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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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THE SITUATION AND PROSPECTS  
OF THE ITALIAN ECONOMY

Report of a Mission to Italy  
(May-July and November 1964)

December 23, 1964

Department of Operations  
Europe

**FILE COPY**

### CURRENCY EQUIVALENTS

U.S. \$1	=	625 lire
1 lira	=	0.16 U.S. cents
1 million lire	=	U.S. \$1,600
1 billion lire	=	U.S. \$1.6 million

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# BASIC DATA

Area: 301,220 square kilometers = 121,000 square miles

Population (average 1963): 51.5 million (Center-North 32.8 million  
(South 18.7 million)

Per Capita National Income (1963)<sup>1/</sup>: US\$760 (Center-North US\$925  
(South US\$460)

<u>Gross Domestic Product:</u> (factor costs at current prices, billion lire)	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>8 mos.</u> <u>1963</u>	<u>8 mos.</u> <u>1964</u>
	15,961	17,497	19,211	21,621	24,491	-	-

Rate of increase of GNP  
at constant prices  
(1954 basis)

7.7	7.1	8.5	6.6	4.8	-	-
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Industrial production  
(1953 = 100)

158	182	202	222	241	234	239
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Balance of Payments:

million U.S.\$

<u>9 mos.</u> <u>1963</u>	<u>9 mos.</u> <u>1964</u> (provisional)
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Imports (f.o.b.)	2,993	4,204	4,659	5,470	6,777	-	-
Exports (f.o.b.)	2,860	3,571	4,103	4,589	4,969	-	-
Balance on Current Account	+755	+317	+509	+276	-657	-561	+106
Over-all Balance of Payments	+850	+438	+574	+ 50	-1,252	-792	+293

billion lire

<u>June</u> <u>1963</u>	<u>June</u> <u>1964</u>
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Money Supply (end of  
year)

6,481	7,366	8,521	10,103	11,506	10,511	11,241
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Consumers' Prices  
(1953 = 100)

(average for period)

112.8	115.4	117.8	123.3	132.5	133.3	141.3
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Public Finance: Consoli-  
dated Cash Budget

billion lire

Current Expenditures	5,584	5,749	6,235	7,140	8,435
Current Receipts	5,958	6,434	7,151	8,188	9,529
Surplus	374	685	915	1,046	1,093
Capital Expenditures	1,566	1,448	1,492	1,654	1,701
Over-all Deficit	389	193	444	408	392

External Public Debt, net of undisbursed, December 31, 1963, US\$823 million

<sup>1/</sup> Net national income at current prices. On the basis of  
GDP normally used for international comparisons the  
national per capita figure is US\$780.

THE SITUATION AND PROSPECTS  
OF THE ITALIAN ECONOMY

Summary and Conclusions

1. There have been remarkable changes in the Italian economy since the middle 1950's. The subsequent unusually rapid industrial expansion, which came to be called the "Italian miracle", was at that time just beginning and the far-reaching consequences which it would have for the Italian economic structure were not yet evident. One of the most significant consequences was the elimination of the heavy structural unemployment which had long plagued Italy. It is hardly necessary to underline the importance of such a change in the economic and social climate of the country. Ten years ago full employment seemed only a remote possibility. It is now recognized as a reality which could and should be preserved.
2. However, the approach to full employment brought along a number of other changes; wages caught up with productivity after lagging for a number of years, profits were narrowed, there was a significant shift in income distribution and consumption went up while the saving rate fell. All these had adverse balance of payments effects which began to become apparent in 1962 and reached serious proportions in 1963. At the same time business confidence was further affected by a shift to the Left illustrated by the nationalization of electric power late in 1962 and by the elections of early 1963, which were followed by the formation of a Center-Left coalition government.
3. These developments brought about a flight of capital which came in addition to a mounting current balance of payments deficit, and by early 1964 Italy's financial difficulties had become acute. However, with effective monetary restraints, some fiscal measures and foreign financial support, the storm was weathered. The balance of payments was already showing a small surplus by the second quarter of this year, capital flight seems to have stopped, and 1964 may show a surplus of the order of \$500 million. The price paid for this stabilization has been a slowing down of industrial production and investment, with some reduction in working hours and some increase in unemployment.
4. Already there are signs of recovery and a renewed forward movement of the economy can be expected, although not on the scale seen in 1961 to 1963 since that would bring with it the danger of union pressure for wage increases in excess of gains in productivity.
5. Furthermore, domestic resources are not likely to be adequate for a return to the high rates of investment of recent years because of the structural changes that have taken place in wage incomes and saving and

consumption patterns. The problem is not that Italian wages and labor costs are excessive in comparison with other industrial countries. This is not the case. The problem, rather, is that the profit margins available for a high saving rate that were provided by the wage lag behind productivity during the 1950's and early 1960's no longer exist.

6. Yet despite this decline in the saving rate, there are a number of reasons why the high investment rates of the late 1950's and early 1960's should be maintained. Investment to keep up with Europe in the productivity, growth and competitiveness of industry and agriculture takes on added importance in the context of the European integration process. And there are substantial backlogs of investment to be made up in social services and infrastructure. Perhaps the strongest reason is the assistance needed to allow the southern part of Italy to continue its development without interruption. Large investments are required to employ not only the natural increase in the labor force, but also the continuing outflow of labor from the rural areas, and it seems reasonable to try to use a substantial fraction of this labor supply in the South itself, thereby raising the level of income in the area.

7. The most promising solution to the probable shortage of finance during the next few years appears to be an increase in public savings through fiscal policy. This would include curbs on the growth of public consumption, improvements in the financial position of entities of the public sector such as the railways or certain municipalities whose deficit is a drain on the Treasury and the financial agencies, and especially reforms of the revenue system which by a number of means could increase both private and public saving.

8. Such measures will take time. Meanwhile, the investment financing problem could be eased to the extent that resources are made available to Italy from abroad. The flows in both directions in the capital account of the Italian balance of payments are large, but in the next few years the net inflow may not be large enough to bridge the difference between the investment which Italy needs and the investment it can finance. Hence there is a role for the Bank to play in helping fill this gap during the time in which measures could reasonably be expected to be taken to raise the domestic saving level closer to Italy's investment needs. There is no question of the adequacy of Italian creditworthiness for substantial additional foreign borrowing.

## I. Introduction

1. Since 1957, the date of the last World Bank survey of the Italian economy, few countries have had a faster rate of economic progress than Italy. Manufacturing has grown to a point where Italy clearly qualifies as one of the major industrial countries of the world. Today unemployment is no longer considered a basic and permanent feature of the economy. The number of unemployed is probably between 2% and 4% of the labor force, against over 10% in 1951 and 8% as late as 1957.

2. Steady economic expansion in the major European countries, the growing liberalization of European exchanges and membership in the European Economic Community have played a decisive role in this transformation of the Italian economy.

3. The opportunities offered by easier access to the expanding European market have stimulated production in those sectors where the Italian competitive advantages were greatest, while the removal of import restrictions and the reduction in tariffs have forced home market industries to improve their efficiency and lower their costs. In an economy in which for many years production had been oriented mainly to the limited domestic market and competition was virtually absent, the increases in productivity which resulted from this opening up of the economy were much greater than in countries which had been more exposed to international competition.

4. In addition to the increased opportunities for sales of goods, European prosperity and the freeing of intra-European exchanges have been of special benefit to a country like Italy, which had a surplus of manpower and disposed of an attractive climate and a great cultural and historical heritage. Emigration has not only absorbed a large proportion of the formerly unemployed, it has provided Italy with a substantial foreign exchange income in the form of remittances. Similarly, the expansion of tourism which has been even more spectacular than that of industrial production or exports, provides Italy with a foreign exchange income equal to 18% of export earnings.

5. The transformation of the economy has inevitably brought about far-reaching changes in the character of the economic problems facing the country. Development of the South still remains as important as ever. But with the disappearance of structural unemployment in the course of rapid industrialization, there have been other changes in the economic structure which complicate the all too familiar difficulty of combining satisfactory growth with financial stability. Added complications stem from growing demands for better social facilities and services, which have not kept up with the rapid pace of production, and from considerable political pressure for reforms with important economic and financial implications. One reform would involve a strong measure of decentralization according to which the semi-autonomy which now exists in five regional divisions of Italy would be extended to the 15 other regions which make up

the rest of the country. Another, aiming at more effective regulation of urban development, would place under public control the ownership of suburban land where residential projects are being considered. Also at issue have been proposals for a greater degree of central authority over the allocations of investment and the planning of economic activity.

6. Divergences of views about these proposals for reform as well as about the more immediate problems of economic revival and financial stability have added to the complications, and sharpened the divisions over issues of government economic policy. Resolution of these issues is not an easy matter in Italy's present political circumstances.

7. The present Italian Government is a coalition of Christian-Democrats, Socialists (Nenni), Social-Democrats (Saragat), and Republicans. The Christian-Democrats, who have dominated the political stage ever since the war, have been slowly losing ground -- they had only 38% of the vote in April 1963, against 42% in May 1958. The Communists, the second largest party with 25% of the vote in 1963, gained a little during the same period; so did the Liberal Party and the Social Democrats who had, until then, been more or less supporting the Government. The Socialists had an unchanging 14% share of the vote over this period, and remained in the opposition until the Fanfani Government of February 1962-May 1963 which, although not including Socialist participation, had Socialist support in Parliament.

8. After their 1963 losses to the Left, the Christian-Democrats looked for more formal alliances. They found them with the Nenni Socialists through understandings which were apparently broad and general enough to gloss over most of the issues which were the basis of factional objection to the alliance within both parties. However, one far-left faction did withdraw from the Socialist Party, and others in both parties acceded to the coalition with misgivings. A coalition government was finally formed in December 1963 with Signor Moro of the Christian-Democrats as Premier.

9. Factional misgivings were soon accentuated on both sides as the need for specific measures to deal with the economic difficulties of early 1964 brought to the surface many of the political differences which had been submerged in the general understandings of the coalition. Obstacles to moderation and compromise were aggravated by the sensitivity of the coalition parties to charges of "betrayal" by their respective followings on both the Left and the Right. Finally, a minor matter relating to the always smoldering differences about "clericalism" touched off a crisis which brought down the Government in June.

10. The same coalition has, however, been the basis for a new Government -- again under Signor Moro and with only a few cabinet changes. Controversial issues such as regional and urban reforms and centralized economic planning have been temporarily deferred and measures to facilitate the recovery of the economy have been agreed on by the coalition.



11. The fact that some of the measures needed to deal with the financial difficulties this year, especially the monetary measures, have been prompt and effective, is encouraging. The course of the June political crisis, and the ability again to organize a government on the basis of the same coalition as before, also indicates a willingness and ability to compromise where possible, and to put aside for a time issues of basic differences in order to deal with immediate economic necessities.

12. All this suggests a greater underlying strength in the coalition than one would suspect from the stormy course of the first Moro Government, and it may well prove sufficient for a continuation of political consolidation around moderate policies and for measures which can facilitate a renewed economic expansion without precipitating another financial crisis. True, the municipal and provincial elections held on November 22 marked a certain increase in the votes obtained by two opposition parties, the Communists and the Liberals. At the time of writing, however, it was not felt that this was likely to influence the central Government.

## II. The Economic Background

### The Italian Economy in the Early 1950's

13. The changes that have taken place in the Italian economy since the early 1950's have been in many respects remarkable for a period of little more than a decade. At the beginning of the fifties the prewar per capita income level had been more or less regained, but it was still low -- not much higher than that of many underdeveloped countries and, in real terms, only about half the 1963 figure of around \$760.

14. Poverty was not the only serious economic problem of the times. In addition the economy suffered from basic maladjustments, the correction of which were the primary objectives of the so-called "Vanoni Plan"<sup>1/</sup> which was formulated in 1954 as a guide to Italian economic policy. The aims of the Vanoni Plan, along with an annual economic growth rate of at least 5%, were: (1) to solve the severe problem of unemployment (over 10% of the labor force was then out of work); (2) to correct the lop-sided balance of payments (current account deficits were averaging nearly \$400 million a year); and (3) to reduce the gross inequalities in incomes and living standards, as per capita income in southern Italy was roughly half that of the rest of the country.

15. Actually, the Vanoni Plan did not indicate specific measures of economic policy for reaching these objectives. Proposed government intervention was largely in terms of expanded public investment in agriculture, public utilities and public works with particular emphasis on the South. Such investment was conceived as providing the "propulsion" necessary to stimulate an acceleration of private investment activity on a scale sufficient to achieve the aims of the plan.

### Rapid Economic Development

16. For Italy as a whole, subsequent developments outdistanced the ambitions of the Vanoni Plan. Growth of national output since 1954 has averaged 6% a year in real terms, and went up to 8% in the period 1959-1961 -- a pace of economic activity which at the time was called the "Italian miracle". These rapid growth rates boosted real per capita income to twice that of the beginning fifties. In the process, and also as a result of emigration, in fact larger than anticipated in the Vanoni Plan, the unemployment problem, which seemed almost intractable only a decade ago, has virtually disappeared. And from the heavy deficits of the Marshall Plan period, Italy's balance of payments swung to large current surpluses in the years 1958-1961. With these surpluses and a rising net inflow of private capital, Italy's official foreign reserves increased from under a billion dollars in 1954 to over \$3.6 billion at the end of 1962, the equivalent of about 8 months' imports.

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<sup>1/</sup> Named after Ezio Vanoni, then Minister of the Budget.

### The Problem of Southern Italy

17. The one major aim of the Vanoni Plan which remained unrealised was the reduction in income disparities between the South and the rest of Italy. The aim had been a rate of aggregate income growth in the South about double that of the North and Center. In fact, the rate of increase of per capita income in the South in the period 1954-1963 (in constant prices) was about 5% -- somewhat less than for the country as a whole (about 5.5%). Hence, relative to other parts of Italy, the income of the South declined slightly. An improvement has, however, been noticed in recent years: from 1960 to 1963, the growth of per capita income in the South averaged 7.9% compared with 5.1% in the Center-North. Real per capita income in the South is now on the average about as high as was that of Italy as a whole a decade ago.

18. The experience in the South did, however, indicate the limitations of the Vanoni Plan assumption that a large "propulsive" investment in infrastructure would stimulate a correspondingly large expansion in private productive activity. There was a substantial private response, but less than the plan had envisaged. The plan target of a growth rate in the South double that in the Center-North was all the more ambitious as the North itself experienced a remarkable economic expansion. Much of the infrastructure necessary to foster both agricultural progress and rapid industrialization was established in the South during the 1950's. More is still needed of course, but in agriculture more time will be required also. It was probably unrealistic to expect, in the traditionally agrarian society of the South, the kind of spontaneous dynamic response from private initiative which the Vanoni Plan had assumed.

19. So far as industry is concerned, it was found that the provision of general infrastructure and the income generated thereby did not bring about a sufficient response on the part of investors. As a result the Government found it necessary to shift the emphasis, from 1957 on, towards inducements and financial incentives in order to stimulate directly the development of industrial enterprises. In addition, government-controlled industries were directed to invest more in the South. As a consequence the pace of industrialization in the South is now accelerating rapidly.

### Structural Changes in the Last Decade

20. For Italy as a whole, the improvements of the 1950-1961 period in income and employment and in the balance of payments were also accompanied by major changes in the structure of the economy.

21. The characteristics of an advanced economy were increasingly pronounced as industry raised its contribution to total output from 37% to 44%, while agriculture fell from 28% to 17%. The changing patterns within the industrial sector also reflected this same evolution, with the largest relative gains recorded in the machinery, chemical, metal and construction material industries, while light industries such as food manufacturing and textiles declined in relative importance.

22. The rapid export expansion especially of finished manufactures permitted the financing of the large increase in imports arising from rapid industrialization. In the period 1951-1961 exports tripled in real terms, and in relation to national income increased from about 12% in the early fifties to about 19% on the average during 1958-1961. <sup>1/</sup> The average annual rate of increase in exports of finished manufactures during 1955-1961 was 25%.

23. The structural changes in employment patterns were as significant as those in production and trade. Agriculture accounted for 40% of employment in 1951 but only 29% in 1961 as a result of the absolute decrease in the number of agricultural workers. Meanwhile, industrial employment rose from about a third to nearly 40% of the labor force, and there was also a sizeable increase in the relative importance of tertiary employment.

24. The participation of Italy in the Common Market has facilitated both export and import growth. The EEC takes over one-third of Italian exports and provides nearly one-third of Italian imports. In the field of manufactures the tariffs within the EEC have already been reduced by 60%, and two more steps towards their complete elimination are expected - the first to be taken by January 1, 1965 (another 10%), and the second by January 1, 1967. The common external tariff is also expected to be unified by the beginning of 1967. As far as Italy is concerned, the establishment of the common external tariff has meant, in several cases, a substantial reduction in tariff protection. It does not seem to have brought about any undue hardship so far. In the field of agricultural goods, discussions are now under way in Brussels for the establishment of a common pricing system within the Community. For the time being, however, each country still has a certain freedom of action in this respect, and the price of Italian wheat, for instance, is supported and remains higher than in some other parts of the Community. On the other hand, quality fruits and vegetables, and a number of other Italian products can now circulate freely within the Common Market, where Italy in fact enjoys a preference relative to non-member countries. It is not expected that competition from associated countries such as Turkey and Greece, or from countries benefitting by special arrangements (Morocco, Algeria, Tunisia), will materially affect the export potential of Italy towards the Common Market.

#### The Conditions for Rapid Economic Expansion

25. Many factors contributed to the rapid growth of the Italian economy during the fifties and early sixties. Western European prosperity and the liberalization of European transactions were one factor. In addition domestic conditions have favored rapid growth. The need for "catching up" from the

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<sup>1/</sup> Between 1958 and 1963 Italian export value increased by 96% compared with 66% in Germany, 59% in Belgium-Luxembourg, 58% in France, and 55% in the Netherlands.

war years continued well beyond the time when the physical damage of the war had been repaired and the prewar levels of per capita income restored. This was certainly a buoyant demand factor over the past decade, especially in housing construction. In addition, Italy had an experienced, capable and aggressive entrepreneurial class which, given the means, was well qualified to make the most of postwar opportunities for industrial expansion. Ample scope was allowed for the exercise of these talents by financial stability and the government policy of elimination of controls and reliance on market forces and entrepreneurial decisions to guide the economy.

26. Given these circumstances, probably the two most important factors for rapid economic development were the large reservoir of labor and the technological opportunities for large increases in the output of industrial labor. Italy's increase in industrial productivity per worker during the latter 1950's and early 1960's was one of the highest among industrial countries.<sup>1/</sup> Meanwhile, with the substantial labor supply, wage increases lagged behind the gains in productivity so that unit labor costs declined during the 1950's and until 1961. This meant, of course, an increasingly strong international competitive position which was reflected in the rapid expansion of exports previously noted. It also meant favorable industrial investment incentives in the form of rising profits. And this in turn contributed to a distribution of income which was conducive to a high and rising rate of saving. The saving rate increased from 20% of gross national product during 1951-1955 to 26% in 1961 -- one of the highest levels among the industrial countries.

27. This high saving rate was one of the main factors which enabled Italy to reach an investment rate among the highest in Europe and to lead the European countries in rates of economic growth and industrial expansion while at the same time maintaining stable prices and a balance of payments surplus.

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<sup>1/</sup> Based on comparisons of manufacturing employment and output between 1956 and 1962 in France, Germany, Italy, Japan the U.K. and the U.S. Among these Italy was exceeded only by Japan in the increase in output relative to employment.

### III. The End of the Boom

#### Full Employment and Its Consequences

28. The buoyant atmosphere of the Italian economy during the 1950's and early 1960's changed abruptly in 1962 and 1963. The changes appear to reflect fundamental developments within the economy of a lasting structural character. Of these, shifts in the labor situation, especially the approach to full employment, and associated changes in income distribution and patterns of saving and consumption are probably the most significant.

29. The abundance of labor for non-agricultural employment in the period 1951-1961 may be indicated by the facts that in 1951 nearly 2 million were unemployed out of a total labor force of just over 19 million, that the potential natural increase in the 1951 non-agricultural labor force over the decade was almost another million, and that, taking account of natural increase in the agricultural labor force, there was in the ten years an exodus of workers from agriculture of over 2 million. In other words, the potential availability of additional non-agricultural labor over the 1951-1961 period was in the order of 5 million or enough to increase the 1951 level of non-agricultural employment (about 10 million) by 50%.

30. Yet, despite this large manpower availability, unemployment was steadily reduced during the 1951-1961 period, partly through the net emigration of about a million persons of working age, but mainly by the rapid growth and expansion of employment in Italian industry and in the tertiary sectors of the economy.<sup>1/</sup> Unemployment calculated from the 1961 census was down in that year to about 3.5% of the labor force. Sample surveys indicate a still lower rate in 1961 and a further decline in 1962 and 1963.

31. This situation approximating full employment, in combination with a broadly and effectively organized labor force, marked the end of the long period in which wage increases lagged behind increases in productivity. In the aggregate, taking account of wage increases, reduced unemployment and shifts from lower to higher paying jobs, the money incomes of wage and salary earners went up by over 40% during 1962 and 1963. The cost of labor per unit of industrial output, after having declined steadily since the mid-1950's, increased during 1961-1963 by almost 20%.

#### Consumption and Saving

32. These developments, reflecting probably the end of chronic unemployment in Italy, were of major and long-term significance for the Italian economic structure. One consequence was, of course, a less favorable competitive

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<sup>1/</sup> Industrial employment increased by about 2 million between 1951 and 1961, and tertiary employment by about 1.4 million.

position for Italian industry which will be discussed later. Another consequence was a significant redistribution of Italian income. About 80% of the increase in national income between 1961 and 1963 went to wage and salary earners and this raised their share of total income in this period from 55% to over 60%.

33. This resulted, in turn, in a sharp rise in private consumption which, in real terms, went up by more than 15% during 1962-1963 -- considerably more than the increase in GNP which slowed down from a real growth rate of 8.5% in 1961 to 6.6% in 1962 and just under 5% in 1963. The counterpart of the increased consumption rate was a decline in the national rate of saving which fell from a peak of 26% (gross) of GNP in 1961 to about 23% in 1963 (see Table 7). In real terms the absolute level of saving in 1963 was very little more than in 1961 and actually less than in 1962. The rate of saving in 1963 was still high by international standards although inadequate for the first time in several years to cover the high domestic investment rate, running at 25% in the same year.

34. The spurt in consumption demand was particularly marked in certain kinds of foodstuffs, especially meat and other quality foods, and in consumer durable goods. The extreme case in the latter category was the purchase of cars and other vehicles which went up by almost 20% in 1962 and then by 67% in 1963.

#### The Effect on the Balance of Payments

35. The effects of all this on the balance of payments were especially severe. There was a substantial rise in imports as consumer demand outran the possibilities for an expansion of domestic supply, all the more as Italy had a poor harvest in 1963. In the two years 1962 and 1963 import volume jumped by 40% with by far the largest increase in consumer goods. At the same time export growth slowed down, partly because of the pull from the very favorable domestic market, and partly for other reasons including some slowdown in the European demand for Italian capital goods exports in 1962. These changes increased the Italian trade deficit by about \$1,250 million in 1963 as compared with 1961, and were mainly responsible for the wide swing in the current balance of payments from a \$500 million surplus in 1961 to a deficit of about \$660 million by 1963. The deterioration of the balance of payments during 1962 and 1963 was further aggravated by a sharp increase in private capital outflow for reasons which are subsequently discussed. Because of this, capital movements (excluding the foreign assets and liabilities of the banking system) changed from a small net inflow (\$65 million in 1961) to large deficits of \$226 million in 1962 and \$595 million in 1963. Taking the net capital outflow and the current payments deficit together, the total deficit to be financed from reserves and other transactions of the monetary institutions reached \$1,250 million in 1963. About half of this was covered by an increase of \$650 million in the net foreign liabilities of the commercial banks while official foreign assets were drawn down for the balance.

Thus after a steady rise during 1957-1961, the net liquid foreign assets position<sup>1/</sup> leveled off in 1962 and then suffered a sharp drop of almost a third in 1963. It stood at \$2,141 million at the end of 1963, or the equivalent of nearly four months' imports at the 1963 level.

#### Capital Outflow

36. A combination of factors was responsible for the rising net outflow of private capital in 1962 and 1963. Business uncertainties stemming from the changes in profits and labor costs, previously discussed, were undoubtedly a factor. Another factor was political uncertainty, especially after the leftist gains at the April 1963 elections followed by half a year of inability to form more than a caretaker government. Associated with these political developments was the nationalization of the electricity industry following the Law of December 5, 1962, which had been anticipated long in advance with disturbing effects on the financial markets. Finally, the introduction in 1962 of a withholding tax on dividend payments, as a means to curb personal income tax evasion, contributed to this outflow, although much of this apparently flowed back into Italy after acquiring the anonymity of non-resident accounts abroad. Indicative of the upswing in Italian transfers of capital abroad was the sharp increase in Italian banknotes presented from foreign countries for conversion into foreign exchange. These jumped from \$330 million in 1961 to \$765 million in 1962 and \$1,470 million in 1963. Of the capital outflow reflected in these figures, the amount which remained abroad, i.e. the capital flight involved was, according to analyses of the Bank of Italy, about 25% in 1962 and about 35% in 1963. This means that the net outflow was equivalent in 1963 to about \$500 million, or roughly 10% of exports.

37. This capital flight aggravated the financing difficulties arising from the lack of improvement in the saving rate in 1962 and its decline in 1963 (see Table 7). This situation was reflected in a slowdown in the rate of expansion of investments. In constant prices the increase in investments was about 9% in 1961 and 1962, and only 5.5% in 1963 (see Table 5).

38. This increase in investments, in the face of a decline in savings and of substantial capital exports, was supported by increased foreign borrowings by the banking system and a large expansion of domestic credit. This was taking place at a time when there was a general excess demand for goods in the economy, and sizeable drawings on foreign exchange reserves were the result.

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<sup>1/</sup> Gold and liquid foreign assets (including the IMF gold tranche) of the Bank of Italy and the Foreign Exchange Office, less the net foreign liabilities of the commercial banks. Official medium and long-term foreign assets are not included.



### Credit Expansion and Financial Instability

39. Domestic investment activity was supported by the banking system partly through a substantial increase in short-term credit advanced directly to private companies for investment purposes, partly through an increase from about 20% in 1960 and 1961 to about 30% during 1962-1963 in the proportion of total loan, mortgage and security financing (excluding government securities) which was provided by banks, and partly through financing by the Bank of Italy of government cash deficits incurred through the Treasury and the Postal Savings Fund to support the capital market. Outstanding credit of the banking system to the Government jumped during 1962 and 1963 by about Lit. 1,000 billion, or by about 30% compared with 1961. In 1963 alone the increase reached Lit. 700 billion (Table 22). This was a marked departure from the pattern of the preceding several years when budget deficits were modest and government reliance on financing by the banks was small. However, of the total cash deficit of the Treasury and Treasury funds which amounted to almost Lit. 1,320 billion during the two years 1962 and 1963, only about Lit. 500 billion was due to State budgetary deficits (Table 16). The rest was the result of deficits on non-budgetary Treasury operations, most of which reflected net retirement of public debt and other operations in support of the capital market.

40. When the policy of credit expansion was undertaken in late 1961 and early 1962, in response to rising labor costs and associated problems of investment financing, the balance of payments was still running a substantial current surplus. There was, therefore, a balance of payments cushion for some acceleration of credit expansion to sustain the growth of investment and output without necessarily running into balance of payments troubles or upsetting domestic financial stability. However, the expansion of credit proved to have much stronger stimulating effects on demand than on supply. Labor income and consumer spending rose rapidly while there was only a sluggish and inadequate expansion in output to meet the additional demand. In these circumstances, the surplus which had existed in the foreign accounts disappeared in the course of credit expansion while the gap between expenditure and output still remained. Continued reliance on easy credit in a further effort to close the gap resulted not only in the large foreign deficit previously noted, but also in a marked rise in domestic prices, with an increase of 5.8% in 1962 and of 8.7% in 1963 in the cost of living index. This in turn reinforced the process of growing disequilibrium because of the automatic linkage of wages to prices over most of Italian industry. The need for curbs on expenditure became, therefore, increasingly evident and from about mid-1963 policies were reversed to restrain further increases in consumption and investment.

### Stabilization and the Problem of Investment

41. Various measures of restraint were taken in the latter part of 1963 and in 1964. They included some fiscal measures and a severe credit restriction policy. The first covered added taxes on the purchase of

automobiles and gasoline, some increases in taxes on matches and tobacco, and curbs on government expenditures in order to reduce the 1964 fiscal deficit; in addition, in September 1964, curbs on instalment buying were made effective. In the credit field, commercial bank borrowing abroad was halted in September 1963, and net bank liabilities abroad were subsequently reduced by \$560 million between August 1963 and September 1964. Additional central bank credit was also curtailed in late 1963 and in the first half of 1964. As a result of these measures, combined with direct restraint of the monetary authorities on banking activities, the bank credit expansion slowed down in the latter half of 1963 and was arrested in the first part of 1964 (Table 22).

42. These measures proved effective in stabilizing the Italian financial situation. Money supply did not rise in the first half of 1964, wholesale prices leveled off, and the cost of living increased by only 3-1/2% compared with almost 5% in the first half of 1963. Import demand also slowed down along with money incomes, and this in combination with a marked increase in exports<sup>1/</sup> and a surplus in private capital movements has resulted in a remarkable improvement in the balance of payments. The current account swung from a deficit of \$427 million in the first quarter of 1964 to a surplus of \$533 million in April-September. For the first nine months of 1964 as a whole, the current account showed a surplus of \$106 million compared with a deficit of \$561 million for the same period of 1963. Taking the current account and capital movements together, the surplus during January-September 1964 was about \$290 million compared with a deficit of about \$790 million in January-September 1963.

43. This marked financial improvement was achieved, however, at the cost of virtual stagnation in Italian industry during most of 1964. A substantial improvement in agricultural production (4.5%) is expected to offset part of the slowdown in industrial activity. But the general growth rate is now estimated at around 3% for 1964 against 4.8% in 1963.<sup>2/</sup> Lack of adequate information makes it impossible to estimate accurately the impact of the slowdown in industrial and construction activities on employment, but some lay-offs were reported, and it is known that in several industries shorter working hours have been imposed. Some movements of wage earners away from the more industrialized areas have also been observed.

44. The improvement in the balance of payments coupled with the stagnation of industrial output and investment encouraged the authorities to relax somewhat their curbs on credit and consumption in late spring. In October new flexibility was given to the investment market when the savings institutions were allowed to turn to the Central Bank for more liquidity, thus enabling them to participate more liberally in long-term bond financing. Fiscal measures tending to encourage investment trusts to develop and to

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<sup>1/</sup> Exports were 17.5% higher in January-September 1964 than in January-September 1963.

<sup>2/</sup> "Relazione Previsionale e Programmatica" for 1965, presented to Parliament September 30, 1964.

invest in equity were announced. On November 11, the purchase tax on automobiles imposed early in the year was abolished. On the other hand, the tax on transactions was at the same time raised from 3.3% to 4% but the proceeds will serve to compensate the State for assuming some of the social security contributions formerly charged to the employer. Finally, a special fund of Lit. 100 billion was proposed in August 1964 to assist small and medium manufacturing enterprises. The general tenor of this new policy is clear. It tends to encourage investment and restore profit margins, but within limits.

45. In the longer run, despite the favorable turn in the monetary and balance of payments situation, Italy is still confronted with the basic problem of reconciling adequate rates of investment, employment and economic growth with financial stability. The nature of this problem as a result of the substantial changes over the last few years in employment, income distribution, and saving and investment will be discussed in the following chapter.

#### IV. Saving Prospects and Investment Needs

46. The probability that the recent redistribution of Italian income in favor of wage and salary earners will be a lasting feature of the economy has been previously indicated. Actually this change meant only that wage costs caught up with increases in labor productivity after having lagged considerably behind throughout the 1950's. What is striking is not that Italian wages increased to particularly high levels but that nearly all of the catching up was crammed into the short period of two years. Between 1958 and 1963 the increase of labor cost per unit of output in Italy was about the same as in most other industrial countries, and taking the 10 years 1953-1963 as a whole, the increase in Italy was less than most.<sup>1/</sup>

47. Barring substantial unemployment, any reversal of the recent labor gains in income distribution seems unlikely. If anything, some additional gains may take place, especially during more rapid phases of further expansion. The possibility that, in the course of credit relaxation and an upswing of economic activity, wage demands may again push labor costs ahead of productivity is a danger which is much in the minds of the authorities. So far, the prospect of reaching an understanding with the large labor confederations on moderation of wage demands has not been particularly favorable -- especially with CGIL, the largest of the three major confederations, in which Communist influence is strong. It now seems likely, however, that most large labor contracts will have been revised by the end of the year, and that for a period of a year or more Italy may perhaps have less to fear than in 1962-1963 from further increases of labor costs over productivity, and a consequent decline in saving.

48. There are, indeed, compelling reasons for maintaining, if possible, the level of investment somewhere near recent rates even though this level may run somewhat higher for a time than the prospective rate of saving. Some investment beyond prospective saving levels is likely to be necessary if Italy is to be able to take advantage of economic growth possibilities, maintain a satisfactory level of employment, and develop the backward regions of the country. Italy's needs for continuing a fairly high investment rate may be considered with respect to the conditions and capital requirements of (a) industry and utilities, (b) agriculture, and (c) the fields of infrastructure and social development. Separate consideration is also given to the special importance of investment in these fields for the purpose of developing southern Italy.

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<sup>1/</sup> According to figures prepared by the Bank of Italy, the composite index of unit labor costs in industrial countries other than Italy was 19% higher in 1963 than in 1953, whereas in Italy unit labor costs were about equal in 1963 to those in 1953 after having declined by about 20% between 1953 and 1961. This trend was reversed in more recent years.

### Industry and Utilities

49. Prospects for further rapid expansion of Italian industry appear favorable although the rate of growth of industrial production is not likely on the average to reach the 11% figure of 1959-1963, or even the 9% average rate of the 1950's and early 1960's. An optimistic view of the industrial expansion potential seems warranted by the efficiency characteristic of much of Italian industry, and the ability to compete has been demonstrated and seems likely to continue in many lines of Italian manufacturing. Some of Italy's competitive margin has undoubtedly been lost by the wage increases of the last two years. However, most of the impact of wage increases in manufacturing has fallen on profits which appear to have been especially favorable before the large wage advances of 1962 and 1963. The view one obtains in Italian industrial circles is that so far most lines of manufacturing are still competitive in European markets;<sup>1/</sup> this is substantiated by the fact that Italy continued in 1963 to maintain one of the highest rates of increase in exports of manufactured goods among the industrial countries, and that in 1964 there has been a further spurt in Italian industrial exports. However, profit levels in Italian industry have been pared down considerably from what they were three or four years ago. They could not continue as a protective cushion for Italy's competitive position, if wage increases should again run way ahead of productivity.

50. This decline in profits is, of course, one aspect of the saving problem and has reduced the capacity of industry for self-financing out of earnings. Over the wide range of government-owned industrial enterprises it is estimated that the proportion of new investment financed from earnings has fallen over the last several years from nearly 40% to about 20%. In privately-owned industry the proportions of self-financing have probably been higher and the decline has been less. Nevertheless, for all Italian industry, further expansion is likely to depend to a much greater extent than in the past on the availability of capital from sources other than earnings.

51. This may be one of the factors making for a slower rate of industrial growth in the future than in the past, unless the reduced rate of financing from profits is compensated by additional industrial capital from other domestic sources or from abroad. Another factor tending to slow down industrial growth may be the reduced supply of industrial labor. Taking account of the natural increase in the labor force and of the probable continuing outflow of workers from agriculture in search of non-farm jobs (with allowance for some further emigration), it may be estimated that the average increase in the labor supply available for industrial employment will be about 2% a year for the next several years. This compares with an average of about 3% in the period 1957-1962.

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<sup>1/</sup> EEC statistics suggest that Italian wage rates in manufacturing (including social security charges paid by employers) were on the average somewhat higher last year than in the Benelux countries, somewhat lower than in Germany, and probably somewhere near the French level.

52. Shifts to more capital-intensive techniques, especially in the substantial sector of small and medium-scale industry where modernization has lagged, may of course improve labor productivity, but under normal growth circumstances less additional labor probably implies that the pace of industrial expansion will be somewhat slower than the average of the past decade. Even so, labor supply is likely to grow sufficiently fast to require substantial industrial investment if unemployment is to be avoided.

53. Hence investment requirements in manufacturing industries are not likely to be much below the 7% of GNP which has been the average rate of industrial investment in the last several years.<sup>1/</sup> It may still be as high or even rise somewhat higher. The reasons for this are the fact that the size of the industrial sector in GNP is bound to increase further, the likelihood of accelerated labor-saving investments because of the recent wage and labor market developments, the rising relative importance within the Italian industrial structure of highly capital-intensive heavy industry, and the need for increasing investment in modernization for competitive reasons as European integration proceeds. An increase in the share of industrial investment going into southern Italy, where capital-output relationships used to be higher than in the North, may also tend to increase capital requirements relative to output. For all these reasons, it seems unlikely that the prospective decline in Italy's average industrial growth possibilities will mean any significant decline in the share of GNP devoted to industrial investment which will be necessary to provide adequately for industrial employment and to make the most of the Italian industrial potential.

54. Investment in utilities -- electricity, gas, water works, etc. -- has absorbed in recent years about 5% of total investment and about 1% of national output. Most of this investment was for expansion of power capacity which has only just kept up with the rapid growth in demand at an average rate of about 9% during 1958-1962. Forecasts, based on the assumption of slower economic expansion, are for a moderate decline in the growth of power demand to just over 7% per year. It is not likely that the capital requirements of the power industry will be very different in relation to GNP from what they have been in the past. This is probably also true of other utilities. In fact, present plans of ENEL, the government-owned power monopoly, involve for the next year roughly the same investment relative to national output.

#### Agriculture

55. An assessment of further investment requirements in Italian agriculture is difficult because of the intricacies of the agricultural problem. There is scope for further development of the present pattern of farming. The capital requirements for this would be substantial, but in relation to

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<sup>1/</sup> Relazione Generale sulla Situazione  
Economica del Paese

prospective output should not be too high because of the large remaining potential production from the investment which has already been made in soil conservation, flood control, drainage and other improvements, particularly in the South.

56. The agricultural problem, however, is not only one of increasing production according to the present pattern of cultivation. Along with rising agricultural production, Italy also requires major changes in the agrarian structure -- in the location of cultivation, the kinds of farm commodities produced, and the techniques of farming. The need is for changing patterns of agriculture in the more favorable rural locations in order to raise farm incomes in relation to non-farm incomes. This may counteract the attractions of non-farm employment and hold enough labor in these locations to develop Italy's remaining agricultural potential. Otherwise, if the wide productivity and income gaps between farm and non-farm employment continue, the further process of rural-urban migration may draw the more youthful energetic labor indiscriminately from regions of good as well as poor development possibilities with a consequent deterioration in Italy's long-run agricultural prospects.

57. The accomplishment of desirable changes in production patterns would also be of great advantage to the Italian balance of payments, since the logical trend is towards quality foodstuffs that can be both exported and used locally instead of imports to meet the rapidly mounting domestic demand that has been associated with the rise in incomes of the last few years.

58. The desirable direction of relative change in production would appear to be away from the staple grain crops, especially soft wheat, and towards livestock and dairy products, poultry products, fresh fruits, vegetables, citrus and olive oil. In the process it would be preferable if those lands, especially in the poorer hill areas of the South, which are of marginal productivity with little chance for improvement, were to go gradually out of cultivation. Even here, however, reforestation may involve substantial costs.

59. All this presents most difficult and complicated problems of execution. It will require in the first place extensive consolidation of farm units into sizes which are appropriate for mechanization, and to ensure more effective utilization and higher incomes for farm labor. Some form of horizontal integration of producers is also needed as a basis for the kind of efficient organization for production and processing that is essential in these higher quality agricultural products. Equally essential are the organization and facilities that go with efficient marketing systems -- the lack of which at present imposes such a heavy cost on agricultural producers and consumers and constitutes a serious obstacle to agricultural development.

60. If substantial progress could be expected along these lines, it could add considerably to the capital requirements of Italian agriculture for mechanization and other aspects of "industrializing" farm production, for processing plants, and for the transport, storage and other installations that will be required if marketing is to be improved.

61. Whether actual progress in these directions will be very fast is a question. Private initiative is already making considerable efforts towards these objectives, but the process could be accelerated with additional technical, financial and administrative assistance from government agencies. So far government policy is not clearly oriented to the provision of this assistance. In the South the Cassa per il Mezzogiorno, one of the important state agencies for southern development, has lacked funds and the jurisdiction necessary to facilitate major changes in the agricultural structure. Meanwhile, the broad agricultural planning of the Government (the Piano Verde or Green Plan) does not reflect definite objectives -- or decided policies. Allocations are scattered over a wide range of purposes without clear priority, and the only concentration of funds seems to be in land improvement. As far as location and production patterns are concerned, its impact appears to be neutral. There is no special effort to support existing trends such as emigration from the hills to the plains and subsequent enlargement of farm units in marginal areas, more rapid land transformation, and structural adjustments in farm sizes and land consolidation. Little attention seems to be given to the adjustments and facilities necessary to encourage mechanization and better utilization of labor. And the official policy of supporting a high wheat price tends to act as a disincentive to the diversification of Italian agriculture into production with a higher economic value.

62. For these reasons together with the other usual limitations on rapid absorption of capital in agriculture it may be unrealistic to expect very rapid development along more capital-intensive farming lines during the next few years. Some progress is to be expected, however, because of the considerable private effort already evident in farm mechanization and the production of higher value crops. There is also the possibility that the Government would play a larger role in facilitating such development in the South through the extension of activities of the Cassa per il Mezzogiorno into agricultural processing and distribution. Further influence of the Cassa may be exercised on location and cropping patterns through technical assistance at the production level.

63. As far as financial requirements are concerned, the prospective capital needs for mechanization, processing and marketing may more or less compensate for the fact that less investment may be needed in irrigation works and similar projects because much of the capacity from past investment in such works still remains to be developed. In these circumstances it seems reasonable to assess the capital requirements of agriculture as continuing to be about as high in relation to available resources as in the recent past when they amounted to about 3% of GNP.

#### Infrastructure and Social Services

64. Possibilities for large capital economies do not appear any more obvious in these fields than in the industrial, power and agricultural sectors previously discussed. Numerous bottlenecks and shortages of capacity in the infrastructure of the economy -- especially in transport and communications -- are already interfering with economic activity; there are unfilled housing



demands; congestion and inadequacy of services is an increasing problem in many municipalities; and the social services, especially education, have lagged behind requirements over the last decade or more. It is the view in some official circles that these are the fields where past investment has been least adequate and in which the rate of future investment should be increased.

65. Of the investment in these fields during the past five years, housing has been by far the largest, running at 6% to 7% of GNP. In the last two years, the Italian investment in housing as a share of GNP was, in fact, the third highest in Europe after Switzerland and Finland. Much of this investment was apparently in upper income housing and large backlogs of housing requirements still remain, especially in the middle and low cost categories. In view of this backlog and the natural increase in requirements, the housing field could easily absorb an even larger share of national resources than in the past for a number of years without catching up with needs.

66. Important investment requirements in transport and communications are also likely to be well beyond the money available. A reasonable pace of building and improving main highways has been kept up in the past, but there are still important gaps in the main highway system that need to be filled, especially in southern Italy. Meanwhile, there is an accumulation of unfilled investment needs in the secondary and local road systems for repairs, improvements and extensions which is as large or perhaps even larger than for the main highways. Added to this are municipal transport improvements required to relieve the congestion associated with the fast-growing urban traffic. The demand for commercial road transport vehicles will undoubtedly continue to increase faster than economic activity generally. The railways envisage continuing investment at least as high as in the recent past on approved programs for additional rolling stock and fixed installations. There are much needed capital improvements to be made in airway operations, shipping, canals and waterway equipment. Inadequate facilities and congestion in the ports of northern Italy, especially Genoa, are already imposing a burden of additional cost and delay on Italian industry. There are other port requirements to be met in the newly developing industrial centers of the South. And the telecommunication system of the country needs substantial modernization and expansion to keep in step with the growth of the economy. In these circumstances, investment in transport and communications could well continue to absorb as large or an even larger share of resources as in the last five years (when it was equal to about 4% of GNP) if financing were available.

67. Among the social services, education will require a substantial increase in expenditures, current as well as investment, not only to take care of the additional school-age population but also to reduce the present gross inadequacy in classroom space and in the number of qualified teachers. In addition, adult education and vocational training, especially to facilitate the shift of agricultural workers to industrial employment, should be at least maintained and preferably increased. Probably technical as well as financial capacities will limit the speed with which additional school buildings and teacher training facilities can be provided, and it will also be difficult to accelerate effective vocational training rapidly. Nevertheless, educational

improvement is among Italy's most pressing needs, and this is again a field where there appears to be every justification for a higher rate of expenditure than in the past if the necessary resources can be found. There may be scope for economies in other social service activities, but with the badly needed outlays for education it would not appear that the social service field taken as a whole is the place to find possibilities for a reduced investment rate in the future if this could be avoided.

#### Development of Southern Italy

68. Perhaps the most important reason for sustaining, if possible, something close to recent high investment rates in Italy is the further development of southern Italy. This region, referred to as the Mezzogiorno, consists of the mainland south of Rome and the islands of Sicily and Sardinia. It contains nearly 40% of the population, but accounts for only less than one fourth of the national output so that per capita income is roughly half that of the rest of the country. The special effort to improve the economy of this less developed part of Italy has been a keystone of official economic policy since 1950, and there is today a broad political consensus in support of it.

69. Previous Bank reports on the Italian economy have emphasized the strong economic, as well as social and political, reasons for a special effort and concentration of resources on southern development. An improved regional distribution of income is a sound objective if it can be accomplished without excessive cost. The South has a substantial potential to be developed, especially in the form of manpower, locational advantages for many lines of production such as the metallurgical, petroleum and chemical industries and intensive cultivation of quality foodstuffs, and tourist attractions which could be much more extensively exploited. There are also large savings to be realized from southern development through a reduction of the social and economic losses that go with the poor nutrition, lack of education, and the welfare problems of a backward area, and through a reduction in the costs to the economy of the increasing congestion which is being created in the northern cities by migration from the South.

70. It is not possible, of course, to measure many of the economic savings and other benefits that are associated with a relative regional emphasis on developing the South. It is therefore difficult to say whether in a strict economic accounting they would outweigh the fact that productive investment requirements in the South have been higher in relation to output than in other parts of the country, and for a time may well continue to be higher. The important issue is not so much this added investment cost per unit of output in the South, but rather whether this added cost of developing output in the South is justified in terms of the future of the Italian economy as a whole.

71. From this standpoint there seems little question that the added cost is justified. From a longer-run point of view it is the most satisfactory and probably the cheapest way of reducing the regional income disparities that now exist in the Italian economy because of the limited industry, the sluggish agriculture and the underemployment in the South. Migration from the South

to other parts of Italy will certainly continue to play a necessary and inevitable role in the process of ameliorating the present income disparities between Southerners and Northerners. However, one of the penalties of heavy migration is the steadily mounting cost of the increasing congestion of the cities in the North. Moreover, if the correction of present maladjustments were to be left solely to migration, there would be the serious and costly prospect of a southern Italy drained of capable and energetic talent and left with a stagnant economy and a host of social and economic problems which, in one way or another, would create a heavy burden for the future. The long-term costs of such a process would undoubtedly be higher and the other consequences less desirable than those of the alternative policy of an accelerated southern development. In short, there exists in the South an unexploited resource, namely manpower. It is available now, and its availability will continue over the years as people continue to move from the less productive agricultural areas into the cities. Migration can and in all likelihood will absorb some of it, but it seems reasonable to try to use a substantial fraction of this labor supply in the South itself, and thereby raise the level of income in the area.

72. Obviously the regional adjustment process, however it comes about, will take years. In the meantime migration from the South is bound to continue, as it should. The aims of development policy in the South are to avoid as far as possible an outflow of labor which is excessive in relation to employment opportunities elsewhere in Italy, to ensure that as much as possible of the migration is from locations and occupations which are of marginal development importance, and to create within the South growing employment opportunities at income levels high enough to keep in the area a labor supply adequate for a dynamic regional economy.

73. The investment needs of the South are not additional to, but part of the capital requirements previously discussed for Italian industry, agricultural transport and other kinds of infrastructure, and the social services. The share of total Italian investment in the South is large, however, amounting to a little over 25% in recent years. In 1963, southern investment accounted for 26% of total investment in industry, 45% in agriculture, and 23% in infrastructure and other forms of investment.<sup>1/</sup>

74. These substantial investment levels in the South have been built up mainly through the allocation to the South in recent years of about 45% of the investment outlays of the Ministry of Public Works and of the Ministry of Agriculture; special measures to concentrate in the South a considerable

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<sup>1/</sup> Relazione sulla Attività di Coordinamento,  
1964, page 224.

part of the capital expenditures of the government-owned enterprises; special financial assistance to Calabria, Sicily, and Sardinia; the provision of credit facilities and a variety of other inducements to encourage the location and expansion of private enterprise in southern Italy; and, last but not least, the development activities of the Cassa per il Mezzogiorno, whose contribution from 1950 to 1963 may be estimated at two-thirds of the government investment expenditure in the South.

75. The magnitude of southern investment within total investment requirements does have special significance for the problem of meeting Italy's prospective capital needs. The main purposes of the Italian policy, namely to increase incomes in the South and allow more Southerners to find employment in the area, would be frustrated if investment in the South were to be reduced significantly. In addition, continuity is an essential element if this policy is to be effective. It is essential in order to attract private savings into the area that the efforts of the Government not be threatened with lags or interruptions.

## V. The Problem of Investment Financing

76. The preceding chapter has indicated the magnitude of the investment effort required in employing the gradually increasing labor force, in keeping up with European productivity, in providing the necessary social services and infrastructures, and in developing southern Italy. Yet it will probably be difficult, as indicated, to resume the recent rate of investment, which averaged 25% of GNP in the last four years, because of the changes which have taken place in income distribution, consumption and saving. It is to be expected, of course, that there will be both favorable and unfavorable swings in the level of savings in the course of cyclical changes and under external and internal influences on the economy. It is not likely, however, that available domestic savings will in the next few years be sufficient fully to cover all investment requirements.

### The Means of Balancing Investment and Saving

77. In terms of national accounts, the drop in savings below investments in 1963 was no more than 1.5% of GNP. In terms of the balance of payments, however, this meant a \$660 million current deficit, equivalent to almost 10% of exports; it was of even larger significance in relation to Italian reserves and external financing availabilities. This indicates the importance of relatively small improvements in the Italian saving rates and also suggests the seriousness for Italian financial stability of small adverse changes in saving.

78. The previous discussion has indicated that in the context of the recent shifts in income distribution and labor relations it is probably unrealistic to expect any trend towards less consumption and more saving out of private disposable income. The real concern is that the reverse may happen especially if strong union pressure for wage increases develops once restraints are eased on business. Indeed, wages have continued to rise in the first half of 1964 in spite of the restraints, although the rate of increase has slowed down considerably since March. It is encouraging that with the slowdown in price advances during the first half of 1964 the automatic wage-price linkage is not at present a factor for more than minor wage increases. Furthermore, important recent labor contract settlements have been fairly moderate on additional pay. It remains a question, nevertheless, whether such indications of labor moderation would continue in the event of much easier credit and a strong revival of industrial expansion.

### Fiscal Requirements

79. With the uncertainty of labor relations, a more practicable and reliable course to influence consumption and saving would be through fiscal policy. From the standpoint of sustained financing of Italy's investment requirements, the fiscal situation is perhaps the weakest link in the otherwise effective chain of Italian financial management. Recent government measures for fiscal

improvement have been taken to reduce the rise in public spending (which almost doubled during 1958-1963), to facilitate private investment financing by various business tax concessions, and to increase revenue by a 20% rise in the turnover tax rate, higher taxes on luxury housing and some additional direct taxation. The revenue from the tax increases will more than compensate for the business tax concessions, with an expected net annual addition to revenue of Lit. 240 billion. These measures should be helpful, but additional fiscal reforms are also needed to facilitate saving.

80. Undoubtedly there are possibilities for fiscal improvement on the expenditure side through greater efficiency in the administrative services. However, saving which might be realized through a better administrative performance without a corresponding increase in personnel would probably be offset, or perhaps more than offset, by the need to improve government salaries as a necessary part of any effective program of administration reform. The more promising steps to improve saving through fiscal effort would appear to be on the side of revenue.

81. The problem is not that revenue is low in relation to the size of the economy, but that it needs to be raised still further to meet investment requirements. In fact, revenue is high in comparison with GNP, amounting to 35% if the receipts of the social security funds are included as well as those of the central and local governments. The social security funds are unusually large and if they are excluded, the revenues of the governments alone come to about 24% of GNP.

82. The real problem in raising revenues does not so much lie in the level of rates as in the complicated nature of the revenue system at all levels of government. Some of the resulting shortcomings are failure to tap adequately important potential sources of revenue, lack of progressiveness and inadequate sensitivity of revenues to changes in the national income<sup>1/</sup> Furthermore, the complexities resulting from the unsystematic evolution of the tax system have aggravated the difficulties of tax administration and facilitated extensive tax evasion. The practical difficulties stemming from the system are numerous. Local government revenue is grossly inadequate and has actually declined in relation to national income since the mid-1950's despite the mounting local government responsibilities associated with urban expansion and congestion. Related to this problem is very limited taxation of real property. More important from the standpoint of a progressive system is the inadequate share of revenue from direct taxation. It has been running at less than a third of total tax revenue. A multiplicity of different types of direct taxes are difficult to administer and facilitate evasion. Because of the inadequacies of direct and real estate taxes, a disproportionate revenue burden is placed on taxation related to wages (the social security levies which are more or less proportional to wage payments) and on a host of indirect taxes, the most important of which is a general turnover or sales tax applicable to all transactions at the various stages of production and distribution. It may be noted here that a changeover from the turnover tax to a new system of value added taxation is now being actively considered.

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<sup>1/</sup> Taxes on income and wealth only represent 25% of total tax receipts.

83. Aside from the particularly heavy burdens which the tax system imposes on productive activity (except where generous concessions are given as in the case of productive investment in southern Italy), it has the further disadvantage from the standpoint of saving and investment financing of a sluggish and inadequate response to fluctuations and trends of economic activity. Taken as a whole, tax revenue has followed fairly closely the course of national income rather than showing variations more than proportionate to changes in GNP, which would have allowed for increases in public savings during periods of rapid economic expansion. In fact, during the unusually buoyant economic period 1958-1961, the rate of increase in public revenue was hardly more than the rise in GNP (33% compared with 30%). Revenue did rise somewhat faster (33%) than GNP (28%) in 1962 and 1963, but largely because of a 50% jump in social security revenue which was related to the unusual increase in those two years in wages, employment and working hours. It was not the result of increasing business capacity to pay, but rather an aggravation of already increasing business costs at a time when, in real terms, the growth of economic activity was slowing down.

84. A further unfavorable aspect of the public finance situation is the unsatisfactory financial state not only of some of the local governments, but also of some of the autonomous commercial agencies of the Government. That a government should shoulder part of the burden of the financial subsidies involved is not unusual. However, a larger contribution to capital costs could be expected from the telephone system if its low level of tariff rates were raised. And the railways constitute a particularly heavy financial burden because of their inability even to cover current expenditures. The financial problems of the railways are complex, but there are reportedly possibilities for significant improvement, especially through elimination of uneconomic lines where alternative road facilities exist. A special commission has recently been established to study possible reforms in the Railways administration.

85. In general there seems to be considerable opportunity to improve, over the next few years, the public finance situation of the country by a series of measures tending to improve the financial position of the autonomous commercial agencies, and to increase tax revenue in the long run by tax reform. The latter would imply both administrative and structural changes in order to reduce evasion, while allowing for increased public saving in periods of rapid expansion. It should also tend to encourage private saving; a step was taken in this direction in November, when the additional revenue arising from the increase in the turnover tax was applied to reducing some of the social security charges hitherto borne by the employers.

#### External Payments and Foreign Capital Requirements

86. As indicated, the balance of payments counterpart of the recent investment saving gap was a current foreign deficit in 1963 of about \$660 million. This year the deficit in the first quarter was at a far higher annual rate, but with the swing back to a surplus in the second and third quarter and with a favorable export outlook it seems probable now that the current

account for 1964 as a whole may show a surplus of the order of \$500 million. Meanwhile the capital account has also moved into a surplus in contrast to the large net capital outflow of last year. Hence the over-all external picture has improved considerably, and it is particularly encouraging that instead of last year's month-to-month pattern of deterioration, the course of this year's transactions has been one of steady improvement.

87. The improvement reflects the curbs on expenditure which have been imposed by credit and fiscal policies. Since April 1964, it is true, the authorities have relaxed their credit policy somewhat to reactivate the economy generally and to stimulate a flow of savings into investment. Their caution is determined by a resolution to avoid the sizeable balance of payments deficit which would occur if demand were allowed to rise substantially. In the short run, at least, there is probably sufficient unused capacity to prevent any sharp rise in costs and prices. The effect of resuming a 25% rate of investment, similar to that of 1961-1963, is difficult to estimate because the course of the different variables affecting the balance of payments is so uncertain. Assuming, however, fiscal and labor policies which would keep some restraint on the growth of consumption and encourage savings, it should be possible to have a sustained investment expansion and still achieve a balance in the current payments position.

88. This does not mean that the rate of investment will quickly go back to 25% of GNP, nor that the rate of growth in GNP will, within the foreseeable future, go back from the present 3% to the 6% or 7% rate experienced during the "miracle period". It means, however, that rates of growth both in national product and in investment can rise well above the present depressed level without necessarily engendering new difficulties in the balance of payments. It also means that the high investment needs, which are justified by the economic considerations adduced in the preceding chapter, can hardly be satisfied without substantial capital imports.

89. Concerning prospective trade requirements, a high import growth rate will continue to be necessary, but probably not as high as in the last five years, when volume jumped by two and one-half times. This reflected not only the boom conditions of the "miracle period", but also the effects of the redistribution of income and the associated jump in consumer imports in 1962 and 1963. More than half of the five-year rise in imports took place in those two years.

90. Hence, with a slower pace of economic activity and greater stability in income distribution, the requirements of balance of payment stability should be less demanding on export growth than in the recent past. Nevertheless, a fairly steep export trend will still be necessary not only to keep pace with imports, but also to reduce the swollen trade deficit of the last two years. During 1958-1963 exports doubled in value and more than doubled in volume.<sup>1/</sup> The average annual rate of increase in total export value was about 15%. This was about 50% faster than for industrial

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<sup>1/</sup> The index of export prices declined from 100 in 1958 to 92 in 1961 and rose again to 99 in July 1964.



Europe in general. Even in 1963, Italian exports went up by 8% despite poor harvests and the booming domestic market. In the first nine months of this year, exports were about 17.5% more than in the same period last year. Considering Italy's favorable productivity and labor market situation it does not seem unreasonable to expect continued export growth at an average rate somewhat above 10% a year. And this, together with Italy's large net invisible receipts mainly from tourist spending, should be adequate to allow a satisfactory rate of investment and a balance on current foreign transactions, given the fiscal, labor and other conditions necessary to restrain consumption and promote saving.

91. However, there is in the meantime the requirement of maintaining a net capital inflow if a high investment level is to be sustained. Capital movements are large in the Italian balance of payments. It is difficult to identify the net inflows of private foreign capital in recent years because the figures are swollen by Italian capital which moved out of Italy and then returned in the form of private foreign investment. If an approximate adjustment is made to exclude such backflows of Italian capital, the net private financing from foreign portfolio and direct investments and loans has probably ranged between \$250-\$400 million in the last few years. Private foreign investment in Italy is again high this year, and it is not unreasonable to expect continuing net inflows of private foreign capital of several hundred million dollars during the next few years.

92. These inflows are likely to be largely in the form of private direct and portfolio investments in Italy. Some Italian borrowing of long-term funds from foreign private capital markets is also to be expected, but on a much smaller scale than private direct and portfolio investments. Publicly issued foreign loans in the European private capital markets amounted only to \$33 million in 1963. This year, despite Italian efforts to increase long-term foreign borrowing, only about \$40 million of Italian bonds were placed in European markets during the first ten months.<sup>1/</sup> Further issues are planned for the near future.

93. In view of the interest "equalization tax" on foreign borrowing in the U.S., Italian efforts at financing from private U.S. sources are now largely confined to credits of less than three years, which are not subject to the tax. While such financing has recently been substantial, it is not taken into account in assessing the outlook for Italian capital inflow because of the parallel offset through reduction of short-term commercial bank liabilities abroad.

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<sup>1/</sup> Including \$25,000,000 IRI 5-3/4% bonds at 14 years (with warrants to purchase Finsider stock) and £. 5,000,000 City of Turin 6-1/2% bonds at 20 years (at an effective cost to the city of 7-1/4%).

94. Against the prospective net inflows of long-term private foreign capital, there are large outflows of capital to be expected in the form of net private long-term Italian investments abroad. Such outflows amounted to about \$350 million in 1962 and over \$250 million in 1963. This is exclusive of the substantial private capital flight during those two years. Most of the outflow of long-term private Italian capital was for direct investment abroad. Net private Italian lending abroad, and purchases of foreign securities amounted to about \$65 million a year, and net long-term trade credits averaged about \$50 million.

95. Private Italian investment abroad in these or increasing amounts may continue and this, in combination with rising repayment on private foreign loans, could bring capital outflow up to or in excess of private inflows within a few years' time. Meanwhile, for two or three years, a net inflow of private capital could be expected, assuming, of course, that there will not be a resumption of private capital flight on a significant scale.

96. Such a net inflow of private capital is likely, however, to be small in relation to the probable gap in the next few years between domestic saving and the funds needed to restore the active investment rate of recent years. It is, therefore, likely that, in addition to private capital imports, borrowing from foreign public sources will be needed in the next few years. Hence, until savings rise, the extent of an investment revival may be limited by the practical possibilities of obtaining additional capital from foreign public sources. This is not a question of creditworthiness. Net public borrowing in such amounts is not particularly large in the context of the Italian balance of payments. Service on the \$800 million external public debt outstanding at the end of 1963 amounts to only 1.5% of foreign exchange income. Even if service on the \$900 million of outstanding external private debt were added, the service of total foreign debt would still not be a significant balance of payments burden. Foreign borrowing on the scale envisaged here, provided it were on medium and long term, would still leave the service on external debt at around 5% of prospective exchange earnings towards the end of the 1960's. Considering this, and especially in view of Italy's dynamic export prospects, there should be no difficulty in servicing additional foreign borrowing in the amounts indicated.

97. More difficult is the question of whether the public borrowing required is actually feasible. The Government was able to obtain commitments in the early part of this year for credits of about \$1,000 million, mostly in the United States and also in Germany and the United Kingdom. There was subsequently an additional \$100 million credit from Switzerland. However, over half of this credit represented short-term financial support of which less than \$100 million was still outstanding by mid-1964. The balance of \$450 million was in the form of lines of credit obtained from the U.S. Export-Import Bank and the Commodity Credit Corporation. So far, however, there has been no drawing on the credit line of \$100 million made available by the Eximbank for the purchase of raw materials, mainly because of the requirement to ship them on U.S. vessels. Only about \$22 million have been drawn on the other credits, totaling \$100 million, which Italy obtained from the Eximbank for the purchase of industrial goods. The limitation on the use of the

Commodity Corporation's credit line, to finance purchases of U.S. surplus commodities, has slowed down drawings. The largest source of non-private external lending to Italy in recent years has been the European Investment Bank which had approved Italian loans of \$236 million up to the end of 1963 and has increased this amount so far in 1964 by over \$60 million.

98. Taking all these sources together, however, Italian borrowing possibilities appear insufficient at the present time to supplement private capital inflow in order to regain a higher level of Italian investment. The effects of the current slowdown of investment are not confined to short-run patterns of output and employment but, if prolonged, will also have significant adverse effects on Italy's longer-term development. This is particularly true of southern Italy where development depends on the continuity of operations carried on through the joint and cooperative efforts of a large administrative organization, and the public and private enterprises and agencies involved directly in agricultural and industrial production. The economic development of the South cannot be expected to adjust flexibly and quickly to sharp fluctuations in the availability of investment funds in the way that is characteristic of other parts of the Italian economy where there is fairly quick response to financial and market conditions, through individual enterprise decisions. Hence, prolonged curtailment of investment activity in the South will necessarily disrupt the large administrative effort on which southern development still depends, and may result in a loss of confidence on the part of private investors in the consistency of government policies in the South.

99. For these reasons and because of the limited availability of international long-term financing for Italian investment relative to Italy's legitimate investment needs, particularly in the South, a resumption of IBRD lending to Italy is justified.

## STATISTICAL APPENDIX

Table No.

### I. EXTERNAL PUBLIC DEBT

External Public Debt Outstanding Including Undisbursed as of December 31, 1963 with Major Reported Additions January 1 - May 31, 1964	1
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**Table 1: ITALY - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF  
DECEMBER 31, 1963 WITH MAJOR REPORTED ADDITIONS JANUARY 1 -  
MAY 31, 1964 <sup>/1</sup>**

**Debt Repayable in Foreign Currency**

**(In thousands of U.S. dollar equivalents)**

Item	Debt outstanding December 31, 1963		Major reported additions January 1 - May 31, 1964
	Net of undisbursed	including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	<u>822,619</u>	<u>1,051,654</u>	<u>87,860</u>
Publicly-issued bonds	<u>206,219</u>	<u>206,219</u>	<u>25,000</u>
Privately-placed debt	<u>108,227</u>	<u>108,952</u>	-
Suppliers' credits	<u>58,893</u>	<u>58,893</u>	-
Other	<u>49,334</u>	<u>50,059</u>	-
IBRD loans	<u>251,233</u>	<u>256,570</u>	-
Loans from Inter-European organizations	<u>177,788</u>	<u>214,751</u>	<u>62,860</u>
BIS	<u>15,032</u>	<u>15,032</u>	-
European Coal and Steel Council of Europe	<u>38,027</u>	<u>38,027</u>	-
European Investment Bank	<u>3,439</u>	<u>3,439</u>	-
	<u>121,290</u>	<u>158,253</u>	<u>62,860</u>
U.S. Government loans	<u>31,097</u>	<u>217,107</u>	-
Export-Import Bank	<u>10,802</u>	<u>196,812</u>	-
Maritime Commission	<u>66</u>	<u>66</u>	-
War Surplus	<u>20,229</u>	<u>20,229</u>	-
Loans from other governments	<u>48,055</u>	<u>48,055</u>	-
Argentina	<u>1,802</u>	<u>1,802</u>	-
Switzerland	<u>46,253</u>	<u>46,253</u>	-

<sup>/1</sup> Does not include \$100,000,000 War Reparation to Russia which is still in dispute.

Statistics Division  
IBRD-Economic Department  
November 5, 1964

Table 2: ITALY - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1963 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - MAY 31, 1964 /1

Debt Repayable in Foreign Currency  
(In thousands of U.S. dollar equivalents)

Page 1

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Year	Debt out- standing plus un- disbursed January 1	Payments during year			Year	Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total			Amorti- zation	In- terest	Total
Total debt					Publicly-issued bonds				
1964	969,800	68,855	37,406	106,262	1964	206,219	12,689	5,510	18,199
1965	988,805	67,009	41,837	108,847	1965	218,530	9,356	7,511	16,868
1966	921,796	71,408	41,713	113,121	1966	209,174	9,529	7,151	16,679
1967	850,387	78,965	39,662	118,629	1967	199,645	9,706	6,785	16,491
1968	771,420	80,755	35,764	116,522	1968	189,939	11,045	6,414	17,459
1969	690,664	78,706	32,918	111,624	1969	178,894	13,212	7,074	20,286
1970	611,958	73,423	29,827	103,249	1970	165,681	14,285	7,310	21,595
1971	538,533	68,071	26,223	94,295	1971	151,396	14,019	6,702	20,721
1972	470,464	68,381	22,801	91,183	1972	137,378	13,300	6,085	19,385
1973	402,083	64,053	19,406	83,461	1973	124,077	13,747	5,500	19,247
1974	338,028	76,768	16,170	92,937	1974	110,330	24,769	4,894	29,662
1975	261,259	70,965	12,217	83,183	1975	85,561	17,675	3,686	21,361
1976	190,294	61,012	8,679	69,691	1976	67,887	18,157	2,860	21,017
1977	129,283	59,305	5,580	64,885	1977	49,730	33,298	1,764	35,062
1978	57,424	24,669	2,686	27,356	1978	16,432	11,432	751	12,183
Privately-placed debt - Total					Privately-placed debt - Suppliers' credits				
1964	108,952	15,485	5,453	20,938	1964	58,893	6,374	2,837	9,211
1965	93,467	18,415	4,570	22,985	1965	52,519	1,795	2,571	4,366
1966	75,053	19,103	3,565	22,668	1966	50,725	11,769	2,354	14,123
1967	55,950	18,922	2,593	21,515	1967	38,956	11,588	1,773	13,361
1968	37,027	18,027	1,636	19,663	1968	27,368	11,407	1,208	12,615
1969	19,000	12,229	788	13,017	1969	15,961	10,974	647	11,621
1970	6,771	5,242	221	5,462	1970	4,987	4,987	122	5,108
1971	1,529	255	84	339					
1972	1,275	255	70	325					
1973	1,020	255	55	310					
1974	765	255	40	295					
1975	510	255	26	281					
1976	255	255	11	266					

See footnote at end of table.

Table 2: ITALY - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1963 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - MAY 31, 1964 /1 (CONT.)

Debt Repayable in Foreign Currency  
(In thousands of U.S. dollar equivalents)

Page 2

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Year	Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total			Amorti- zation	In- terest	Total
Privately-placed debt - Other					IBRD loans				
1964	50,059	9,111	2,616	11,727	1964	256,570	13,841	12,195	26,036
1965	40,948	16,620	1,999	18,619	1965	242,729	14,573	11,618	26,191
1966	24,328	7,334	1,211	8,545	1966	228,156	15,346	10,997	26,343
1967	16,994	7,334	820	8,154	1967	212,810	16,160	10,337	26,497
1968	9,659	6,620	428	7,048	1968	196,650	17,018	9,627	26,645
1969	3,039	1,255	141	1,396	1969	179,632	17,920	8,882	26,802
1970	1,784	255	99	354	1970	161,712	18,870	8,065	26,935
1971	1,529	255	84	339	1971	142,842	19,005	7,141	26,146
1972	1,275	255	70	325	1972	123,837	19,118	6,204	25,322
1973	1,020	255	55	310	1973	104,719	20,125	5,226	25,351
1974	765	255	40	295	1974	84,594	21,182	4,187	25,369
1975	510	255	26	281	1975	63,412	22,300	3,072	25,372
1976	255	255	11	266	1976	41,112	17,452	1,996	19,448
					1977	23,660	11,108	1,163	12,271
Loans from Inter-European organizations					U.S. Government loans - Total				
1964	214,751	22,735	9,690	32,425	1964	135,253	3,933	2,526	6,460
1965	254,876	9,798	10,255	20,052	1965	131,320	14,689	5,858	20,547
1966	245,078	12,556	12,176	24,732	1966	116,630	14,689	5,806	20,495
1967	232,522	19,115	12,909	32,024	1967	101,941	14,870	5,027	19,898
1968	213,407	19,414	11,850	31,266	1968	87,070	15,051	4,233	19,285
1969	193,991	20,087	10,739	30,826	1969	72,019	15,051	3,438	18,489
1970	173,905	21,069	9,586	30,655	1970	56,968	13,742	2,656	16,398
1971	152,835	20,884	8,380	29,264	1971	43,225	13,685	1,935	15,621
1972	131,951	20,736	7,203	27,939	1972	29,540	10,117	1,267	11,385
1973	111,216	21,434	6,014	27,449	1973	19,423	3,867	842	4,709
1974	89,781	22,070	4,788	26,858	1974	15,555	3,867	688	4,555
1975	67,711	22,243	3,525	25,768	1975	11,688	3,867	532	4,400
1976	45,468	18,181	2,255	20,435	1976	7,820	2,342	378	2,720
1977	27,288	8,080	1,411	9,491	1977	5,478	2,194	259	2,453
1978	19,207	6,418	1,006	7,424	1978	3,284	2,194	143	2,337

See footnote at end of table.





Table 3: SELECTED INDUSTRIAL COUNTRIES

Per Capita Gross Domestic Product at Factor Cost  
(Current US\$) - 1963 <sup>1/</sup>

	<u>1963</u>
Italy	780
Belgium	1,335
France	1,350
Germany	1,370
Netherlands	1,035
United Kingdom	1,340
United States	2,780
Canada	1,970
Japan	550

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<sup>1/</sup> GDP is used for international comparisons rather than Net National Income, which is reported in "Basic Data".

Source: U.N. Yearbook National Accounts and estimates from national sources, partly preliminary.

Table 4: SELECTED INDUSTRIAL COUNTRIES  
Gross National Product - Rates of Increase at  
Constant Prices (Market Prices of 1954)

	<u>Italy</u>	<u>Belgium</u>	<u>France</u>	<u>Germany</u>	<u>Netherlands</u>	<u>U.K.</u>	<u>U.S.</u>
Average 1951/53	100	100 <u>1/</u>	100	100	100	100	100
1954	111	104	108	115	114	107	102
1955	118	109	114	129	123	110	111
1956	124	112	120	138	127	112	113
1957	132	116	127	145	131	114	115
1958	137	114	130	150	131	115	113
1959	148	116	134	160	138	120	121
1960	158	122	145 <u>2/</u>	176 <u>3/</u>	150	125	124
1961	171	126	150 <u>2/</u>	187 <u>3/</u>	154	129	126
1962	181	131	159	194	159	130	134
1963	190	136	165	200	165	135	138

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1/ 1953 = 100.

2/ 1960/61 converted from base year 1959.

3/ 1961 and subsequent years including Saar.

Sources: OECD Statistics of National Accounts 1950-61, Paris 1964 and estimates from partly preliminary National Accounts Statistics of individual countries for 1962/63.

Table 5: SELECTED INDUSTRIAL COUNTRIES

Gross Domestic Fixed Asset Formation  
Rates of Increase at Constant Prices  
 (market prices of 1954)

	<u>Italy</u>	<u>Belgium</u>	<u>France</u>	<u>Germany</u>	<u>Netherlands</u>	<u>U.K.</u>	<u>U.S.</u>
Average 1951/1953	100	100 <u>1/</u>	100	100	100	100	100
1954	117	109	107	128	122	116	105
1955	130	113	121	154	141	121	116
1956	140	122	132	164	157	128	118
1957	153	126	146	164	163	135	118
1958	155	114	152	174	142	136	110
1959	171	125	155	194	160	141	120
1960	197	138	166 <u>2/</u>	221 <u>3/</u>	177	160	121
1961	215	143	183 <u>2/</u>	242	190	174	120
1962	234	146	196	254	198	172	138
1963	247	153	208	259	210	174	142

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1/ Base year 1953.

2/ Converted from base year 1959.

3/ Including Saar for 1960 and subsequent years.

Sources: OECD Statistics of National Accounts 1950-1961, Paris 1964; and estimates from partly preliminary National Accounts Statistics of individual countries for 1962/1963.

Table 6: SELECTED INDUSTRIAL COUNTRIES

Consumers' Expenditure - Rates of Increase at Constant Prices  
(Market prices of 1954)

	<u>Italy</u>	<u>Belgium</u>	<u>France</u>	<u>Germany</u>	<u>Netherlands</u>	<u>U.K.</u>	<u>U.S.</u>
Average 1951/1953	100	100 <u>1/</u>	100	100	100	100	100
1954	109	103	108	115	111	107	105
1955	113	110	114	126	119	111	113
1956	117	112	121	137	129	112	116
1957	122	116	128	141	129	113	119
1958	125	115	129	152	129	117	120
1959	132	119	132	161	135	122	127
1960	141	124	139 <u>2/</u>	176 <u>3/</u>	144	127	131
1961	152	127	147 <u>2/</u>	189	151	129	134
1962	163	132	157	200	157	132	141
1963	174	137	166	206	166	137	146

1/ Base year 1953.

2/ Converted from base year 1959.

3/ Including Saar for 1960 and subsequent years.

Sources: OECD Statistics of National Accounts 1950-1961, Paris 1964; and estimates from partly preliminary National Accounts Statistics of individual countries for 1962/1963.

Table 7: SELECTED INDUSTRIAL COUNTRIES

Gross Savings - Share of Gross National Product in %

	<u>Italy</u>	<u>Belgium</u>	<u>France</u>	<u>Germany</u>	<u>Netherlands</u>	<u>U.K.</u>	<u>U.S.</u>
1954	19	16	19	26	26	15	17
1955	21	17	20	29	26	15	19
1956	21	17	18	28	23	17	19
1957	22	17	19	28	25	17	18
1958	23	16	20	27	26	17	16
1959	22	15	21	27	28	16	17
1960	25	16	23	27	29	17	17
1961	26	17	22	27	28	18	16
1962	26	17	22	26	27	17	17
1963	23	17	21	26	26	17	17

Sources: OECD Statistics of National Accounts 1950-61, Paris 1964 and estimates from partly preliminary National Accounts Statistics of individual countries for 1962/63.

Table 8: SELECTED INDUSTRIAL COUNTRIES

	<u>Changes in the Direction of Exports</u> (Share of Total in %)			
	<u>EEC</u> <u>Countries</u>	<u>Rest of</u> <u>Western Europe</u>	<u>U.S. and</u> <u>Canada</u>	<u>Rest of</u> <u>World</u>
<u>1953</u>				
Italy	21	29	10	40
Belgium	38	27	12	23
France	20	20	6	54
Germany	30	37	7	26
Netherlands	36	30	9	25
United Kingdom	10	24	12	54
United States	9	9	19	63
<u>1958</u>				
Italy	24	27	11	38
Belgium	45	15	11	29
France	26	29	7	38
Germany	27	32	8	33
Netherlands	42	18	6	34
United Kingdom	14	20	15	51
United States	14	12	19	55
<u>1962</u>				
Italy	35	26	10	29
Belgium	57	15	11	17
France	37	11	6	46
Germany	34	34	8	26
Netherlands	49	18	5	28
United Kingdom	20	24	14	42
United States	17	13	18	52

Source: IMF and IBRD Direction of Trade

Table 9: POPULATION AND MIGRATION

(thousands)

	<u>Population 1/ (end of period)</u>	<u>Emigrants</u>	<u>Migration Returning Emigrants</u>	<u>Net Emigration</u>
1952	47,666	278	97	181
1953	47,957	225	103	122
1954	48,299	251	107	144
1955	49,633	320	142	178
1956	48,921	345 <sup>3/</sup>	(135) <sup>2/</sup> 155 <sup>3/</sup>	(248) <sup>2/</sup> 190 <sup>3/</sup>
1957	49,182	342	163	179
1958	49,476	255	139	116
1959	49,832	268	156	112
1960	50,198	384	192	192
1961	50,534	387	210	177
1962	50,947	366	182	184
1963	51,507	301 <sup>4/</sup>	176 <sup>4/</sup>	125 <sup>4/</sup>

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1/ Resident population (Relazione sulla Attività di Coordinamento, 1964, page 213)

2/ Old series, comparable to years prior to 1956

3/ New series for 1956 and later years not comparable with earlier years

4/ Preliminary

Source: Relazione Generale and  
Istituto Centrale di Statistica (ISTAT)



Table 10: EMPLOYMENT AND UNEMPLOYMENT

(thousands)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>July</u> <u>1963</u>	<u>July</u> <u>1964</u>
Labor force: <u>1/</u>									
Male	14,857	14,885	14,859	14,882	14,826	14,737	14,710	-	-
Female	5,246	5,574	5,544	5,602	5,701	5,760	5,760	-	-
Total:	20,103	20,459	20,403	20,484	20,527	20,505	20,470	20,253	20,219
Employment: <u>2/</u>									
Agriculture, forestry and fishing	6,188	6,116	6,066	6,028	5,689	5,474	5,206	-	-
Industry (including construction and public utilities)	6,939	6,961	6,928	7,201	7,466	7,693	7,943	-	-
Other	5,589	6,060	5,883	6,001	6,140	6,200	6,304	-	-
Total:	18,716	19,137	18,887	19,230	19,295	19,367	19,453	-	-
Unemployment: <u>3/</u>	1,643	1,322	1,117	836	710	611	504	387	469
Rate of unemployment (% of labor force)	8.2	6.5	5.4	4.1	3.5	3.0	2.5	1.9	2.3

1/ Including workers abroad2/ Including temporary workers3/ Sample surveys of ISTATSource: Istituto Centrale di Statistica (ISTAT)

Table 11: INDUSTRIAL PRODUCTION

(volume indices)

	<u>1953</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>January-August</u>	
									<u>1963</u>	<u>1964</u>
Mining	100	157	160	174	183	198	199	190	185	196
Manufacturing industries	100	138	143	159	184	205	226	246	239	243
of which:										
Textile industries	100	110	105	116	127	126	136	140	136	129
Engineering industries	100	129	128	137	164	189	196	213	210	189
Transportation means	100	156	171	189	228	256	301	355	342	328
Chemical industries	100	154	175	209	242	293	336	364	355	390
Electricity and gas	100	126	132	141	160	171	183	198	195	206
General index	100	138	142	158	182	202	222	241	234	239

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Source: Istituto Centrale di Statistica (ISTAT) --  
Annuario Statistico and Bollettino Mensile di Statistica

Table 12: GROSS DOMESTIC PRODUCT AT FACTOR COST AT CURRENT PRICES

(billion lire)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Agriculture, forestry and fishing	2,678	2,666	2,820	2,736	2,837	3,011	3,033	2,993	3,397	3,668	3,797
Mining, manufacturing and public utilities	3,715	3,955	4,312	4,606	4,934	5,186	5,614	6,358	7,044	7,848	8,982
Construction	534	632	756	837	978	1,072	1,177	1,276	1,430	1,711	1,966
Other (transport, commerce, banking, public adminis- tration and miscellaneous services)	3,446	3,682	4,077	4,666	5,060	5,517	5,920	7,045	7,682	8,732	10,200
Gross domestic product at factor cost <u>1/</u>	10,496	11,090	12,134	12,997	14,002	15,013	15,961	17,497	19,211	21,621	24,491

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1/ Adjusted to offset duplications in estimates by sectors.

Source: OECD Statistics of National Accounts and Italian submission to the OECD.

Table 13: GROSS NATIONAL PRODUCT IN CONSTANT PRICES  
(Market prices of 1954)

(billions of lire)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Private consumption	8,469	8,655	8,962	9,333	9,707	9,953	10,492	11,211	12,078	13,012	14,254
Public consumption	1,481	1,620	1,666	1,776	1,850	2,081	2,160	2,293	2,405	2,512	2,657
Gross fixed capital formation	2,265	2,454	2,706	2,927	3,196	3,241	3,568	4,122	4,634	) 5,344	5,563
Changes in stocks	30	35	189	103	81	95	158	319	307		
Exports of goods and services	1,397	1,530	1,732	1,942	2,379	2,474	2,884	3,430	3,996	4,421	4,708
<u>Less:</u> Imports of goods and services	1,637	1,678	1,814	2,058	2,310	2,285	2,511	3,437	3,967	4,560	5,458
Gross National Product at market prices	<u>12,005</u>	<u>12,616</u>	<u>13,461</u>	<u>14,023</u>	<u>14,903</u>	<u>15,559</u>	<u>16,751</u>	<u>17,938</u>	<u>19,453</u>	<u>20,729</u>	<u>21,724</u>

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Source: OECD and Italian submission to OECD

Table 13A: NET NATIONAL INCOME PER CAPITA  
(U.S.dollars at market prices)

	<u>At Current Prices</u>			<u>At 1954 Prices</u>		
	<u>Total</u>	<u>Center- North</u>	<u>South</u>	<u>Total</u>	<u>Center- North</u>	<u>South</u>
1951	298	370	177	320	390	202
1952	312	390	182	324	401	195
1953	340	417	211	346	422	217
1954	359	443	219	359	443	219
1955	391	487	229	381	476	221
1956	418	519	248	394	491	231
1957	447	552	269	418	518	249
1958	476	591	281	433	538	255
1959	507	634	290	465	585	261
1960	548	687	310	494	626	268
1961	602	745	355	533	667	303
1962	674	834	397	565	709	316
1963	756	925	461	585	727	336

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Source: Relazione sulla Attività di  
Coordinamento, 1964, page 213

Table 14: CONSOLIDATED CASH BUDGET PUBLIC ADMINISTRATION  
 (Actual receipts and expenditures)  
 (Central Government, Local Authorities, Social Security Funds, Universities)

<u>CURRENT ACCOUNT</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Expenditures	4,855	5,584	5,749	6,235	7,140	8,435
of which Payments to						
employees and pensioners	1,521	1,626	1,785	1,951	2,261	2,765
Purchase of goods and						
services	955	1,045	1,150	1,254	1,405	1,690
Receipts	5,354	5,958	6,434	7,151	8,188	9,529
of which Tax revenues	4,759	5,198	5,828	6,475	7,601	8,857
Surplus	499	374	685	915	1,046	1,093
<u>CAPITAL ACCOUNT</u>						
Investment	363	398	501	538	630	585
Transfers for investment						
purposes	356	404	475	528	531	560
Financial investment	425	759	459	414	468	539
Other transfers	-	5	13	12	25	16
Total	1,144	1,566	1,448	1,492	1,654	1,701
Capital receipts	519	803	570	132	199	215
Capital account deficit	625	763	878	1,360	1,455	1,486
<u>OVER-ALL DEFICIT</u>	126	389	193	444	408	392

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Source: Relazione Generale sulla Situazione  
Economica del Paese

Table 15: CENTRAL GOVERNMENT CASH BUDGET  
(Actual receipts and expenditures)

(billion lire)

<u>CURRENT ACCOUNT</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Expenditures	2,702	3,029	3,178	3,360	4,054	4,615
Receipts	3,105	3,416	3,781	4,086	4,827	5,219
Surplus	403	387	603	726	773	604
 <u>CAPITAL ACCOUNT</u>						
Investment	105	115	132	141	181	154
Transfers for investment purposes	393	441	531	599	627	729
Financial investment	109	452	152	158	170	185
Other transfers	-	5	9	9	21	10
Total	607	1,013	824	907	999	1,078
Capital receipts	41	329	119	42	105	104
Capital account deficit	566	684	705	865	894	974
<u>OVER-ALL DEFICIT</u> <sup>1/</sup>	163	297	102	139	121	370

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1/ These figures do not exactly coincide with those shown under "Budget deficits" in the next table "Operations of the Treasury and Treasury Funds", because of minor accounting adjustments.

Source: Relazione Generale sulla Situazione Economica del Paese

Table 16: OPERATIONS OF THE TREASURY AND TREASURY FUNDS  
("Cassa Depositi e Prestiti")

(billion lire)

<u>Items</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>Finance Requirements</u>					
Budget deficits	-313	-112	-128	-138	-369
Treasury operations	28	42	97	81	75
Operations of the Cassa Depositi and autonomous agencies <sup>1/</sup>	-230	-261	-292	-383	-581
Total	-515	-331	-323	-440	-875
<sup>2/</sup>	(-560)	(-341)	(-367)	(-546)	(-904)
<u>Sources of Funds</u>					
Long-term debt <sup>3/</sup>	338	170	105	-108	-187
Postal savings	199	211	272	371	422
Treasury bills <sup>3/</sup>	467	45	97	28	-131
Short-term debt <sup>3/</sup>	33	35	11	-41	34
Bank of Italy	-522	-130	-162	190	737
Total	515	331	323	440	875
<sup>2/</sup>	(560)	(341)	(367)	(546)	(904)

<sup>1/</sup> Includes major operations of the Cassa Depositi e Prestiti and several investment expenditures of the Railways and the autonomous agency for Roads, which were financed by the market.

<sup>2/</sup> Includes the financing of agricultural stockpiles

<sup>3/</sup> Outside the Bank of Italy

Source: Banca d'Italia



Table 17: BALANCE OF PAYMENTS

(million U.S.dollars)

	<u>1950</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Jan.-Sept. 1/ 1963</u>	<u>Jan.-Sept. 1/ 1964</u>
Imports	-1,363.6	-2,449.6	-2,814.8	-3,248.6	-2,895.7	-2,993.0	-4,204.4	-4,659.3	-5,469.6	-6,776.6	-5,294.2	-5,292.9
Exports	1,203.2	1,777.5	2,083.0	2,479.5	2,523.0	2,860.0	3,570.6	4,103.4	4,589.2	4,968.9	3,515.6	4,057.5
Trade Balance	-160.4	-672.1	-731.8	-769.1	-372.7	-133.0	-633.8	-555.9	-880.4	-1,807.7	-1,778.6	-1,235.4
Freight and Insurance	-59.6	-18.2	4.8	-54.5	-29.4	-63.6	-106.7	-122.1	-99.8	-172.2	n.a.	n.a.
Tourism	66.8	190.1	215.2	322.7	411.3	448.1	548.1	647.5	723.7	748.8	613.4	624.8
Other Services, incl. military	295.5	298.1	251.8	331.5	301.3	309.4	290.9	266.9	242.7	284.4	n.a.	n.a.
Balance on Goods and Services	142.3	-202.1	-260.0	-169.4	310.5	560.9	98.5	236.4	-13.8	-946.7	n.a.	n.a.
Emigrants' Remittances	44.8	79.7	101.3	115.2	188.5	170.2	214.0	260.7	298.4	282.9	381.2	397.8
Other Transfers	-5.8	48.2	64.0	87.6	65.2	23.9	4.5	11.4	-8.2	6.6	n.a.	n.a.
<u>Total on Current Account</u>	181.3	-74.2	-94.7	33.4	564.2	755.0	317.0	508.5	276.4	-657.2	-560.7	105.8
Investments (net) <sup>2/</sup>	29.5	75.2	120.2	93.2	91.0	128.4	193.9	404.0	555.8	741.7	n.a.	n.a.
Loans (net) <sup>3/</sup>	-9.9	101.5	14.2	87.1	68.6	133.4	63.5	95.2	-9.6	236.9	n.a.	n.a.
Outflow of Capital in form of Bank Notes	---	---	---	---	---	-62.6	-185.2	-329.6	-765.9	-1,470.4	-1,185.5	-517.2
Other (inc. commercial credits, and errors and omissions)	-240.6	-30.6	46.4	-7.9	69.6	-104.2	49.1	-104.2	-6.3	-102.8	n.a.	n.a.
<u>Total Capital Movements</u>	-221.0	146.1	180.8	172.4	229.2	95.0	121.3	65.4	-226.0	-594.6	-231.3	186.7
<u>Over-all Surplus or Deficit (-)</u>	-39.7	71.9	86.1	205.8	793.4	850.0	438.3	573.9	50.4	-1,251.8	-792.0	292.5

1/ Provisional

2/ Net foreign investments in Italy, less net Italian investments abroad

3/ Italy's net foreign borrowing, less net Italian loans abroad

Source: Banca d'Italia

Table 18: FOREIGN ASSETS

(million U.S.dollars)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Monetary	U.I.C. and Banca d'Italia Foreign Exchange	Official Reserves (1+2)	I.M.F. Gold Tranche Position	Other	Total Reserves (3+4+5)	Other Assets (medium and long-term)	Total Official Foreign Assets (6+7)	Foreign Assets of the Banks	Foreign Liabilities of the Banks	Net Foreign Position of the Banks (9+10)	Aggregate Net Foreign Assets (8+11)	Aggregate Net Foreign Liquid Assets (12+7)
End of:													
1951	333	441 *	774 *										
1952	346	350 *	696 *										
1953	346	422 *	768 *										
1954	346	581 *	927 *										
1955	352	815 *	1,167 *										
1956	338	898 *	1,236 *										
1957	452	903 *	1,355 *										
1958	1,086	996 *	2,082 *										
1959	1,749	1,239	2,988	68	-24	3,032	224	3,256	453	-856	-403	2,853	2,629
1960	2,203	979	3,182	68	-27	3,223	278	3,501	754	-889	-135	3,366	3,088
1961	2,225	1,331	3,556	243	-47	3,752	365	4,117	979	-1,153	-174	3,943	3,578
1962	2,243	1,372	3,615	203	-14	3,804	793	4,597	1,457	-2,062	-605	3,992	3,199
1963	2,343	837	3,180	226	-11	3,395	601	3,996	1,284	-2,538	-1,254	2,742	2,141
June 1963	2,289	1,189	3,478	209	136	3,823	631	4,454	1,554	-2,695	-1,141	3,313	2,682
June 1964	2,148	829	2,977	1	-151	2,827	615	3,442	1,238	-2,148	-910	2,532	1,917
Sept. 1964	2,104	1,129	3,233	125	-101	3,257	582	3,839	1,203	-2,009	-806	3,033	2,451

\* Includes only foreign exchange held by the Ufficio Italiano dei Cambi

Source: Banca d'Italia

Table 19: FOREIGN TRADE

Main Categories of Products as  
a Percentage of Total (Current Values)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Jan. to Sept. 1964</u>
<u>Exports</u>											
Consumer goods	66	64	64	63	60	61	58	58	59	59	59
Investment goods	21	23	25	26	29	27	31	31	30	30	30
Raw materials and others	13	13	11	11	11	12	11	11	11	11	11
<u>Imports</u>											
Consumer goods	43	42	41	40	42	44	43	40	39	43	43
Investment goods	31	32	32	32	32	31	36	39	41	38	36
Raw materials and others	26	26	27	28	26	25	21	21	20	19	21

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Source: Istituto Centrale di Statistica (ISTAT)

Table 20: FOREIGN TRADEPercentage Change of Current Values over Previous Year

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>Jan.to Sept. 1964</u>
<u>Imports:</u>										
Total	11	17	16	-13	5	40	10	16	24	--
Consumer goods	10	15	14	-8	10	35	4	14	37	--
Non-durables	9	15	13	-10	5	36	1	9	35	3
Durables	21	17	7	0	42	32	21	33	47	-7
Investment goods	8	17	18	-15	4	61	20	21	15	-6
Industrial trans- portation means	8	10	26	-25	7	91	3	20	6	-5
Machinery	13	18	19	-17	3	62	23	22	17	-7
Raw materials and others	11	20	19	-16	-2	23	8	12	16	11
<u>Exports:</u>										
Total	13	16	19	1	13	25	15	11	8	18
Consumer goods	10	14	18	-4	15	19	13	15	7	17
Non-durables	5	12	18	-10	11	21	14	11	6	13
Durables	34	21	21	18	25	18	11	27	10	28
Investment goods	23	30	22	10	8	43	16	4	10	20
Industrial trans- portation means	4	22	32	34	12	45	16	-9	8	16
Machinery	27	32	22	6	5	43	13	11	11	20
Raw materials and others	16	-1	9	9	16	11	19	13	9	15

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Source: Istituto Centrale di Statistica (ISTAT)  
and Banca d'Italia

Table 21: MONEY SUPPLY

(billions of lire)

End of:	<u>Money Supply</u>			<u>Quasi - Money</u>	
	<u>Total</u>	<u>of which</u>		<u>Savings Deposits</u>	<u>Postal Savings deposits</u>
		<u>Currency outside banks</u>	<u>Demand Deposits with banks and Savings Banks</u>		
1957	5,132	1,852	3,143	3,387	1,562
1958	5,682	2,004	3,513	4,072	1,694
1959	6,481	2,188	4,119	4,738	1,869
1960	7,366	2,385	4,786	5,424	2,066
1961	8,521	2,745	5,548	6,356	2,309
1962	10,103	3,135	6,664	7,491	2,611
1963	11,506	3,576	7,524	8,503	2,951
March 1963	10,195	3,036	6,822	7,702	2,684
March 1964	11,013	3,355	7,274	8,564	3,013
June 1963	10,511	3,190	6,925	7,821	2,722
June 1964	12,241	3,380	7,421	8,575	3,038

Source: Banca d'Italia and International Financial Statistics (IMF)

Table 22: BANK CREDIT

(billions of lire)

	<u>Loans and Advances of Banks and Savings</u>		<u>Advances of Bank of Italy and Exchange</u>	
	<u>Banks to:</u>		<u>Office to:</u>	
	<u>Private Sector</u>	<u>Government<sup>1/</sup></u>	<u>Government<sup>2/</sup></u>	<u>Banks and Savings Banks<sup>3/</sup></u>
End of				
1957	5,394	704.0	1,869.5	110.2
1958	5,822	1,057.5	1,829.1	30.2
1959	6,759	1,551.9	1,372.2	49.6
1960	8,307	1,620.4	1,266.3	73.8
1961	9,875	1,696.8	1,156.5	316.9
1962	12,400	1,737.2	1,349.0	466.2
1963	14,978	1,725.4	2,124.4	852.6
March 1963	12,770	1,801.5	1,551.8	405.7
March 1964	14,790	1,797.1	2,071.4	982.2
June 1963	13,493	1,785.7	1,480.0	641.2
June 1964	14,811	1,827.5	2,203.0	998.9

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<sup>1/</sup> Treasury bills plus deposits at the Treasury and Postal Savings Fund

<sup>2/</sup> Direct accounts plus financing of stockpiles plus government notes in circulation

<sup>3/</sup> Including advances, deferred payments, rediscounts and other loans.

Source: Banca d'Italia and  
International Financial Statistics (IMF)

Table 23: PRICE INDICES (AVERAGES)

	<u>Wholesale Prices (1953 = 100)</u>			<u>Consumers' Prices (1953 = 100)</u>				<u>Cost of Living (1938 = 1)</u>			
	Non-										
	<u>Agricultural Products</u>	<u>Agricultural Products</u>	<u>General Index</u>	<u>Food Products</u>	<u>Non-Food Products</u>	<u>Services</u>	<u>General Index</u>	<u>Food</u>	<u>Clothing</u>	<u>Housing</u>	<u>General Index</u>
1953	100.0	100.0	100.0	100.0			100.0	66.80	62.24	17.20	56.54
1954	100.6	98.8	99.1	103.6			102.8	68.75	63.08	18.26	58.06
1955	102.8	99.3	100.0	106.4			105.2	70.59	62.87	20.88	59.69
1956	109.4	99.8	101.7	111.2			108.8	73.68	62.70	26.87	62.66
1957	105.8	101.9	102.7	111.1	102.9	117.6	110.2	73.84	64.35	32.12	63.87
1958	107.6	99.0	100.9	115.0	103.9	121.5	113.3	77.03	64.66	39.31	66.93
1959	100.3	97.2	97.9	112.3	103.0	126.8	112.8	74.58	64.49	47.66	66.65
1960	102.0	97.9	98.8	113.4	103.6	135.6	115.4	75.30	65.98	55.01	68.42
1961	103.8	97.7	99.0	113.8	103.5	146.3	117.8	76.54	66.29	62.37	70.42
1962	112.8	99.2	102.0	118.8	108.8	153.5	123.3	80.55	69.00	70.03	74.52
1963	119.8	104.0	107.3	128.6	115.4	164.6	132.5	87.29	73.30	79.31	81.07
Cost of living index, 1961 = 100											
Sept. 1963	119.7	104.6	107.8	128.8	116.7	166.3	133.3	114.2	111.4	120.8	113.5
Sept. 1964	120.0	108.4	110.9	136.7	123.2	179.2	141.3	121.0	117.6	133.0	121.1

Source: Relazione Generale  
 Annuario Statistico (Istituto Centrale di Statistica)  
 Istituto Nazionale per lo Studio della Congiuntura

Table 24: NET NEW SECURITY ISSUES

(billions of lire)

	<u>1953</u>	<u>1955</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>First Half 1964</u>
Public bonds	220.7	287.4	-16.3	338.7	162.3	135.3	62.0	-71.3	102
Special Credit Institute bonds	101.0	142.3	215.0	262.8	412.1	514.0	718.2	774.7	266
IRI, ENI, ENEL and other industrial bonds	<u>57.3</u>	<u>17.2</u>	<u>223.7</u>	<u>117.7</u>	<u>251.5</u>	<u>235.3</u>	<u>253.7</u>	<u>369.2</u>	<u>200</u>
Sub-Total	379.0	446.9	422.4	719.2	825.9	884.6	1033.9	1072.6	568
Stocks	<u>136.6</u>	<u>144.2</u>	<u>222.3</u>	<u>225.0</u>	<u>495.7</u>	<u>416.8</u>	<u>608.2</u>	<u>267.4</u>	<u>250</u>
Total	515.6	591.1	644.7	944.2	1321.6	1301.4	1642.1	1340.0	818
Subscribed by individuals and companies	374.6	451.1	522.0	668.2	1093.1	1032.4	971.2	676.7	498
Subscribed by banks	141.0	140.0	122.7	276.0	228.5	269.0	670.9	663.3	320
Percent sub- scribed by banks	27.3	23.7	19.0	29.2	17.3	20.7	40.9	49.5	39

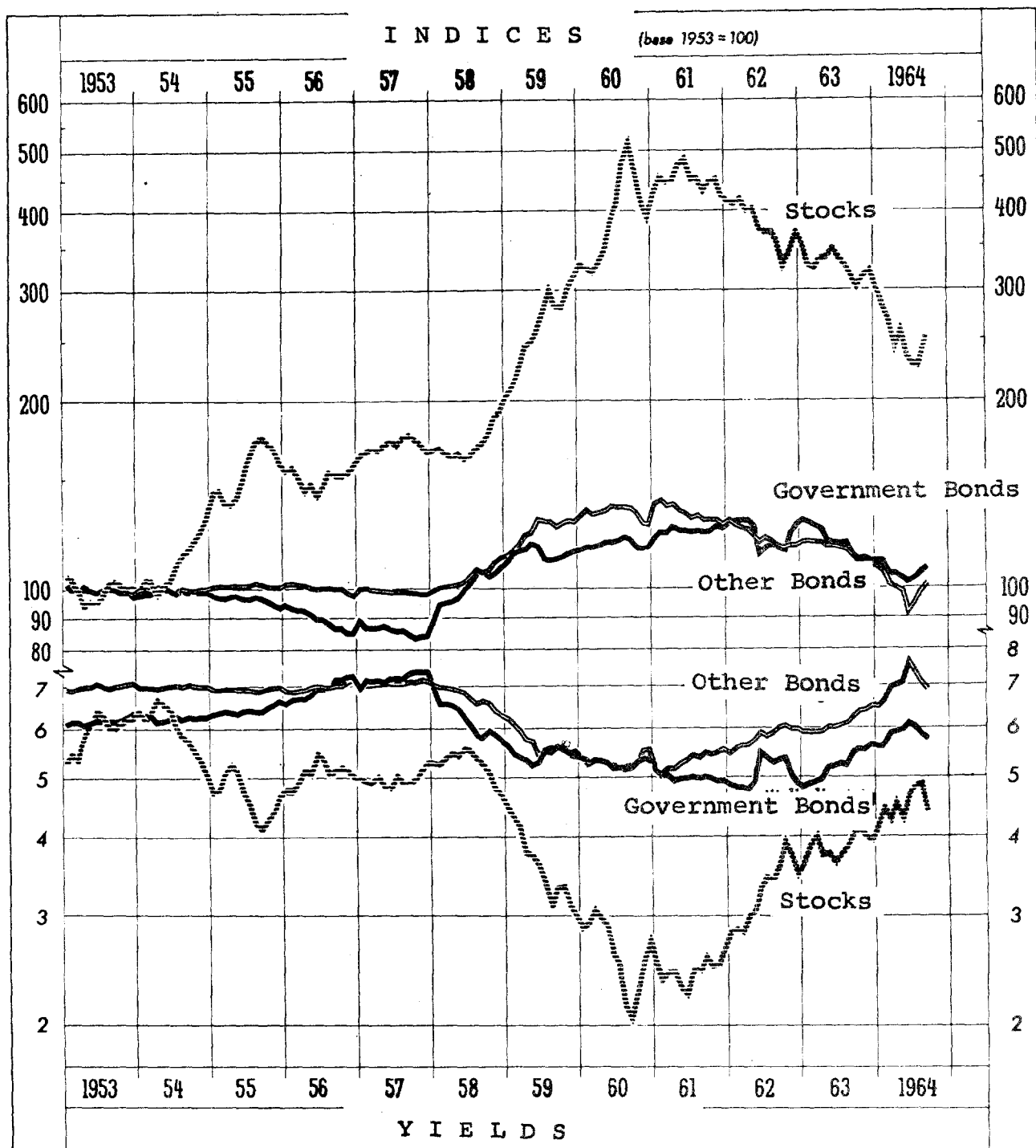
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Source: Banca d'Italia: annual reports



# INDICES & YIELDS OF SECURITIES IN ITALY

(scale logarithmic)



Source: Bank of Italy