for exports from and imports to Portugal during 1943 and 1944 were as follows:-

	Received for Portuguese exports	Paid for Spanish exports
	Escudos	Escudos
1943	146,000,000	81,000,000
1944 (approximate)	150,000,000	115,000,000

Pesos.

Of the outgoings totalling 11,186,200 in 1943, about one half, namely 5,963,987, were for the purchase of gold from the Argentine, apparently for the Bank's own account.

Escudos.

Of the incoming escudos in 1943, 148,386,000 were derived from Portuguese exports and 40,027,000 from the sale of gold to Spain. Of the outgoings, 852,732,000 were spent on the purchase of gold and about 50 millions on imports.

Reichsbank's Escudo account with the Bank of Portugal.

This account was credited with the value of thegold purchased by the Bank of Portugal from the Reichsbank with escudos, as distinct from the purchases made with Reichsmarks which were credited to the Free Reichsmarks Account. The amount so credited to this Escudo account in 1943 was 728,488 contos, against which were debited the escudo transfers to the Banco Espirito Santo andto the Banco Lisboa and Azores and which those Banks paid out for German account.

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The amount so transferred to Espirito Santo alone from the Escudos Accounts of the Reichsbank and the Banque Nationale Suisse during 1943 totalled 637,000 contos. (£6,370,000).

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