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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CURRENT ECONOMIC POSITION AND PROSPECTS OF ITALY

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CURRENT ECONOMIC POSITION AND PROSPECTS OF ITALY

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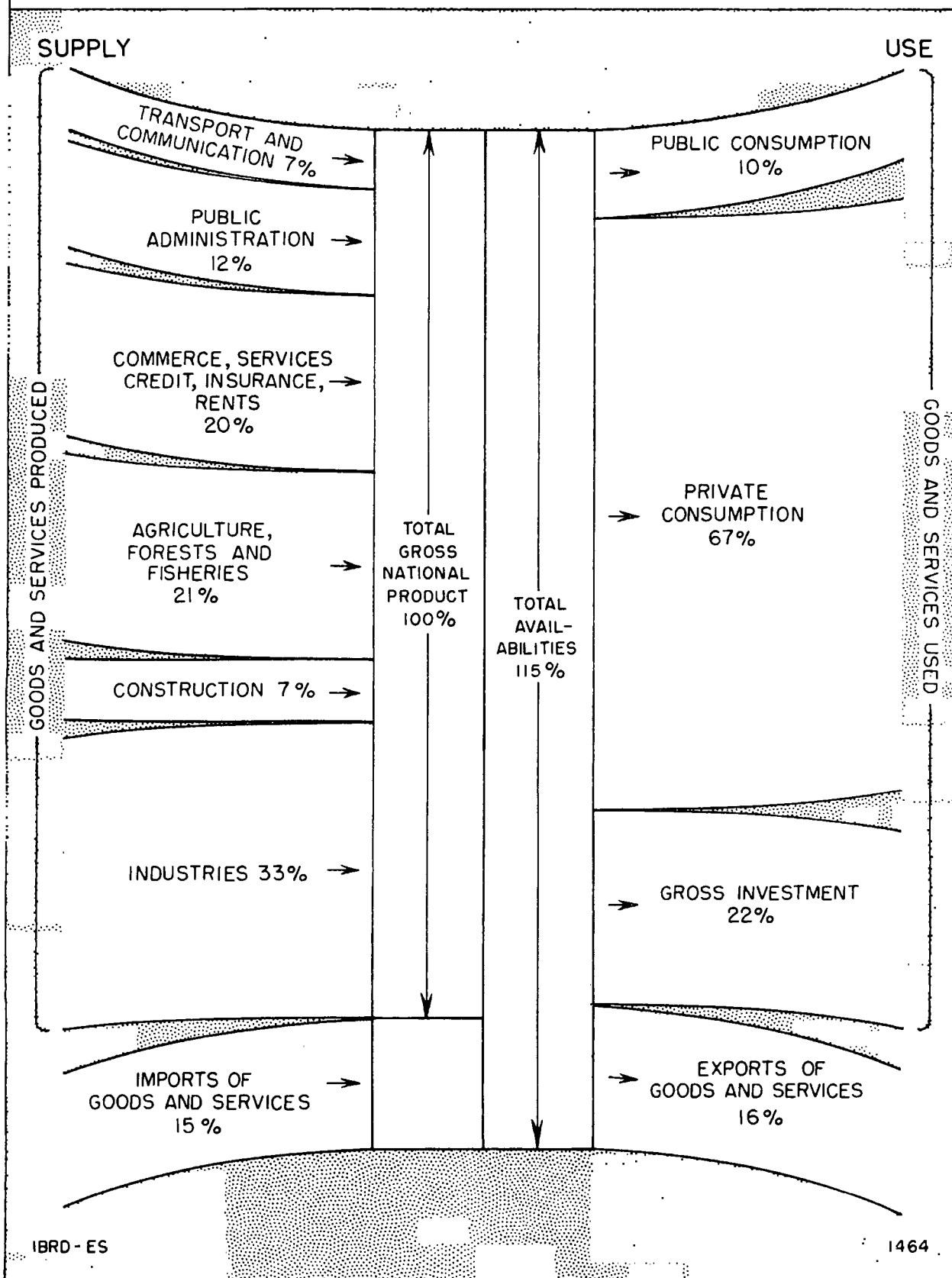
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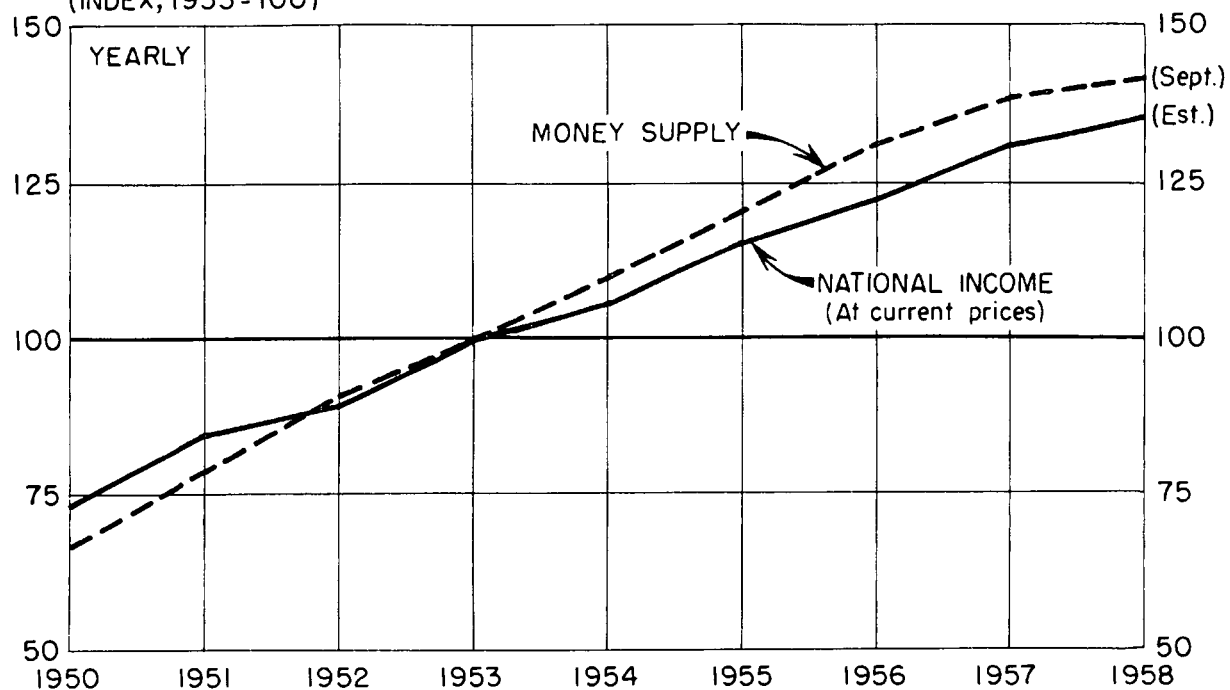
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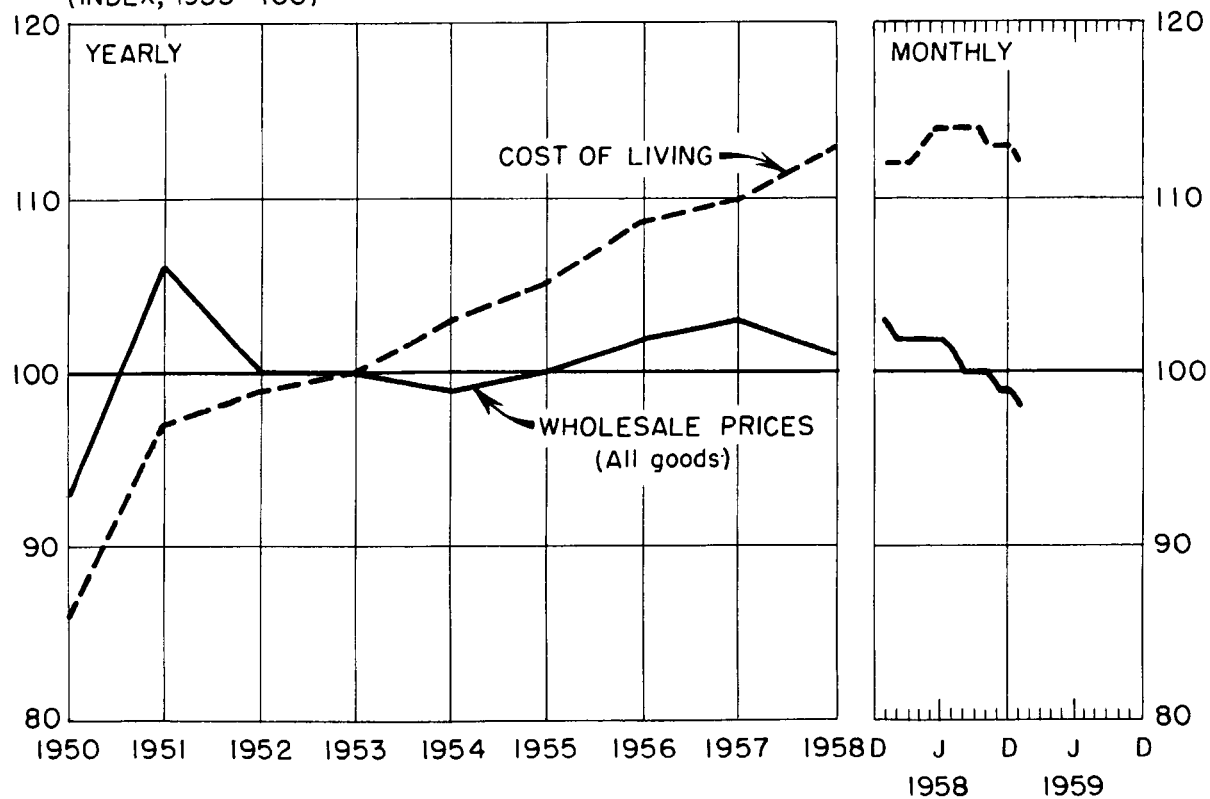
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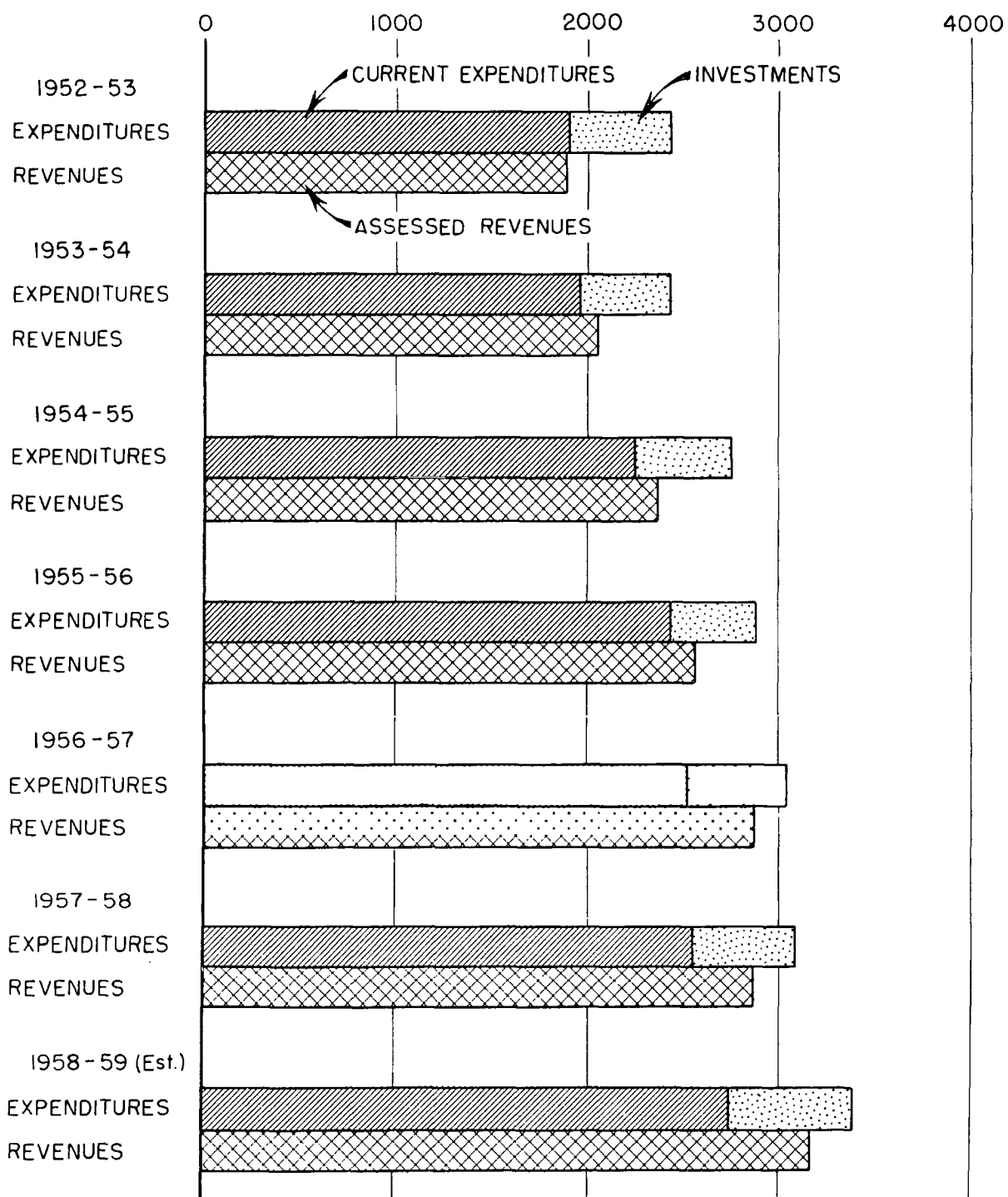


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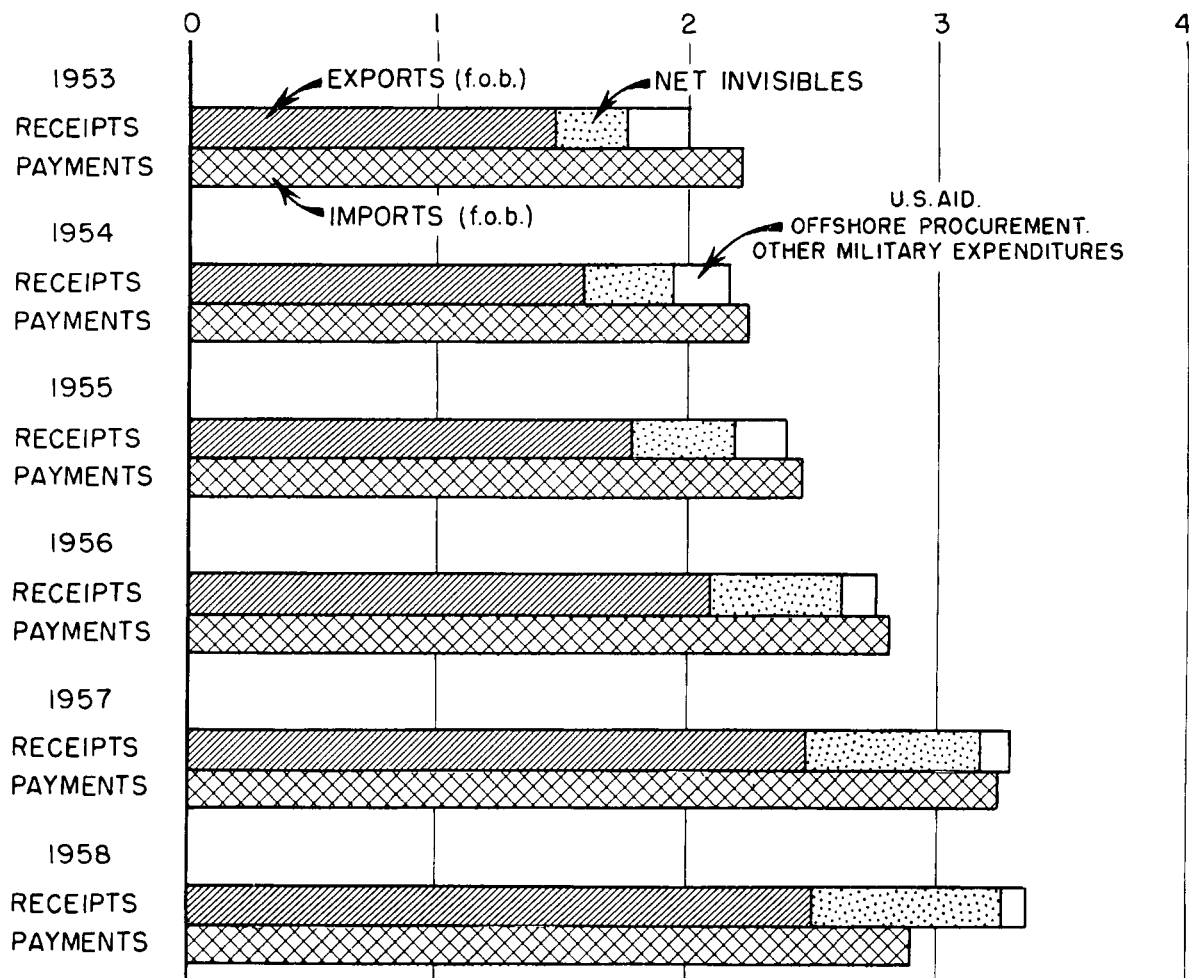
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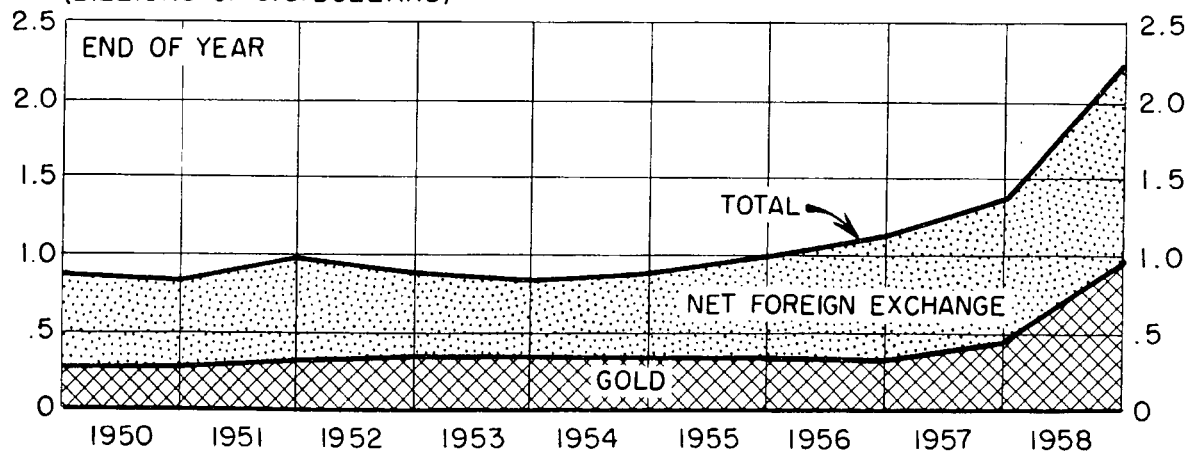
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ITALY

Basic Data

Area: 120,000 square miles
Population (1958): 48.9 million
Gross National Product (1958): 15,900 billion Lire (\$25.4 billion equiv.)
G.N.P. per Head: 325,000 Lire (\$520 equivalent)

Sector (1958) % of G.N.P. Produced

Agriculture, Forests and Fisheries	21
Industry	33
Construction	7
Commerce, Services	20
Transport and Communications	7
Public Administration	12

Gross Fixed Investment (1958): 3430 billion Lire

% of G.N.P.: 21.6

Balance of Payments on Goods and Services:
(in million \$ equivalent)

<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>-226</u>	<u>-88</u>	<u>+452</u>

Foreign Trade:(in million \$ equivalent)

Exports	2,083	2,480	2,491
Imports	<u>2,815</u>	<u>3,249</u>	<u>2,885</u>
Trade Balance	<u>- 732</u>	<u>- 769</u>	<u>- 394</u>

Gold and Foreign Exchange Assets:
(in million \$ equivalent)

End of December
1957

<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>1,102</u>	<u>1,372</u>	<u>2,222</u>

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External Debt: (in million \$ equivalent)

January 1, 1959: Total \$849 million

SUMMARY AND CONCLUSIONS

1. In 1958 the growth of the Italian economy slowed down. The recession abroad made entrepreneurs more cautious and private investment declined. Industrial production increased by less than 3% compared with 7% in 1957. However, owing to unusually good crops, the real gross national product increased by 4.1%.
2. The increase in total employment outside agriculture, together with net emigration, was sufficient to absorb the annual growth in the labor force and some underemployed labor from agriculture, but did not reduce unemployment significantly.
3. As a result of lower import prices of primary products and a large rise in earnings from invisibles, the balance of payments on current account showed a surplus. Since capital continued to flow in, foreign exchange reserves rose substantially.
4. The budgetary position is sound and revenues continue to exceed current expenditures. Public savings are therefore available for financing part of public investment.
5. The continuing increase in domestic savings has acted as a stimulus to the capital market and has permitted a substantial increase in long-term financing both for private industry and the public sector. Much more development of the capital market is still needed, however.
6. The reduced growth in 1958 did not affect the basic strength and flexibility which the Italian economy has shown in recent years. With a resumption of growth abroad, the Italian economy, given appropriate development policies, should again be able to expand more rapidly and make further progress in providing jobs for the surplus labor and in speeding up the development of the South. The prospects opened up through the establishment of the European Common Market should also help in the solution of these problems.
7. With continued high domestic savings and with a favorable foreign exchange position, Italy should now be able to make an even more aggressive effort to solve her structural problems of the backwardness of the South and the continuing surplus of labor.
8. Italy's debt record is good and service charges on her existing debt are small. The borrowing now under consideration is well within the limits of her creditworthiness.

I. INTRODUCTION

1. Previous reports on economic development in Italy, the last of which was distributed to the Executive Directors on February 18, 1958 (Report EA-81a) have described the vigorous expansion of the Italian economy during the last eight years. This has been encouraged by an environment of relative price stability due in large part to continued sound monetary and fiscal policies. Real gross national product increased at an average annual rate of 5.3% during the 1950-57 period, which is a figure well above that of most other Western European countries. Gross investment accounted on the average for 21% of gross national product and the volume of foreign trade more than doubled.

2. Fuller use of present capacity, the modernization of existing plants and construction of new plants, and more efficient use of labor were chiefly responsible for the increase in industrial output. Between 1950 and 1957 industrial production increased at an average annual rate of 6.5% and production costs declined. No less important was the progress achieved in agriculture. The net agricultural product grew on the average by 2% per year. Much of this was due to land reclamation and improvement and to increased yields from better seeds and more fertilizer, greater protection of crops from pests and diseases and better cultivation of the soil from the rapidly increasing use of tractors.

3. Equally important for the rapid economic progress was the fresh competitive spirit, which resulted from freeing the internal economy, and ending the isolation from world markets of the prewar and war years. Since 1955 imports from the OEEC area have been virtually free from restriction and only part of the imports from the dollar area are still subject to quantitative controls. More than ever economic activity in Italy depends on foreign sources of supply and on foreign markets as an outlet for Italian products. The balance of payments has become stronger owing to a proper exchange rate, to some improvement in the terms of trade and to the spectacular rise in receipts from services, particularly from tourism and from remittances of Italian workers abroad. In 1957 Italy supported the plan for setting up the European Economic Community without hesitation.

4. Ever since 1950, when post-war reconstruction had been completed, a determined effort has been made to solve the two serious structural problems of the Italian economy, namely the continued existence of a large number of underemployed and unemployed labor, and the great discrepancy in economic development between the highly industrialized North and the predominantly agricultural South. The two problems are interrelated since underemployment in agriculture is mostly a phenomenon of the South and the movement of people out of agriculture keeps the amount of unemployment fairly constant in the cities. In 1950 a special development fund for the South (Cassa per il Mezzogiorno) was established and in 1955 Italy's economic development policy was given wider scope and better direction through the adoption of a ten-year perspective plan for the raising of income and employment (Vanoni Plan).

5. Although unemployment and underemployment continued to be serious problems, the last few years have given some promise that they could be largely eliminated in the future, provided high rates of growth and investment can be maintained and the rate of growth of population remains at its present low level of 0.8%. In the years 1955 to 1957 economic expansion and net emigration have been sufficient to absorb the annual growth in the labor force, to absorb some surplus labor from agriculture and to reduce total unemployment by a sizable amount.

6. Progress in the development of the South has been impressive compared to the past but, so far, the improvement in living standards, income levels and employment has been mostly confined to a few areas. Moreover, since development in the North has continued, the efforts in the South have merely enabled it to keep pace with the North, but they have not succeeded in significantly reducing the gap between the two regions. In 1957 the income per capita in the South amounted to 44% of the income per capita in the North, compared to 42% in the years 1950 to 1952. Per capita public and private investment remained higher in the North than in the South in spite of the extraordinary investment by the Cassa per il Mezzogiorno.

7. Remedying the backwardness of the South is not only a question of additional investments and of providing special economic incentives. It is as much a question of sociological changes and of adopting new educational and cultural standards.

II. RECENT ECONOMIC DEVELOPMENT:

ITALY AND THE 1957/58 INTERNATIONAL RECESSION

Output and Employment

8. The slackening of economic activity which affected many other countries early in 1957 did not influence Italy until towards the end of the year -- and then primarily by reducing the rate of growth. Exports of goods and services continued to grow by another 22% in spite of the decline in international demand. Unlike other countries, Italy was not forced to take strong anti-inflationary measures in 1956 and in the earlier part of 1957, and internal demand for investment and consumption could therefore follow a more regular pattern. The real gross national product increased by 5.6% in 1957 compared with 4% in 1956. This further strong growth was due mainly to industrial production. Economic expansion was sufficient to increase employment outside agriculture by 300,000 persons or by about 2.5%.

9. In 1958 the Italian economy did not expand at the same high rate. Exports of goods and services advanced only slightly. Consumption increased owing to continued high employment and to a rise in personal incomes, especially of farmers. But private investment in plant and equipment and in industrial stocks declined. Entrepreneurs became more cautious in their investment because of the recession abroad and also because of the

uncertainties introduced by the plans for the European Common Market. The increase in industrial production was very small during most of 1958, although there were wide variations in different sectors.

10. The metallurgical sector, in particular iron and steel, was affected relatively early by the fall in investment. The paper, rubber and textile industries felt the decline in external demand. On the other hand, home demand for consumer goods was generally well sustained. Good growth was also experienced in the output of petroleum and coal derivatives and substantial production increases were achieved by the automobile, chemical and some mechanical industries. The production of electric power and the extraction of natural gas continued to grow at slightly higher rates than the increase in national product.

11. For the whole year the index of industrial production increased by 2.7% compared with 7% in 1957. However, because of a 10% increase in net agricultural output, which accounts for over 20% of national production, real gross national product increased by nearly 4.1% which was taken up entirely by higher consumption, higher agricultural stocks and by the export surplus of goods and services. The growth in employment in industry and the service sector, together with net emigration, was sufficient to absorb the annual growth in the labor force and some underemployment labor coming from agriculture. However, unemployment was not reduced significantly and still amounted to 7% of total employment. Only higher employment in services, shorter working hours in industry and the Government's decision to suspend lay-offs in government-controlled firms prevented unemployment from increasing in 1958.

12. The large increase in agricultural production was mainly due to exceptionally good weather and to technical progress in agriculture. However, the record wheat crop increased the surplus of soft wheat whereas the production of hard wheat, of which Italy is an importer, declined. The consumption of meat rose and meat imports went up substantially while domestic production made only slight progress.

Foreign Trade and Payments

13. Foreign trade and payments represent the brightest aspect of the Italian economy. Although exports did not increase in 1958, they were able to maintain their high 1957 level. Declines in some sectors were compensated by substantial gains in the exports of chemical, mechanical and engineering products. Particularly noteworthy is the increase in automobile exports which now account for over 40% of domestic car production. Imports, on the other hand, fell by 12% in 1958 owing mainly to lower raw material prices and to reductions in stocks. The trade balance closed with a deficit of \$394 million equivalent, a reduction of about 48% compared with that of 1957.

14. In 1958 there was a large rise in earnings from invisibles, mainly tourism and emigrants' remittances which more than offset the trade deficit. Receipts from tourism alone reached \$500 million equivalent, an increase of over 30% over 1957. For the first time in the post-war period the balance of goods and services closed with a surplus of \$452 million equivalent. Since capital continued to flow in steadily, Italy's foreign exchange reserves increased by an estimated \$850 million equivalent and reached \$2.2 billion at the end of the year. The liquidation of the European Payments Union at the end of 1958 left Italy in the position of a net creditor, with the largest debt to Germany and substantial credits with the United Kingdom and France, to be settled bilaterally.

15. Italian foreign exchange reserves are at present sufficient to cover nearly nine months of imports. With the balance of payments in equilibrium and high exchange reserves, it was no surprise that Italy was able in December 1958 to participate in the general European move toward convertibility. Current transactions for holders of non-resident accounts are now free, except for transactions with the few remaining countries with which Italy has bilateral payments agreements. Restrictions on the repatriation of foreign capital invested in the establishment or expansion of "productive" enterprises and on the transfer of income therefrom had been removed previously. Other capital transactions by non-residents as well as all current and capital transactions by residents are still subject to various restrictions but in actual practice there is very little effective control exercised.

Monetary and Financial Situation

16. The high liquidity of the economy and especially of the banking system has been the main feature of monetary and financial developments in the recent past. It reflects the slowing down of economic activity, which began in the last quarter of 1957, the lower demand for funds for private investment and the substantial balance of payments surplus.

17. The index of wholesale prices, which largely reflects movements of the prices of imported raw materials has declined continuously since the end of 1957, and showed for the whole year of 1958 a decrease of 2%. The cost of living index, after having risen until August 1958, was in January 1959 not appreciably higher than a year ago. The index is much influenced by the price of food which, after having increased rapidly for almost two years, declined lately as a result of the better crops. The decline of the cost of living index may lead to a small downward adjustment of wages which rose in 1958 by about 5% owing to the sliding scale arrangements, higher family allowances for agricultural workers and some increases in the salaries of employees in industry and commerce.

18. An upward trend of retail prices and living costs, compared with the fundamental stability of wholesale prices, has been a characteristic feature

of price movements in Italy since the stabilization of the currency ten years ago. It is partly explained by the adjustment of administered prices such as house rents, which are being raised by 20% each year until 1960 when the law specifies that they are to be free from control, public utility prices and railway fares and is thus to some extent a delayed consequence of the repressed inflation of the war and earlier post-war years. Another factor, is the high costs of distribution of many consumer goods, especially food, which is more difficult to correct.

19. The substantial inflow of foreign exchange was mainly responsible for the more rapid increase in the money supply, as compared with previous years. However, since the expansion of credit was small and since saving deposits continued to rise, the principal result of the rise in the money supply was to increase the liquidity of the credit institutions which reduced their indebtedness and built up their deposits with the Bank of Italy. The demand for new bank credits by the private and the public sector was lower than in previous years and total bank credits increased by less than 5% compared with an increase of nearly 10% in 1957 and over 16% in 1956. The increase in saving deposits amounted to Lit. 680 billion, which corresponds to an increase of 20%, compared with 17% during each of the three preceding years. It represents a high level of personal savings and reflects the confidence of the public in the stability of the currency. The lowering of the discount rate by the Bank of Italy from 4% to 3.5% in June 1958 which was intended to stimulate investment had no marked effect on the demand for borrowed funds.

20. An increase of public investment, particularly in road construction and schools, hospitals and low-cost housing as well as higher investments by government-controlled firms were also designed to keep economic activity at a high level. The value of public works initiated in 1958 is estimated to have been about Lit. 200 billion or 20% more than in 1957. The present government has indicated its intention of creating a favorable climate for private investment and expansion while at the same time accelerating public works.

21. In the past few years current revenues of the central government have always exceeded current expenditures and the surplus was used to finance part of public investment. Higher public investments led to some increase of the overall deficit for the fiscal year 1957/58 and is mainly responsible for a further small increase of the deficit for the current fiscal year and of the deficit in the initial budget estimates for fiscal year 1959/60. However, since current expenditures are kept well below assessed current revenues, public savings will continue to be available for financing investment.

22. Until very recently the supply of long-term funds has always been short, and the issue of new bonds and shares on the capital market was restricted. Lately, however, new issues have been subscribed readily and an increasing share has been taken up directly by the public. Although the more abundant supply of funds reflected itself in some improvements in the terms for new issues and in the total amount issued, the financing of new investment through the issue of securities is still relatively expensive in Italy. The importance of the capital market as compared to

other sources of finance, while still small, has been growing. Self-financing remains the most important source of investment financing, but the importance of bank credits is gradually declining. In 1958 new security issues exceeded Lit. 700 billion compared with Lit. 550 billion in 1957 and Lit. 584 billion in 1956. There was no government bond issue this year but share issues by private industry and bond issues by specialized credit institutions and by the two government-controlled holding companies (I.R.I. and E.N.I.) rose substantially in 1958.

III - ITALY AND THE EUROPEAN ECONOMIC COMMUNITY

The Treaty

23. The Treaty establishing the European Economic Community, which was signed in Rome in March 1957, provides for the gradual establishment of a common market over a transitional period of twelve or fifteen years between France, West-Germany, Italy, the Netherlands, Belgium and Luxembourg. The core of the European Economic Community is a Customs Union between the member countries to be completed at the end of the transitional period. Trade between members will then be free of import and export duties, quotas, subsidies and discrimination in transport rates. Agricultural products are to be protected to a moderate degree by national minimum prices and similar provisions. A common external tariff will surround the Community. Other major provisions of the Treaty look towards the abolition of obstacles to the free movement of persons, services and capital between the member countries; and ensuring of relatively free competition in the Common Market. The Treaty also establishes a Social Fund to help labor adjust to the new conditions, an Investment Bank to finance projects regarded as important for the Community and a Development Fund for providing financial assistance to the overseas territories of the member countries. The member countries undertake to maintain a high rate of employment as well as internal and external financial stability. In the event of a balance of payments crisis, members may have recourse temporarily to escape clauses. The Treaty came into force on January 1, 1958. On January 1, 1959 the first tariff cut of 10% became effective and bilateral import quotas were raised by 20% and changed into global quotas covering imports from all members. The tariff cut has been extended to all members of the GATT, provided that this will not bring a tariff below the level of the common external tariff which will come into force at a later stage. The increase in import quotas has been extended to all the OEEC member countries.

24. The proposals for supplementing the European Economic Community with a wider Free Trade Area of all or part of the 17 OEEC member countries have not brought any conclusive results, mainly because the inherent difficulties are greater and the political motives for reaching a compromise are weaker.

Italian Foreign Trade and Tariffs

25. With a total area of 301,000 square kilometers and a population of 48.9 million people, Italy accounts for 26% of the total EEC area and her

population for nearly 30% of the total EEC population. Italy's gross national product, which reached \$25.4 billion equivalent in 1958, accounts for a little over 18% of the total production of the EEC countries, her industrial output for 15% and her agricultural output for 22% of the respective EEC totals. The Italian national product per capita is much lower than that of the other five member countries; it is about U.S. \$520 equivalent compared to between U.S. \$900 to U.S. \$1,000 in the other countries.

26. Italy is mainly an importer of food, raw materials and mineral fuels which, together, account for 75% of her total imports. She exports manufactured goods and agricultural products, mainly fruits and vegetables. These two categories account for 65% and 25% respectively of her total exports. Her trade deficit is largely covered by invisible earnings and in both 1957 and 1958 the balance of payments on current account has substantially been in equilibrium. Compared with the other EEC countries, the structure of Italian imports most resembles that of Germany, while the structure of exports is more like that of France. The high proportion of invisible earnings which, in recent years, has exceeded 35% of total foreign exchange income, is a feature peculiar to Italy.

27. Italian imports from the EEC countries and their overseas territories account for about 23% of total imports and exports to the EEC area for 26% of total exports. Imports consist mainly of machines and other manufactured goods, whereas exports are very diversified. Exports, particularly exports of steel and chemical products, increased more rapidly to the EEC than total exports during recent years, with the exception of 1958, whereas imports from the EEC area went up at about the same rate as total Italian imports.

28. Italian import tariffs are moderately protectionist, taking into account the numerous reductions and exemptions which have been granted unilaterally or reciprocally. For instance, the exemption for all investment goods to be imported into Southern Italy means that about 40% of the total Italian imports of machines and other investment goods are free of tariffs. Customs duties on the import of coal and steel products from the European Coal and Steel Community countries have already been reduced or abolished. On the basis of the official rates, the average value of Italian import tariffs is 17.3% and their median value 17%. The highest rates prevail for food products with an average value of 20% and the lowest for raw materials with an average rate of 7%. The average tariff rate on the imports of machines and other manufactured goods, which account for a large portion of total Italian imports from the EEC area equals 18.5%. About 85% of all the items belonging to this category have tariff rates between 15% and 25%. One noteworthy exception is the 40% tariff on automobiles.

29. Based on the official rates, the Italian tariff appears rather high, as compared to the tariff level of the other EEC members. It is about as high as the French tariff, as shown below. However, if a comparison could be made which takes into account exemptions, the Italian tariff would probably appear relatively lower.

General Tariff Level of the Four Customs Areas:

<u>Area</u>	<u>Average</u>	<u>Median</u>
Benelux	9.5%	7%
West-Germany	15.5%	12%
France	18.1%	17%
Italy	17.3%	17%

30. In Italy only 16.5% of total imports and 1.8% of imports from OEEC countries are still subject to quantitative restrictions and the gradual elimination of the remaining controls should not be too difficult.

The Italian Position

31. During the last few years Italy was able to liberalize her imports more rapidly than some of the other EEC member countries without endangering her external position. At the same time her economy expanded vigorously. Her ability to continue in this way within the Community will depend upon her success in improving productivity. Labor productivity in Italy has increased at about the same rate as in the other EEC member countries, that is, by 4.7% per year during the 1950/57 period.

32. The increase in productivity was, however, unevenly distributed. Moreover, the gains of higher productivity were to a large extent only shared by the participants in the more efficient enterprises rather than being passed on to the rest of the economy through reduction of prices. In Italy there is a sharp contrast between the modern, highly developed sector of the economy and the traditional enterprise based predominantly on family labor and operating with a minimum of capital. Small scale enterprise is typical for agriculture and commerce and common in industry. It is generally able to compete, because income of the owner and wages paid to family members or to hired labor are low and compensate for the disadvantages of small scale operation.

33. The modern, highly efficient industrial enterprises, operating generally on a large scale and found mainly in the machine, mechanical, automobile, chemical and rubber sectors, should have no difficulty in adapting themselves to the gradual removal of tariff barriers. The Italian steel industry, for instance, although at a disadvantage in the supply of raw materials, was able to adapt itself to the gradual reduction of tariffs required by the European Coal and Steel Community, with fewer difficulties than originally expected.

34. The leading Italian industrialists feel confident and even optimistic about the prospects opened up through the establishment of a common market in Europe. They expect to be in a position successfully to withstand the increased foreign competition, to widen the market for their products in the other EEC member countries and thereby further reduce

their costs. Their production costs are generally in line with those of their European and foreign competitors. They state that the incidence of indirect taxes is relatively heavy and that the social benefits to be paid by the employer under the Italian Social Security System tend to be high. The profit margins of these enterprises should be sufficient to enable them to make price concessions. They are relatively independent of borrowed funds for the supply of capital and therefore in a better position than the rest of the Italian industry to modernize and expand their plants and to improve their sales organizations in Italy and abroad. But many of the small-scale enterprises and industries, such as textiles and food processing, which have not to the same extent profited from expanding markets at home and abroad, may be subjected to pressures and will have to make adjustments as the tariff walls are lowered.

35. Hitherto, the money and capital markets of the various European countries have remained largely insulated from each other by direct regulation and by differing administrative and fiscal practice. But the barriers between the European capital markets have already been reduced by the recent move towards convertibility. The advent of the common market should give a strong stimulus to an increased flow of capital between the member countries. Foreign companies, European and others, either attracted by the favorable manpower situation or with a view to penetrating the boundaries of the common market are showing an interest in locating or expanding their operations in Italy. Italy will be the first beneficiary of the European Investment Bank while foreign capital, attracted by the higher returns, has already broadened the Italian capital market in recent months.

36. The provisions of the Rome Treaty concerning agriculture and manpower are less well defined and more difficult to implement than those regarding the reduction of tariffs and import quotas for manufactured goods. They will affect broad sections of the population and will raise questions of social and economic policy which will be difficult to resolve. Some hard bargaining between the EEC member countries is to be expected, but if Italy succeeds in obtaining reasonable concessions from the other countries, her economy and balance of payments will be strengthened and a major contribution will be made in helping the South.

37. In all EEC member countries the protection of agriculture includes direct government intervention, subsidies and price supports. The Treaty provisions on tariffs and import quotas are therefore coupled with measures looking to a common agricultural and market policy. During the first two stages of the transitional period, a country will be free to fix minimum prices and to restrict imports accordingly. Thereafter, the fixing of minimum prices will be subject to approval by the Council of the EEC. The transition may therefore be described as one from national to intra-European regulation of the markets for agricultural products rather than from regulated to free markets.

38. In Italy direct government intervention, although it exists for individual products such as wheat, sugar beet, rice, hemp and tobacco, is less far-reaching than in some other EEC member countries. The agricultural products, which benefit from price fixing or other forms of direct

intervention by the Government or producers' association account for only about 27% of the total value of agricultural production compared with 72% in France and 75% in Germany. If reasonable compromise solutions can be worked out, Italy should obtain increased opportunities for her agricultural exports, especially of fruits and vegetables for which she is a low-cost producer and has a seasonal advantage.

39. The efficiency of Italian agriculture should also rise from a freer movement of manpower between the EEC member countries. This would reduce the pressure of population which is the main obstacle to raising agricultural productivity. In the last few years the EEC member countries, foremost among them France, were able to absorb on the average about 65,000 Italian workers a year, or about 40% of total net annual emigration. In addition, an estimated 25,000 seasonal workers a year found employment in the EEC countries. Most of the Italian workers are employed in agriculture and other primary activities for which relatively little professional skill is required.

40. The objective of the Rome Treaty is the eventual free movement of manpower inside the Community, to be achieved mainly through closer co-operation between national labor offices, the removal of time limits on employment and of regulations preventing the nationals of one country from establishing themselves permanently in another. All this will require deep changes in national attitudes and employment policies. If it can be done, Italy could be the main beneficiary since it is estimated that the increase in the Italian labor force will amount to half the increase in the total labor force of the Community between 1959 and 1965. To make the most of this opportunity Italy will have to invest in the improvement of labor skills since unskilled labor has more difficulty in finding jobs. Finally, the continuation of a high level of employment in the rest of the Community is an obvious prerequisite for Italian emigration.

IV - PROSPECTS

41. The relatively good performance of the Italian economy during the 1957/58 international recession was due primarily to the favorable Italian cost and price structure as compared to other countries. It enabled Italian products to compete successfully in foreign markets.

42. The recession abroad did affect private investments. But the long-term investment plans of the leading industrial enterprises remained unchanged. With the initial hesitancy in respect of the European Common Market now largely overcome, private investment activity can be expected to rise again.

43. Noteworthy in 1958 were the good results obtained in the agricultural sector. The higher incomes of farmers contributed to keep consumption expenditures at a high level and can be expected to affect private investment in agriculture, which hitherto had been rather slow in following up public investment in irrigation and soil rehabilitation, notably in the South. Moreover, as a result of better crops, Italy's foreign trade account in food should improve.

44. With private investment likely to increase and public investment remaining at a high level, gross fixed investment will in 1959 probably exceed again 22.5% of gross national production, i.e., the target rate of the Vanoni Plan. With the standard of living steadily improving, private consumption can be expected to show another increase. But these prospective developments should not endanger the external position.

45. Raw material imports to replace reduced stocks have already increased and since it is unlikely that the unusually favorable terms of trade, which Italy has enjoyed in 1958, will fully prevail throughout the current year, the deficit of the balance of trade may increase again. This should at least partly be counterbalanced by a further growth in invisible earnings. With more emigrants abroad and with tourism becoming less seasonal, net revenues from those two sources may reach \$900 million equivalent in 1959 compared with \$715 million in 1958. The net current account result will depend on whether Italy pursues appropriate expansionary policies to take full advantage of the inflow of capital that is occurring; otherwise, she will merely continue to increase her foreign exchange reserves beyond the present comfortable level.

46. The reduced growth in 1958 did not affect the basic strength and flexibility, which the Italian economy has shown in recent years. However, the growth achieved was not sufficient to reduce underemployment significantly and the goal of further reducing the disparity of income existing between the North and the South of Italy remained ever present during 1958.

47. While public investment in the South has been transforming agriculture and improving and expanding the basic services and facilities, private industry and agriculture have not taken full advantage of the new facilities available. Whereas public investment in the South on a per capita basis has been about equal to the North, private investment is still under a third of the North. Private industry has, so far, not responded as rapidly and as effectively as it was hoped to the additional incentives introduced in 1957. These came in when the development program for the South shifted its emphasis from a pre-industrialization to an industrialization program.

48. The already existing inducements for the industrial development of the South (tax and tariff concessions, freight rebates and long-term credits mainly through the Cassa per il Mezzogiorno and its regional industrial credit institutes) are now supplemented by new provisions. They empower the Cassa to pay a subsidy of 2 1/2% per annum towards the interest on the bonds to be issued by the industrial credit institutes, to allocate funds for the subsidy of projects to be located in towns with a population of 70,000 or under, and to create additional industrial zones on the mainland such as now exist in Catania and Naples. In Sicily, further aid to new industries is provided by the regional government. Also adopted was a measure which requires that a minimum of 40% of all new investments in state enterprises take place in Southern Italy.

49. The slowing down of investment activity in Italy may be partly responsible for the small progress, which industrialization of the South has made in the recent past. Northern enterprises on whose initiatives the industrialization of the South largely depends, prefer to expand their existing facilities in the North, because of closeness to markets and better supply of skilled labor, rather than to move South. The advent of the European Common Market may further enhance the advantages of the North in this respect. The South has relatively few natural advantages to offer industry and the existence of raw materials for a chemical industry in Sicily is a notable exception. There is therefore some fear that the long-range development program of the South may lose momentum and the pressure on the government to embark on a program of forced industrialization has increased. At this stage it can only be hoped that in the zeal to industrialize the South, the costs of alternative plant location will be adequately weighed and serious errors will be avoided.

50. The need to increase employment and to speed up the development of the South remain serious problems facing Italy. But with the resumption of growth abroad and in her own economy, and with adequate development policies, she should again be able to make more progress in solving them. The generally favorable prospects opened up through the establishment of the European Common Market are also helpful in this connection. With a good reserve position the Italian authorities have now much more margin than a few years ago to strengthen their policies favoring expansion and to make further progress in meeting Italy's fundamental problems.

51. The supply of long-term savings from internal sources is improving and Italy's capital market is gradually broadening. The latter development is of particular significance, since the financing of investment through the market allows for a more efficient use of saving funds than self-financing. Italy should therefore be able to rely less and less on capital from abroad to supplement her own resources, even with higher rates of growth and of investment than experienced in the past year. The further inflow of private direct investment is, in any event, clearly desirable, at least until she has succeeded in eliminating the present disparities in her economy.

52. Italy has a good debt record and her external debt service is not excessive in relation to her foreign exchange earnings. Foreign exchange earnings have been growing more rapidly than her debt in recent years so that the service burden in relation to foreign exchange earnings, in spite of borrowing abroad, has declined and is now under 3%. The total annual payments on the present debt, which amounted to nearly \$850 million equivalent on December 31, 1958, will reach a peak of \$96.5 million in 1960 and then will drop below \$60 million equivalent by 1964 and after. Italy has nearly completely discharged the war reparation claims to Greece, Yugoslavia and Ethiopia. War reparations to Russia and Albania of about \$120 million equivalent are still outstanding, but they are largely offset by claims on Italian assets seized by the Soviet Union in Eastern Europe. The proposed borrowing from the IBRD, the EIB and the New York market is well within the limits of Italy's creditworthiness.

STATISTICAL APPENDIX

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TABLE 1

Estimated Contractual Interest and Amortization Payments on
External Public Debt Outstanding January 1, 1957 - 1973
(In thousands of U.S. dollars equivalent)

	Debt Out- standing Jan. 1	Payments during Year		
		Amortization	Interest	Total
1957	844,970	61,487	19,613	81,100
1958	833,228	68,232	22,006	90,238
1959	831,865 ^{1/}	64,029	24,440	88,469
1960	765,997	70,629	25,919	96,548
1961	693,792	61,987	24,974	86,961
1962	630,161	60,773	23,553	84,326
1963	567,675	47,447	21,742	69,189
1964	518,444	37,322	20,045	57,367
1965	479,260	36,146	18,490	54,636
1966	441,976	35,606	16,988	52,594
1967	405,189	31,684	15,495	47,179
1968	372,281	29,864	14,479	44,343
1969	341,146	30,151	13,288	43,439
1970	390,677	30,381	12,085	42,466
1971	278,682	31,365	10,867	42,232
1972	246,682	35,865	9,606	45,471
1973	210,162	35,849	8,134	43,983

^{1/} The projection does not include the EPU consolidated debt to Switzerland (\$13.5 million equivalent) and to Portugal (\$3.6 million equivalent).

TABLE 2

National Income and Expenditures1956 - 1958

(in billions of Lire)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>Sources of Income</u>				
Agriculture, fishing and forestry	2,604	2,507	2,575	2,781
Industry	4,426	4,671	5,049	5,340
Trade, transport and services	2,705	3,047	3,336	3,602
Net product of public administration	1,231	1,368	1,477	1,584
Duplicated items	<u>- 813</u>	<u>- 847</u>	<u>- 894</u>	<u>-1,019</u>
Net product at factor cost	10,153	10,746	11,543	12,288
Taxes not included in the estimate of goods and services	<u>1,656</u>	<u>1,860</u>	<u>1,940</u>	<u>2,049</u>
Net product at market prices	11,809	12,606	13,483	14,337
Net income from abroad	17	28	50	56
Depreciation	<u>1,120</u>	<u>1,305</u>	<u>1,429</u>	<u>1,482</u>
Gross national income	12,946	13,939	14,962	15,875
Imports of goods and services (incl. income payments abroad)	<u>1,853</u>	<u>2,173</u>	<u>2,560</u>	<u>2,354</u>
Total available resources	14,799	16,112	17,522	18,229
<u>Expenditures</u>				
Consumption				
-private	9,229	9,925	10,124	10,564
-public	<u>1,010</u>	<u>1,113</u>	<u>1,507</u>	<u>1,640</u>
Total consumption	10,239	11,038	11,631	12,204
Gross investment ^{1/}	<u>2,940</u>	<u>3,151</u>	<u>3,518</u>	<u>3,546</u>
Total use of resources internally	13,179	14,189	15,149	15,750
Exports of goods and services (incl. receipt of incomes from abroad)	<u>1,620</u>	<u>1,923</u>	<u>2,373</u>	<u>2,479</u>
Total available resources	<u>14,799</u>	<u>16,112</u>	<u>17,522</u>	<u>18,229</u>

^{1/} Inclusive of inventories

TABLE 3

Income Produced, Population and Income per Capita
in the North and the South

<u>Sectors</u>	<u>Geographic Breakdown</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Total income of the private and public sectors, net of duplications (in billions of Lire)	North	6,916	7,316	8,097	8,596	9,097
	South	1,884	1,956	2,056	2,194	2,446
	Italy	8,800	9,272	10,153	10,790	11,543
Same as above (in percent of total)	North	78.6	78.9	79.8	79.7	78.8
	South	21.4	21.1	20.2	20.3	21.2
	Italy	100.0	100.0	100.0	100.0	100.0
Resident population at mid-year (in millions)	North	29.7	29.9	30.0	30.1	30.2
	South	17.8	17.9	18.0	18.1	18.2
	Italy	47.5	47.8	48.0	48.2	48.4
Same as above (in percent of total)	North	62.5	62.5	62.4	62.4	62.4
	South	37.5	37.6	37.6	37.6	37.6
	Italy	100.0	100.0	100.0	100.0	100.0
Income produced per inhabitant (in Lire)	North	232,500	244,800	270,100	285,800	301,200
	South	105,700	109,200	114,000	120,900	133,700
	Italy	185,000	194,000	211,500	223,800	238,500
Same as above average for Italy	North	125.5	126.2	127.7	127.7	126.3
	South	57.1	56.3	53.9	54.0	56.6
	Italy	100.0	100.0	100.0	100.0	100.0

TABLE 4

Percentage Breakdown between North and South of Income Produced
by the Various Economic Sectors

<u>Sectors</u>	<u>Geographic Breakdown</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Agriculture and forestry	North	64.21	64.39	67.97	65.25	60.89
	South	35.79	35.61	32.03	34.75	39.11
Fishing	North	42.37	43.60	45.76	42.30	49.12
	South	57.63	56.40	54.24	57.70	50.88
Building	North	76.82	78.75	79.19	80.47	81.03
	South	23.18	21.25	20.81	19.53	18.97
Industry, commerce, credit, insurance and transport	North	85.66	85.80	85.69	85.84	85.75
	South	14.34	14.20	14.31	14.16	14.25
Professions, industrial and domestic services	North	80.73	80.40	79.82	80.32	77.55
	South	19.27	19.60	20.18	19.68	22.45
Public administration	North	68.29	69.22	67.71	68.52	63.54
	South	31.71	30.78	32.29	31.48	31.46
Total income of the private and public sectors net of duplications	North	78.59	78.90	79.76	79.67	78.82
	South	21.41	21.10	20.24	20.33	21.18

TABLE 5

Agricultural Production

Index 1952-55 = 100

Annual Average

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>Total</u>	107	104	105	117
<u>Vegetable Crops</u>	109	103	107	119
Cereals	110	103	102	114
Vegetables	108	111	122	143
Sugar beet	132	101	89	106
<u>Tree Crops</u>	104	106	102	120
Wine	113	122	82	128
Olives	72	69	139	91
Citrus	105	104	112	125
Other fruits	106	102	108	120
<u>Animal Products</u>				
Milk	111	108	114	116
Meat	93	102	111	113
Eggs	103	105	107	109

Source: General Report on the Economic Situation of Italy, 1958

TABLE 6

Industrial Production

Index 1953 = 100

Annual Average

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>Total</u>	109	120	128	137	140
<u>Main Categories</u>					
Manufacturing	109	119	128	138	141
Foods	107	113	120	127	126
Textile and Clothing	103	95	100	110	105
Mechanical	101	112	116	128	128
Automobiles	105	124	146	156	171
Chemicals and Products	122	135	149	157	170
Chemicals	122	135	148	154	165
Petroleum and Coal Derivatives	123	132	147	159	180
Synthetic Fibers	128	138	159	171	183
Metallurgical	119	148	162	182	171
Building Materials	108	130	141	151	159

Source: General Report on the Economic Situation of Italy, 1958

TABLE 7

Financing of Investment
1956-57

(in billions of Lire)

<u>Sources of Private Investment</u>	<u>1956</u> Amount	%	<u>1957</u> Amount	%
Issue of stocks and bonds	244	7.7	271	7.8
Investments of special institutes for agricultural, real estate and housing credit	93	3.0	102	3.0
Investments of special institutes for mortgage credit	<u>119</u>	<u>3.8</u>	<u>124</u>	<u>3.6</u>
	456	14.5	497	14.4
Less funds supplied to above institutes and institutions by the Treasury	<u>25</u>	<u>0.8</u>	<u>22</u>	<u>0.6</u>
	431	13.7	475	13.8
Investments of insurance companies	<u>40</u>	<u>1.3</u>	<u>44</u>	<u>1.3</u>
	471	14.9	519	15.1
Depreciation reserves	1,025	32.5	1,207	33.5
Self-financing, direct savings and short-term credits	<u>711</u>	<u>22.6</u>	<u>805</u>	<u>23.2</u>
Total	2,207	70.0	2,531	71.8
<u>Sources of Public Investment</u>				
Budgetary surplus over current expenditures	310	9.8	412	11.9
Borrowing from abroad	17	0.5	50	1.5
Treasury bonds	204	6.5	148	4.3
Postal Savings funds	110	3.5	108	3.1
Railroad bonds	- 5	-0.2	- 6	- 0.2
Other bonds	19	0.6	22	0.6
Bank of Italy and Treasury note issue	- 35	-1.1	37	1.1
Borrowings by local and regional administrations	43	1.4	15	0.4
Investments by insurance companies and credit institutes	87	2.8	97	2.8
Other advances on capital account	122	3.9	7	0.2
Funds of Cassa per il Mezzogiorno	42	1.3	51	1.5
Social security funds for housing	<u>30</u>	<u>1.0</u>	<u>46</u>	<u>1.4</u>
Total	944	30.0	987	28.2
Grand Total	<u>3,151</u>	<u>100.0</u>	<u>3,518</u>	<u>100.0</u>

TABLE 8

Monetary Survey

(In billions of Lire)

	<u>1955</u> Dec.	<u>1956</u> Dec.	<u>1957</u> June	<u>1957</u> Dec.	<u>1958</u> June	<u>1958</u> Dec.
Money supply	4,499	4,886	4,760	5,198	5,099	5,686
of which: currency ^{1/}	1,651	1,797	1,729	1,913	1,790	2,061
deposit money	2,848	3,089	3,031	3,285	3,309	3,625
Quasi-money (savings deposits)	2,465	2,903	3,074	3,387	3,632	4,067
Assets of the Banking System:						
Loans to the private sector						
1. Bank of Italy	185	209	164	195	164	
2. Other banks	4,087	4,727	4,816	5,192	5,170	
a. own resources	3,855	4,403	4,516	4,895	4,907	
b. Bank of Italy resources	232	328	310	287	259	
Loans to the Government						
1. Bank of Italy	1,165	1,132	1,064	1,190	1,123	1,130
2. Other banks	1,388	1,495	1,531	1,587	1,701	
Foreign assets	481	565	602	767	992	1,374

^{1/} Excluding Treasury notes, coin and cash held by banks.

TABLE 9

Liquidity of the Banking System^{1/}

(in billions of lire)

	<u>1956</u> Dec.	<u>1957</u> June	<u>1957</u> Dec.	<u>1958</u> June
<u>Assets</u>				
Cash (incl. deposits at the Bank of Italy)	299	279	363	576
Credit to the Government	1,495	1,531	1,587	1,701
Credit to the private sector	4,727	4,816	5,192	5,170
<u>Liabilities</u>				
Demand deposits	3,089	3,031	3,285	3,309
Time deposits	2,903	3,074	3,387	3,632
Borrowing from the Bank of Italy	328	310	287	259

^{1/} Includes commercial banks as well as savings banks and so-called cooperative banks, to which reserve requirements do not apply.

TABLE 10

Prices and Wages

Index 1953 = 100

	<u>Wholesale Prices</u>	<u>Cost of Living</u>	<u>Wages</u>
1954	99	103	103
1955	100	105	107
1956	102	109	113
1957	103	110	117
1958	101	113	123
1st Quarter	102	112	120
2nd Quarter	102	114	123
3rd Quarter	100	114	125
4th Quarter	99	113	126
1959			
January	98	112	126

Source: IMF, International Financial Statistics

TABLE 11

Government "Appropriations" Budget
(in billions of Lire)

	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>
	(a)	(a)	(b)	(b)
<u>Authorized Expenditure</u>				
Current civilian expenditures	1,925	2,019	2,065	2,220
Current military expenditures	<u>460</u>	<u>496</u>	<u>505</u>	<u>526</u>
Total current expenditures	2,385	2,515	2,570	2,746
of which: Salaries, wages and pensions	(881)	(1,014)	(1,009)	(1,087)
Purchase of goods and services	(348)	(338)	(394)	(393)
Transfers	(1,105)	(1,096)	(1,074)	(1,159)
Others	(51)	(67)	(93)	(107)
Investment expenditures	478	488	512	597
Other capital expenditures	<u>19</u>	<u>33</u>	<u>17</u>	<u>55</u>
Total capital expenditures	497	521	529	652
of which (investments):				
Direct investments by govt.	(98)	(98)	(111)	(119)
Transfers	(326)	(341)	(380)	(413)
Loans and advances	(50)	(46)	(9)	(19)
Shares and other participations	(4)	(3)	(12)	(46)
Total authorized expenditures	<u>2,882</u>	<u>3,036</u>	<u>3,099</u>	<u>3,398</u>
<u>Assessed Revenue</u>				
Taxes on income and property	537	637	636	720
Indirect taxes and other current revenue	1,990	2,168	2,204	2,406
of which: Taxes on business	(208)	(220)	(208)	(234)
Taxes on movement and exchange of goods and services	(974)	(1,094)	(1,134)	(1,250)
Taxes on non-necessary consumption	(391)	(413)	(437)	(461)
Taxes on necessary consumption	(202)	(208)	(213)	(226)
Lotteries	(40)	(41)	(41)	(42)
Non-tax revenues	(175)	(192)	(171)	(193)
Total current revenue	<u>2,527</u>	<u>2,805</u>	<u>2,840</u>	<u>3,126</u>
Capital revenue	<u>53</u>	<u>79</u>	<u>41</u>	<u>46</u>
Total assessed revenue	<u>2,580</u>	<u>2,884</u>	<u>2,881</u>	<u>3,172</u>
Total deficit	- 302	- 152	- 218	- 226

(a) Final estimate

(b) Initial estimate

TABLE 12

Cash Deficit of the Treasury
(in billions of lire)

	<u>1956/57</u> July-June	<u>1957</u>	<u>1957/58</u> July-June	<u>1958</u> (a)
<u>Deficit</u>	407	410	422	435
<u>Means of Financing</u>				
Foreign aid	58	69	34	23
Borrowing	279	304	337	465
of which: from banks	(63)	(90)	(219)	
from public	(163)	(161)	(108)	
from abroad	(53)	(53)	(10)	
Net increase in Treasury indebtedness to the Banca d'Italia	69	41	45	-65
Issue of Currency by Treasury	<u>1</u>	<u>-4</u>	<u>6</u>	<u>12</u>
Total Financing	<u>407</u>	<u>410</u>	<u>422</u>	<u>435</u>

(a) Provisional estimate

TABLE 13
Foreign Trade

(1953 = 100)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>Volume</u>					
Exports	107.4	123.3	147.4	155.0	158.5
Imports	103.7	113.1	124.7	136.2	126.2
Exports : Imports	102.6	110.5	118.2	113.8	125.6
<u>Unit Value of Trade</u>					
Exports	99.4	98.3	103.8	102.1	104.5
Imports	97.6	99.7	104.6	108.3	100.0
Terms of trade	101.8	98.6	99.2	94.3	104.5

TABLE 14

Imports - Principal Commodities

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
	in billions of Lire			in % of total		
Foods, beverages and livestock	357	379	376	18.0	16.5	19.0
Textiles	274	336	249	13.8	14.6	12.6
Metallurgical goods	283	350	267	14.3	15.3	13.5
Mechanical and engineering products	243	285	248	12.3	12.4	12.5
Fuel	399	496	398	20.1	21.6	20.1
Chemicals	114	112	121	5.7	4.9	6.1
Rubber	38	38	32	1.9	1.7	1.6
Hides and skins	32	40	40	1.6	1.7	2.0
Paper	34	40	38	1.7	1.7	1.9
Wood and cork	71	75	78	3.6	3.3	3.9
Other	<u>139</u>	<u>145</u>	<u>134</u>	<u>7.0</u>	<u>6.3</u>	<u>6.8</u>
TOTAL	<u>1,984</u>	<u>2,296</u>	<u>1,981</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Monthly Bulletin of Foreign Trade Statistics

TABLE 15

Exports - Principal Commodities

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
	in billions of Lire			in % of total		
Foods, beverages and livestock	309	382	324	23.0	24.0	20.4
Textiles	243	272	247	18.1	17.1	15.6
Metallurgical goods	102	108	114	7.6	6.8	7.2
Mechanical and engineering products	309	411	477	23.1	25.8	30.1
Fuel	109	117	113	8.1	7.3	7.1
Chemicals	86	96	109	6.4	6.0	6.9
Rubber	18	19	17	1.3	1.2	1.1
Hides and skins	29	39	44	2.2	2.4	2.7
Paper	7	7	6	0.5	0.4	0.4
Wood and cork	17	17	17	1.3	1.1	1.1
Other	<u>112</u>	<u>126</u>	<u>117</u>	<u>8.4</u>	<u>7.9</u>	<u>7.4</u>
TOTAL	<u>1,341</u>	<u>1,594</u>	<u>1,585</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Monthly Bulletin of Foreign Trade Statistics

TABLE 16

Regional Distribution of Imports

<u>Areas</u>	<u>1956</u> in billions of Lire	<u>1957</u> in billions of Lire	<u>1958</u> in billions of Lire	<u>1956</u> in % of total	<u>1957</u> in % of total	<u>1958</u> in % of total
EEC countries and overseas dependencies	465	523	452	23.4	22.8	22.8
United Kingdom, Ireland and dependencies	233	219	238	11.7	9.6	12.0
Rest of sterling area	251	265	235	12.6	11.5	11.9
Other OEEC countries	<u>294</u>	<u>345</u>	<u>309</u>	<u>14.9</u>	<u>15.0</u>	<u>15.6</u>
Total	<u>1,245</u>	<u>1,352</u>	<u>1,234</u>	<u>62.6</u>	<u>58.9</u>	<u>62.3</u>
U. S. A. and Canada	351	466	350	17.6	20.3	17.7
Argentina and Brazil	66	78	74	3.4	3.4	3.7
Other American countries	<u>65</u>	<u>76</u>	<u>56</u>	<u>3.3</u>	<u>3.3</u>	<u>2.8</u>
Total	482	620	480	24.3	27.0	24.2
Eastern Europe	46	68	63	2.4	3.0	3.2
Other	<u>211</u>	<u>256</u>	<u>204</u>	<u>10.7</u>	<u>11.1</u>	<u>10.3</u>
Total - All Areas	<u>1,984</u>	<u>2,296</u>	<u>1,981</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Monthly Bulletin of Foreign Trade Statistics

TABLE 17

Regional Distribution of Exports

<u>Areas</u>	<u>1956</u> in billions of Lire	<u>1957</u> in billions of Lire	<u>1958</u> in billions of Lire	<u>1956</u> in % of total	<u>1957</u> in % of total	<u>1958</u> in % of total
EEC countries and overseas dependencies	361	422	400	26.8	26.5	25.2
United Kingdom, Ireland and dependencies	123	140	147	9.2	8.8	9.3
Rest of sterling area	93	104	101	6.9	6.5	6.4
Other OEEC countries	<u>284</u>	<u>359</u>	<u>331</u>	<u>21.2</u>	<u>22.5</u>	<u>20.9</u>
Total	<u>862</u>	<u>1,025</u>	<u>979</u>	<u>64.1</u>	<u>64.3</u>	<u>61.8</u>
U. S. A. and Canada	139	163	173	10.4	10.2	10.9
Argentina and Brazil	46	54	58	3.5	3.4	3.7
Other American countries	<u>67</u>	<u>92</u>	<u>111</u>	<u>5.4</u>	<u>5.8</u>	<u>7.0</u>
Total	282	309	342	19.3	19.4	21.6
Eastern Europe	30	62	55	3.2	3.9	3.5
Other	<u>167</u>	<u>198</u>	<u>209</u>	<u>13.4</u>	<u>12.4</u>	<u>13.1</u>
Total - All Areas	<u>1,341</u>	<u>1,594</u>	<u>1,585</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Monthly Bulletin of Foreign Trade Statistics

TABLE 18

Balance of Payments(transactions basis)
(in millions of U.S. \$)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u> (provisional)
1. <u>Current Account</u>				
Exports (f.o.b.)	1,777.5	2,083.0	2,479.9	2,490.7
Imports (f.o.b.)	-2,449.6	-2,814.8	-3,248.6	-2,885.4
Transportation and insurance (net)	-18.2	4.8	50.5	-45.0
Tourism (net foreign travel)	190.1	215.2	322.7	411.3
Emigrant remittances	117.8	172.8	220.5	304.5
Investment income	-17.7	-27.1	-25.4	-34.6
Government services	2.1	-0.6	24.3	19.6
Other	<u>153.3</u>	<u>140.6</u>	<u>189.4</u>	<u>191.2</u>
Sub totals	-244.7	-226.1	-88.1	+452.3
2. <u>Special Receipts</u>				
Offshore procurements	128.8	83.4	79.1)	
Troop expenditures	6.5	30.2	37.2)	80.0
Other	<u>27.7</u>	<u>7.1</u>	<u>7.2)</u>	
Sub totals	163.0	120.7	123.5	80.0
Deficit (-) or Surplus (+)	<u>-81.7</u>	<u>-105.4</u>	<u>+35.4</u>	<u>+532.3</u>
3. <u>Financing of Deficit</u> (including capital movements)				
U. S. aid	7.5	10.7	-	
Contractual repayments	-28.8	-50.4	-82.4	
Trade credits	-9/4	88.7	35.5	
Other credits (net)	242.2	207.5	344.6	
Short term assets and liabilities (net) ^{1/}	<u>-108.6</u>	<u>-108.8</u>	<u>-285.7</u>	
Sub totals	102.9	147.7	12.0	
4. <u>Errors and Omissions</u>	-21.2	-42.3	-47.4	
Total	81.7	105.4	-35.4	

^{1/} Minus (-) represents an improvement in position.

TABLE 19

Official Gold and Foreign Exchange Reserves

(in millions of U. S. dollars)

December 31

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Gold and convertible currency	831.5	1,024.8	1,149.9	1,364.0	2,055.7
EPU balances	-116.9	-179.0	-156.2	-102.6	6.9
Net other holdings	<u>176.1</u>	<u>150.8</u>	<u>108.0</u>	<u>110.1</u>	<u>159.4</u>
	<u>890.7</u>	<u>996.6</u>	<u>1,101.7</u>	<u>1,371.5</u>	<u>2,222.0</u>
Includes gross dollar exchange (in U.S. banks)	579.0	785.0	930.0	1,079.0	1,122.0